

PACIFIC LEGEND GROUP LIMITED

(Incorporated in the Cayman
Islands with limited liability)

Stock Code: 8547



2020 THIRD QUARTERLY REPORT

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The original report is prepared in the English language. This report is translated into Chinese. In the event of any inconsistencies between the Chinese and the English versions, the latter shall prevail and it is available on the Company’s website at www.pacificlegendgroup.com.



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FINANCIAL HIGHLIGHTS

- The unaudited revenue of the Group amounted to approximately HK\$165.4 million for the nine months ended 30 September 2020, representing a decrease of approximately HK\$43.4 million or 20.8% as compared with the revenue of approximately HK\$208.8 million for the nine months ended 30 September 2019.
- The unaudited loss of the Group after tax was approximately HK\$20.9 million for the nine months ended 30 September 2020 as compared with a loss of approximately HK\$13.4 million for the nine months ended 30 September 2019.
- Basic and diluted loss per share were both 2.09 Hong Kong cents for the nine months ended 30 September 2020 compared with the basic and diluted loss per share of 1.34 Hong Kong cent for the nine months ended 30 September 2019.
- No interim dividend is recommended by the Board for the nine months ended 30 September 2020.

UNAUDITED THIRD QUARTERLY FINANCIAL INFORMATION

The board of Directors (the “**Board**”) of Pacific Legend Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the three months and nine months ended 30 September 2020 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2020

(Expressed in Hong Kong dollars)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	4	68,408	82,412	165,390	208,752
Cost of sales		(26,168)	(34,801)	(64,632)	(86,665)
Gross profit		42,240	47,611	100,758	122,087
Other income and gains	5	5,031	675	9,105	2,135
Selling and distribution costs		(13,492)	(16,425)	(41,401)	(46,473)
Administrative and other operating expenses		(30,130)	(28,998)	(88,231)	(89,131)
Profit/(loss) from operations		3,649	2,863	(19,769)	(11,382)
Finance costs		(363)	(619)	(1,095)	(1,791)
Profit/(loss) before taxation	6	3,286	2,244	(20,864)	(13,173)
Income tax credit/(expense)	7	3	(97)	(33)	(263)
Profit/(loss) for the period attributable to equity shareholders of the Company		3,289	2,147	(20,897)	(13,436)
Other comprehensive (loss)/income					
Item that may be classified subsequently to profit or loss:					
— Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax		(225)	203	(309)	212
Total comprehensive income/(loss) for the period attributable to equity shareholders of the Company		3,064	2,350	(21,206)	(13,224)
Earnings/(loss) per share					
Basic and diluted (HK Cents)	8	0.33	0.22	(2.09)	(1.34)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020
(Expressed in Hong Kong dollars)

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 January 2019 (audited)	10,000	67,136	1,234	155	789	58,282	137,596
Loss for the period	-	-	-	-	-	(13,436)	(13,436)
Other comprehensive income	-	-	-	212	-	-	212
Total comprehensive income/(loss) for the period	-	-	-	212	-	(13,436)	(13,224)
Equity settled share-based payments transaction	-	-	2,263	-	-	-	2,263
Balance at 30 September 2019 (unaudited)	<u>10,000</u>	<u>67,136</u>	<u>3,497</u>	<u>367</u>	<u>789</u>	<u>44,846</u>	<u>126,635</u>
Balance at 1 January 2020 (audited)	10,000	67,136	3,900	109	789	50,494	132,428
Loss for the period	-	-	-	-	-	(20,897)	(20,897)
Other comprehensive loss	-	-	-	(309)	-	-	(309)
Total comprehensive loss for the period	-	-	-	(309)	-	(20,897)	(21,206)
Share options lapsed	-	-	(993)	-	-	993	-
Equity settled share-based payments transaction	-	-	1,006	-	-	-	1,006
Balance at 30 September 2020 (unaudited)	<u>10,000</u>	<u>67,136</u>	<u>3,913</u>	<u>(200)</u>	<u>789</u>	<u>30,590</u>	<u>112,228</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Pacific Legend Group Limited (the “**Company**”) was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 1 September 2017. The registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Units 1202–04, Level 12, Cyberport 2, 100 Cyberport Road, Hong Kong. The Company’s shares have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 18 July 2018 (the “**Listing**”).

The Company and its subsidiaries (together, the “**Group**”) is principally engaged in the sale of home furniture and accessories, leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings.

As at 30 September 2020, the Directors consider the immediate and ultimate holding company to be Double Lions Limited, which is incorporated in the British Virgin Islands (the “**BVI**”).

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and applicable disclosure provisions of the GEM Listing Rules. The unaudited condensed consolidated financial information should be read in conjunction with the audited consolidated financial information for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “**HKFRSs**”) issued by the HKICPA, as included in the Company’s 2019 Annual Report.

The significant accounting policies that have been used in the preparation of these unaudited consolidated financial statements have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of the unaudited consolidated financial statements of the Group for the relevant period is in conformity with the HKFRSs requirements in the use of certain critical accounting estimates. The HKFRSs also require the management to exercise their judgements in the process of applying the Group’s accounting policies.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES

The HKICPA has issued the following new HKFRSs, amendments to HKFRSs and interpretations that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	Definition of a business
Amendments to HKAS 1 and HKAS 8	Definition of material
Amendments to HKAS 9, HKAS 39 and HKAS 7	Interest rate benchmark reform

In addition, the Group has early applied the following amendment to HKFRSs, which becomes effective for accounting periods beginning on or after 1 June 2020:

Amendments to HKFRS 16	COVID-19-related rent concessions
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Rent concessions relating to lease contracts that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 “Leases” if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The Group has early applied the amendment in the current accounting period. The application has no impact to the opening retained profits at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of HK\$3.2 million in the profit or loss for the current accounting period.

In addition, the Group has applied the following accounting policy which became relevant to the Group in the current accounting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. NEW ACCOUNTING STANDARDS AND ACCOUNTING CHANGES (CONTINUED)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income and gains”.

Save as disclosed above, the adoption of the above standards and interpretations does not have a significant impact on the Group’s consolidated financial statements.

Other than the above amendments, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. REVENUE AND SEGMENT INFORMATION

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments:

- Sale of home furniture and accessories
- Rental of home furniture and accessories
- Project and hospitality services

Performance is based on segment gross profit. The Group’s most senior executive management does not evaluate operating segment using assets and liabilities information, so segment assets and liabilities are not reported to the Group’s most senior executive management. Accordingly, reportable segment assets and liabilities have not been presented.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

	Three months ended 30 September		Nine months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Segment revenue				
— external customers				
— Sale of home furniture and accessories	49,349	56,908	121,033	139,749
— Rental of home furniture and accessories	6,275	5,911	15,568	15,433
— Project and hospitality services	12,784	19,593	28,789	53,570
	<u>68,408</u>	<u>82,412</u>	<u>165,390</u>	<u>208,752</u>
Revenue recognition				
— at a point of time				
— Sale of home furniture and accessories	49,349	56,908	121,033	139,749
— over time				
— Rental of home furniture and accessories	6,275	5,911	15,568	15,433
— Project and hospitality services	12,784	19,593	28,789	53,570
	<u>68,408</u>	<u>82,412</u>	<u>165,390</u>	<u>208,752</u>
Segment results				
— Sale of home furniture and accessories	30,799	34,890	74,178	85,606
— Rental of home furniture and accessories	5,113	4,924	12,461	12,747
— Project and hospitality services	6,328	7,797	14,119	23,734
Gross profit	42,240	47,611	100,758	122,087
Other income and gains	5,031	675	9,105	2,135
Selling and distribution costs	(13,492)	(16,425)	(41,401)	(46,473)
Administrative and other operating expenses	(30,130)	(28,998)	(88,231)	(89,131)
Finance costs	(363)	(619)	(1,095)	(1,791)
Profit/(loss) before taxation	<u>3,286</u>	<u>2,244</u>	<u>(20,864)</u>	<u>(13,173)</u>

There was no inter-segment revenue for the nine months ended 30 September 2020 and 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information

Revenue from external customers

	Three months ended		Nine months ended	
	30 September		30 September	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hong Kong	48,826	60,067	124,359	155,112
United Arab Emirates (the "UAE")	13,674	17,291	27,267	37,388
The People's Republic of China (excluding Hong Kong and Macao, the "PRC")	5,908	5,054	13,764	16,252
	<u>68,408</u>	<u>82,412</u>	<u>165,390</u>	<u>208,752</u>

The revenue information above is based on the locations of the customers.

5. OTHER INCOME AND GAINS

	Three months ended		Nine months ended	
	30 September		30 September	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Bank interest income	60	132	398	324
Interest income from finance leases	75	39	163	124
Sundry income	23	66	94	206
Income from franchising	-	438	260	680
Other income from franchisee	-	-	-	801
Write off expired trade and other payables	-	-	458	-
Government grants received	3,383	-	4,043	-
COVID-19-related rent concessions	1,070	-	3,158	-
Gain on lease modification	-	-	111	-
Net exchange gains	420	-	420	-
	<u>5,031</u>	<u>675</u>	<u>9,105</u>	<u>2,135</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation has been arrived at after charging:

	Three months ended 30 September		Nine months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
(a) Finance costs:				
Interest on short-term loans	46	66	122	189
Interest on lease liabilities	317	553	973	1,602
	<u>363</u>	<u>619</u>	<u>1,095</u>	<u>1,791</u>
(b) Staff costs:				
Salaries, allowances and commissions	18,016	20,110	53,567	58,903
Share-based payment expenses	208	496	1,006	2,263
Retirement benefits scheme contributions	650	823	1,974	2,515
Provision for long service payments and employees' end-of-service benefits	285	160	856	524
	<u>19,159</u>	<u>21,589</u>	<u>57,403</u>	<u>64,205</u>
(c) Other items:				
Auditor's remuneration	261	255	800	763
Cost of inventories recognised as expense	25,578	34,027	62,591	84,409
Depreciation of property, plant and equipment	1,824	1,604	4,790	4,926
Depreciation of right-of-use assets	7,244	7,963	23,133	24,610
Net exchange (gain)/loss	(899)	736	(420)	1,068
(Gain)/loss on disposals of property, plant and equipment	(2)	–	303	–
Expenses related to short term leases	3,114	712	6,337	1,777
Variable lease payments not included in the measurement of lease liabilities	52	255	193	417

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAX CREDIT/(EXPENSE)

Taxation in unaudited condensed consolidated statement of profit or loss and other comprehensive income:

	Three months ended		Nine months ended	
	30 September		30 September	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax – credit/(provision) for the period				
Hong Kong Profits Tax	3	(97)	(33)	(263)
PRC Enterprise Income Tax	-	-	-	-
	<u>3</u>	<u>(97)</u>	<u>(33)</u>	<u>(263)</u>

The Group is not subject to any income tax in the Cayman Islands, the BVI and the UAE pursuant to the rules and regulations in those jurisdictions.

The provision for Hong Kong Profits Tax for the nine months ended 30 September 2020 is calculated at 8.25% (nine months ended 30 September 2019: 8.25%) of the first HK\$2,000,000 and 16.5% (2019: 16.5%) of the remaining estimated assessable profits for the period.

The PRC Enterprise Income Tax for the nine months ended 30 September 2020 is calculated at 25% (nine months ended 30 September 2019: 25%) of the estimated assessable profits in accordance with relevant rules and regulations in the PRC.

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period attributable to equity shareholders of the Company of HK\$20,897,000 (nine months ended 30 September 2019: HK\$13,436,000) and the weighted average of 1,000,000,000 (nine months ended 30 September 2019: 1,000,000,000) ordinary shares in issue.

No diluted loss per share for the nine months ended 30 September 2020 and 2019 respectively was presented as there were no dilutive potential ordinary shares in issue during both periods.

9. DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2020 (nine months ended 30 September 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The Group principally operates three lines of business, namely, (i) sale of home furniture and accessories (“**Furniture Sales**”, which includes retail, corporate sales, online shops, wholesale and franchise); (ii) rental of home furniture and accessories (“**Furniture Rental**”); and (iii) project and hospitality services (“**Projects**”, which typically involves designing, styling, decorating and furnishing commercial or residential properties such as hotels, serviced apartments and showflats).

During the three months ended 30 September 2020, the COVID-19 pandemic continued to affect our geographic markets and business segments. However, retail sales in Dubai have stabilised albeit the pressure from increasing COVID-19 cases. Meanwhile, notwithstanding the increase of daily confirmed COVID-19 cases in July, our Hong Kong retail continued a positive rebound in August and September 2020, as people spent more money on their homes. While we still have a large amount of corporate sales in all our markets in the pipeline, with some projects moving forward, the execution of many projects has still been delayed until the market conditions improve and there have been some cancellations in the Hong Kong market with some developers deciding to take a wait-and-see attitude, all of these factors have adversely impacted our corporate sales performance.

Therefore in the third quarter of 2020, we have seen a mixed result in all sectors of our Hong Kong business, with its retail performance improved while corporate sales and projects remained weak, and a slow recovery in Dubai and Shanghai retail sales compared to the first and second quarter of 2020.

Although the impact of COVID-19 lessened further in the third quarter of 2020, we are still continuously monitoring any changes in political and social environment, as well as any possible signs of resurgence of the pandemic in winter, and will adjust ourselves quickly to mitigate their potential impacts on the Group’s performance in the fourth quarter of 2020. We will continue the cost cutting measures instigated earlier this year. We have also successfully applied for the Hong Kong SAR Government’s employee support scheme, the two tranches of such grants are to be reflected in the third and fourth quarter of 2020 of the Group’s financials respectively.

We opened the second store in Jing An District in Shanghai in September, which used part of the proceeds from the Listing for the purpose as set out in the Company’s Prospectus. We believe that should assist us to generate additional revenue in the PRC through retail, corporate sales as well as franchise and dealerships. This will be reflected in the fourth quarter.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Revenue

The Group's revenue for the nine months ended 30 September 2020 (the "YTD Third Quarter 2020") was approximately HK\$165.4 million, representing a decrease of HK\$43.4 million or 20.8% as compared with that of the nine months ended 30 September 2019 (the "YTD Third Quarter 2019") of HK\$208.8 million.

The revenue from the Furniture Sales business decreased by approximately 13.4% from approximately HK\$139.7 million in YTD Third Quarter 2019 to approximately HK\$121.0 million in YTD Third Quarter 2020.

In Hong Kong, the retail sales revenue dropped from HK\$61.5 million in YTD Third Quarter 2019 to HK\$57.9 million in YTD Third Quarter 2020. Notwithstanding the third wave of COVID-19 outbreak in Hong Kong in July 2020, which was followed by the re-tightening of crowd control orders, the revenue in the third quarter continued to pick up and even outperformed the same three-month period last year when Hong Kong retail environment heavily suffered under the social unrest which started in June 2019. Therefore, Hong Kong retail sales revenue in YTD Third Quarter 2020 only decreased by 5.8%. Sonder Living @Indigo operation in Horizon Plaza was closed in July 2020 and was replaced by Indigo Atelier showroom on 8th floor of the same building, aiming at design-savvy customers. In the meantime, the Group continues to negotiate with the landlords of our retail stores and certain rent concessions were given, subject to regular review.

Hong Kong corporate sales, which consists mainly of the sales of showflats furniture to property developers, noted a significant decrease in revenue by approximately 29.9% compared to YTD Third Quarter 2019. The decrease is mainly because a one-off factor of exceptionally significant number of showflats being completed in the third quarter of 2019. Moreover, property developers are still taking a wait-and-see attitude on the residential property market, which limits the number and scope of such showflats. We are trying to broaden our products range in order to meet the more competitive market.

Retail revenue from our two stores in Dubai, the UAE was still weak, with 17.0% decline in revenue in YTD Third Quarter 2020. Certain crowd control restrictions continued after the lockdown period ended in June 2020, and the consumer footfall has still been negatively affected due to concerns around exposure to COVID-19. However, the shortfall compared to last year has been narrowed, as we have focused on eliminating slow moving stock to reinvest our purchasing budget into best-selling items, while our marketing activity has adapted to consumer sentiment. We have also introduced online design consultation in the third quarter. On the other hand, Dubai corporate sales noted a slight increase. We will continue to focus on product development with regional demand, which is now underway for both B2C & B2B.

Our retail store in An Fu Lu, Shanghai also noted a decline in sales of 19.2% in YTD Third Quarter 2020. The Group tried to adapt to the changing consumer behaviour after the lockdown and continue to offer both online and offline promotion in order to regain old customers and attract new ones. The new store in Jing An District was finally opened in September 2020, which did not have material impact on the revenue for the period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group's online business in the YTD Third Quarter 2020 noted a slight increase compared to the same period in 2019. We will continue to explore all possible opportunities and offer as the customers turned to online shopping following the impact of COVID-19.

The Group's franchise business in Saudi Arabia recorded a sales revenue of HK\$5.2 million in YTD Third Quarter 2020, showing a decrease of 26.5% from last year, reflecting the impact of COVID-19 on the local market.

The revenue from the Furniture Rental business amounted to HK\$15.6 million in YTD Third Quarter 2020 which was approximately the same as in the corresponding period in last year. We continue to explore other opportunities in our rental business in order to compensate the impact of the suspension of employee relocation plans following COVID-19 travelling restrictions.

The revenue from the Projects business decreased by approximately 46.3% from approximately HK\$53.6 million in YTD Third Quarter 2019 to approximately HK\$28.8 million in YTD Third Quarter 2020. The COVID-19 pandemic still continued to affect our project business. Construction delay and city lockdown in certain countries has a direct impact on our confirmed contracts, some of which may be delayed until first quarter of 2021. Although local project business in Hong Kong still have a steady pipeline in third and fourth quarter 2020, they will be dragged on to 2021 or even 2022 owing to the impact of the COVID-19.

Gross Profit

Our gross profit varied principally as a result of the composition of the revenues of our Furniture Sales, Furniture Rental and Projects businesses, changing market conditions and their effects on product pricing, product mix and our cost of sales. Overall, the gross profit margins of our Furniture Sales (except franchise) and Furniture Rental businesses are higher than the gross profit margin of the Projects business due to the provision of design and styling and custom furniture services in the latter.

The gross profit of the Group decreased by HK\$21.3 million or 17.5% from approximately HK\$122.1 million in YTD Third Quarter 2019 to HK\$100.8 million in YTD Third Quarter 2020. However, we saw an increase in overall gross profit percentage (from 58.5% in YTD Third Quarter 2019 to 60.9% in YTD Third Quarter 2020) due to a relatively high decline in revenue from the Projects business compared to corporate sales and retail revenues, as the Projects business operates on a lower margin pricing strategy, in contrast to corporate sales and retail revenues which both have a higher gross profit margin.

Other income and gains

The Group's other income and gains for the YTD Third Quarter 2020 was HK\$9.1 million, significantly increased from the YTD Third Quarter 2019 of HK\$2.1 million. The increase was mainly attributable to the COVID-19-related rent concessions of HK\$3.2 million, gain on lease modification of HK\$111,000 and the subsidies from the employee support scheme and other miscellaneous subsidies from the Hong Kong SAR Government of HK\$3.4 million and HK\$660,000 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Selling and Distribution Costs

Our selling and distribution costs comprised mainly staff cost of sales teams, staff commission, advertising and promotion, transportation and delivery costs, credit card commission, agency fees and others.

The Group's selling and distribution costs decreased by approximately 10.9% from approximately HK\$46.5 million in YTD Third Quarter 2019 to approximately HK\$41.4 million in YTD Third Quarter 2020.

Such decrease of HK\$5.1 million was mainly the result of the decrease in staff costs (including sales commission) of approximately HK\$3.4 million, and in transportation and delivery expenses of HK\$2.1 million, in line with decline in the sales revenue.

Administrative and other operating expenses

Our administrative and other operating expenses comprised mainly staff cost (other than the sales teams), rental and related expenses, depreciation of property, plant and equipment (other than those relating to the Furniture Rental business), depreciation of right-of-use assets, staff benefits and others. Such expenses decreased by approximately 1.0% from approximately HK\$89.1 million in YTD Third Quarter 2019 to approximately HK\$88.2 million in YTD Third Quarter 2020. Such change was mainly the net result of:

- (i) the increase in rent (including depreciation of right-of-use assets) of HK\$2.9 million, mainly related to a new store in Shanghai; and
- (ii) the decrease in staff costs (other than sales teams) of approximately HK\$3.7 million, as a result of a number of cost cutting measures including salary cuts and unpaid leave options.

Finance costs

The Group incurred bank interest expenses on short term import loan financing of approximately HK\$122,000 in YTD Third Quarter 2020 (YTD Third Quarter 2019: HK\$189,000).

The interest expenses on the remaining balance of the net present value of the aggregate lease payments in respect of the leases of certain premises, which the Group has entered into as a lessee, amounted to HK\$973,000 in YTD Third Quarter 2020 (YTD Third Quarter 2019: HK\$1.6 million).

Loss for the period

Loss attributable to equity shareholders of the Company for YTD Third Quarter 2020 amounted to approximately HK\$20.9 million (YTD Third Quarter 2019: loss of approximately HK\$13.4 million).

The increase in loss in YTD Third Quarter 2020 was mainly attributable to the net effects of the decline in revenue in most of the businesses; and net of increase in other income and gains, savings of selling and distribution costs and administration and other operating expenses as mentioned above.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Use of proceeds

The Company intends to utilise the net proceeds as disclosed in the “Future Plans and Use of Proceeds” section of the prospectus of the Company dated 29 June 2018 (the “**Prospectus**”), based on the net proceeds from the share offer of approximately HK\$48.5 million upon the Listing Date.

	Net proceeds to be applied <i>HK\$'000</i>	Approximate percentage of the proceeds %	Amount utilised up to 30 September 2020 <i>HK\$'000</i>	Unutilised amount up to 30 September 2020 <i>HK\$'000</i>
Expand our retail network by opening additional retail stores	28,382	58.6%	6,441	21,941
Enhance our online shop and our information technology capability	3,893	8.0%	2,650	1,243
Recruitment of additional staff	5,545	11.4%	5,469	76
Recruitment for our planned new retail stores	1,556	3.2%	164	1,392
Increasing our inventory	5,056	10.4%	5,056	-
General working capital	4,043	8.4%	4,043	-
	48,475	100.0%	23,823	24,652

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2020, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) held by the Directors and chief executives of the Company (the “**Chief Executives**”) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

(i) Long position in the shares of the Company (the “Shares”)

Name	Capacity/ Nature of interest	Number of Shares held	Number of share options granted (note 1)	Total	Percentage of shareholding (note 2)
Mr. John Warren MCLENNAN	Interest in a controlled corporation and interest held jointly with other persons (note 3)	634,500,000	-	634,500,000	63.45%
Mrs. Jennifer Carver MCLENNAN	Interest of spouse (note 4)	634,500,000	-	634,500,000	63.45%
Ms. Tracy-Ann FITZPATRICK	Interest in a controlled corporation and interest held jointly with other persons (note 3)	634,500,000	-	634,500,000	63.45%
Ms. MOK Lai Yin Fiona (note 5)	Beneficial interests	-	9,980,000	9,980,000	1.00%

Notes:

- (1) These share options were granted by the Company under the Company’s Share Option Scheme, as defined and detailed in the “Share Option Scheme” section below.
- (2) The calculation is based on the total number of 1,000,000,000 Shares in issue as at 30 September 2020 (without taking into account any Shares which may be issued upon exercise of any option which may be granted under the Company’s Share Options Scheme, as defined and detailed in the “Share Option Scheme” section below).
- (3) Double Lions Limited is owned as to 40.48% by Mr. John Warren MCLENNAN, 20.00% by Ms. Tracy-Ann FITZPATRICK, 14.88% by Ms. Alison Siobhan BAILEY, 14.88% by Mr. John Martin RINDERKNECHT and 9.76% by Mr. James Seymour Dickson LEACH (collectively with Double Lions Limited, the “**Controlling Shareholders**”). Each of the Controlling Shareholders executed the deed of acting in concert (the “**Deed of AIC**”) dated 12 February 2018 confirming the existence of their acting in concert and are deemed to be interested in all the Shares owned by Double Lions Limited.
- (4) Mrs. Jennifer Carver MCLENNAN is the spouse of Mr. John Warren MCLENNAN and is deemed to be interested in the Shares held by Mr. John Warren MCLENNAN by virtue of the SFO.
- (5) Share options were granted by the Company to Ms. MOK Lai Yin Fiona pursuant to a Share Option Scheme of the Company, as defined and detailed in the “Share Option Scheme” section below.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

(ii) Long position in the shares of associated corporations

Name of Directors	Name of associated corporation	Nature of interest	Number of shares of US\$1.00 each in our associated corporation held	Approximate percentage of shareholding in our associated corporation
Mr. John Warren MCLENNAN	Double Lions Limited	Beneficial interest and interest held jointly with other persons (<i>note 1</i>)	2,530	40.48%
Ms. Tracy-Ann FITZPATRICK	Double Lions Limited	Beneficial interest and interest held jointly with other persons (<i>note 1</i>)	1,250	20.00%
Mrs. Jennifer Carver MCLENNAN	Double Lions Limited	Interest of spouse (<i>note 2</i>)	2,530	40.48%

Notes:

- (1) Double Lions Limited is owned as to 40.48% by Mr. John Warren MCLENNAN, 20.00% by Ms. Tracy-Ann FITZPATRICK, 14.88% by Ms. Alison Siobhan BAILEY, 14.88% by Mr. John Martin RINDERKNECHT and 9.76% by Mr. James Seymour Dickson LEACH. By virtue of acting in concert arrangement as documented and confirmed under the Deed of AIC, each of Mr. John Warren MCLENNAN, Ms. Tracy-Ann FITZPATRICK, Ms. Alison Siobhan BAILEY, Mr. John Martin RINDERKNECHT and Mr. James Seymour Dickson LEACH is deemed to be interested in the entire issued shares of Double Lions Limited under the SFO. Mr. John Warren MCLENNAN, Ms. Tracy-Ann FITZPATRICK and Ms. Alison Siobhan BAILEY are directors of Double Lions Limited.
- (2) Mrs. Jennifer Carver MCLENNAN is the spouse of Mr. John Warren MCLENNAN and is deemed to be interested in the shares of Double Lions Limited held by Mr. John Warren MCLENNAN by virtue of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2020, the register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO showed that the Company had been notified of the following substantial shareholders' interests, being 5% or more in the issued ordinary share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

Name	Capacity/Nature of interest	Number of Shares held <i>(note 5)</i>	Percentage of shareholding <i>(note 2)</i>
Double Lions Limited	Beneficial interest	634,500,000 (L)	63.45%
Mr. David Frances BULBECK	Interest of spouse <i>(note 3)</i>	634,500,000 (L)	63.45%
Ms. Alison Siobhan BAILEY	Interest in a controlled corporation, interest held jointly with other persons <i>(note 1)</i> and interest of spouse <i>(note 4)</i>	634,500,000 (L)	63.45%
Mr. James Seymour Dickson LEACH	Interest in a controlled corporation, interest held jointly with other persons <i>(note 1)</i> and interest of spouse <i>(note 4)</i>	634,500,000 (L)	63.45%
Mr. John Martin RINDERKNECHT	Interest in a controlled corporation and interest held jointly with other persons <i>(note 1)</i>	634,500,000 (L)	63.45%
Mr. KWAN Hoi Wang	Interests in controlled corporations	53,775,000 (L)	5.38%

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Notes:

- (1) Double Lions Limited is owned as to 40.48% by Mr. John Warren MCLENNAN, 20.00% by Ms. Tracy-Ann FITZPATRICK, 14.88% by Ms. Alison Siobhan BAILEY, 14.88% by Mr. John Martin RINDERKNECHT and 9.76% by Mr. James Seymour Dickson LEACH (collectively, with Double Lions Limited, the “**Controlling Shareholders**”). Each of the Controlling Shareholders executed the Deed of AIC confirming the existence of their acting in concert and are deemed to be interested in all the Shares owned by Double Lions Limited.
- (2) The calculation is based on the total number of 1,000,000,000 Shares in issue as at 30 September 2020 (without taking into account any Shares which may be issued upon exercise of any option which may be granted under the Company’s Share Option Scheme, as defined and detailed in the “Share Option Scheme” section below).
- (3) Mr. David Frances BULBECK is the spouse of Ms. Tracy-Ann FITZPATRICK and is deemed to be interested in the Shares held by Ms. Tracy-Ann FITZPATRICK by virtue of the SFO.
- (4) Ms. Alison Siobhan BAILEY and Mr. James Seymour Dickson LEACH are married to each other and each of them is deemed to be interested in the Shares held by her/his spouse via Double Lions Limited by virtue of the SFO.
- (5) The letter “L” denotes the entity/person’s long position in the Shares.

Save as disclosed above, as at 30 September 2020, the Directors were not aware of any other persons or companies who had any interest or short position in the Shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2020 (nine months ended 30 September 2019: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

SHARE OPTION SCHEME

(a) Share option scheme adopted by the Company

Pursuant to the written resolution of the shareholders of the Company on 19 June 2018, the Company adopted a share option scheme (the “**Share Option Scheme**”) for the purpose of granting options to eligible participants as incentives or rewards for their contribution to the Group.

Under the Share Option Scheme, the board of Directors may at their discretion grant options to full-time or part-time employees, including executive Directors, non-executive Directors and independent non-executive Directors, consultants or advisers of the Group. The offer of a grant of share options may be accepted by the grantee within 28 days from the date of the offer, upon payment of HK\$1 by way of consideration for the grant. Each share option gives the holder of the right to subscribe for one ordinary Share in the Company and is settled gross in Shares.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time. In addition, the total number of Shares which may be issued upon exercise of all options to be granted under Share Option Scheme and any other share option schemes of the Company must not exceed 100,000,000 Shares, being the scheme mandate limit. The board of Directors may seek approval by the shareholders of the Company in a general meeting to renew the scheme mandate limit, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of the renewed limit.

The total number of Shares issued and to be issued upon exercise of the options granted to each participant under the Share Option Scheme and other schemes (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue from time to time.

The exercise price of share options is the highest of (i) the nominal value of the Shares; (ii) the closing price of the Shares on the Stock Exchange on the date of offer; and (iii) the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of offer. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the Share Option Scheme (19 June 2018).

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

(b) The terms and conditions of the share options existing as at 30 September 2020

On 30 August 2018, a total of 45,000,000 share options under this Share Option Scheme was granted. The details of such share options and their movement during the nine months ended 30 September 2020 are as follows:

	Exercise price HK\$	Number of share options at 1 January 2020	Number of share options lapsed during the period	Number of share options at 30 September 2020
Options granted to Ms. MOK Lai Yin Fiona, a Director of the Company, with exercise period:				
— 18 July 2019 to 17 July 2022	0.22	3,293,400	—	3,293,400
— 18 July 2020 to 17 July 2022	0.22	3,293,400	—	3,293,400
— 18 July 2021 to 17 July 2022	0.22	3,393,200	—	3,393,200
Options granted to employees and consultants, with exercise period:				
— 18 July 2019 to 17 July 2022	0.22	11,391,600	(2,986,500)	8,405,100
— 18 July 2020 to 17 July 2022	0.22	11,391,600	(2,986,500)	8,405,100
— 18 July 2021 to 17 July 2022	0.22	11,736,800	(3,077,000)	8,659,800
		<u>44,500,000</u>	<u>(9,050,000)</u>	<u>35,450,000</u>

During the nine months ended 30 September 2020, a total of 9,050,000 share options were lapsed, no share options were issued or cancelled. The number of share options outstanding as at 30 September 2020 was 35,450,000, including as at stated above, of which 23,397,000 are exercisable as at 30 September 2020.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the model.

Fair value at measurement date	HK\$0.119–HK\$0.137
Closing price of the Share on the date of grant	HK\$0.22
Exercise price	HK\$0.22
Expected volatility (expressed as weighted average volatility used in the modelling under binomial tree model)	51.10%
Option life (expressed as weighted average life used in the modelling under binomial tree model)	3.88 years
Expected dividends	0%
Risk-free interest rate (based on Hong Kong Exchange fund notes)	2.15%

The binomial tree method has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the best estimate of Directors' of the Company. The value of an option varies with different variables of certain subjective assumptions.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the nine months ended 30 September 2020 were rights to acquire benefits by means of the acquisition of Shares or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30 September 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

COMPLIANCE OF CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “**Required Standard of Dealings**”). Having made specific enquiry of all the Directors, each of them have confirmed that they have complied with the Required Standard of Dealings during the nine months ended 30 September 2020, and the Company was not aware of any non-compliance with such Required Standard of Dealings and its code of conduct regarding securities transactions by Directors during such period.

COMPETING INTERESTS

As at the date of this report, save as disclosed in “Relationship with Controlling Shareholders” section of the Prospectus, none of the Directors, and the Controlling Shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

INTERESTS OF THE COMPLIANCE ADVISER

As at the date of this report, neither Altus Capital Limited, the compliance adviser of the Company, nor any of its directors, employees or associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with the written terms of reference in compliance with the GEM Listing Rules. The audit committee consists of three independent non-executive Directors, namely Ms. Elaine June CHEUNG, who has the appropriate accounting and financial related management expertise and serves as the chairperson of the audit committee, Ms. Lale KESEBI and Mr. Roderick Donald NICHOL. The financial information in this report has not been audited by the auditor of the Company, but the audit committee has reviewed this report and has provided advice and comments thereon.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

CORPORATE GOVERNANCE

Pursuant to Rules 17.22 and 17.24 of the GEM Listing Rules, the Company does not have advances to any entity nor provided any financial assistance and guarantees to affiliated companies. In addition, pursuant to Rule 17.23 of the GEM Listing Rules, the controlling shareholders of the Company have not pledged the Shares of the Company.

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 15 to the GEM Listing Rules and to the best knowledge of the Board, the Company had complied with the code provisions of the CG Code.

By Order of the Board
Pacific Legend Group Limited
Tracy-Ann FITZPATRICK
Executive Director, Vice-Chairperson and Chief Executive Officer

Hong Kong, 13 November 2020

As at the date of this report, the Board comprises Mr. John Warren MCLENNAN, Ms. Tracy-Ann FITZPATRICK and Ms. MOK Lai Yin Fiona as executive Directors; Mrs. Jennifer Carver MCLENNAN as non-executive Director; and Ms. Elaine June CHEUNG, Ms. Lale KESEBI and Mr. Roderick Donald NICHOL as independent non-executive Directors.