

Classified Group (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8232

2017

FIRST
QUARTERLY
REPORT



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Classified Group (Holdings) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 31 MARCH 2017

	NOTES	Three months ended 31.3.2017 HK\$'000 (unaudited)	Three months ended 31.3.2016 HK\$'000 (unaudited)
Revenue	5	33,898	46,595
Other income	6	271	49
Other gains and (losses)		1	(151)
Raw materials and consumable used		(8,018)	(9,429)
Staff costs		(16,367)	(16,340)
Depreciation		(2,544)	(2,085)
Property rentals and related expenses		(8,012)	(7,965)
Utility expenses		(943)	(1,015)
Advertising and promotion expenses		(688)	(1,219)
Other operating expenses		(4,556)	(9,404)
Finance costs	7	(174)	(158)
Loss before taxation	8	(7,132)	(1,122)
Taxation	9	–	(613)
Loss for the year		(7,132)	(1,735)
Loss and total comprehensive expense for the period			
Loss and total comprehensive expense for the period attributable to:			
– Owners of the Company		(7,132)	(1,680)
– Non-controlling interests		–	(55)
		(7,132)	(1,735)
Loss per share	11		
Basic (HK cents)		(1.78)	(0.53)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2017

	Attributable to owners of the Company					Non-controlling interests	Total
	Share capital	Share premium	Other reserve	Accumulated profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017 (audited)	4,000	45,296	766	20,281	70,343	-	70,343
Loss and total comprehensive expense for the period	-	-	-	(7,132)	(7,132)	-	(7,132)
At 31 March 2017 (unaudited)	4,000	45,296	766	13,149	63,211	-	63,211
At 1 January 2016 (audited)	-	10,000	1,512	33,355	44,867	(542)	44,325
Loss and total comprehensive expense for the period	-	-	-	(1,680)	(1,680)	(55)	(1,735)
At 31 March 2016 (unaudited)	-	10,000	1,512	31,675	43,187	(597)	42,590

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2017

1. GENERAL

The Company was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Cayman Companies Law on 24 October 2014. The shares of the Company have been listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) by way of placing on 11 July 2016 (the “Listing”).

The Company is an investment holding company and its subsidiaries are principally engaged in restaurant operations and production and sales of bakery products in Hong Kong.

The consolidated financial statements are presented in Hong Kong Dollar (“HK\$”), which is also the functional currency of the Company.

2. BASIS OF PREPARATION AND PRESENTATION

The unaudited condensed consolidated financial statement for the three months ended 31 March 2017 has been prepared in accordance with the Hong Kong Accounting Standards (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certificate Public Accountants (“HKICPA”) and the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current interim period, the Group has applied all new amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the accounting period beginning on or after 1 January 2017.

The application of the new amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the three months ended 31 March 2017 are the same as those followed in the preparation of the financial statements for the year ended 31 December 2016.

5. REVENUE

Revenue represents the amounts received and receivable for services provided and goods sold and net of discount, during the period.

The financial information reported to executive directors of the Company, being the chief operating decision maker, for the purpose of assessment of segment performance and resources allocation focuses on types of services rendered and goods delivered. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The Group's operating and reportable segments are as follows:

- Casual restaurant operation ("Casual")

This segment derives its revenue from operation of casual dining restaurants in which customers would place orders at front desk and basic table service is provided by the delivery of ordered food to the table. The casual restaurants aim to provide a more casual and relaxing atmosphere.

5. REVENUE *(Continued)*

- Full service restaurant operation (“Full service”)

This segment derives its revenue from operation of full service restaurant. Full table service is provided, including seating arrangements, order taking, delivery of food to the table, and payment processing. The full service restaurants aim to provide dining experience with full table services.

- Production and sales of bakery products (“Bakery”)

This segment derives its revenue from the production and sales of bakery products.

	Three months ended	
	31.3.2017	31.3.2016
	HK\$'000	HK\$'000
Casual	21,418	22,619
Full Service	11,372	21,466
Bakery	2,040	2,959
	34,830	47,044
Inter-segment transaction elimination	(932)	(449)
	33,898	46,595

6. OTHER INCOME

	Three months ended	
	31.3.2017	31.3.2016
	HK\$'000	HK\$'000
Promotion income	157	–
Franchise fee income	62	49
Others	51	–
Interest income	1	–
	271	49

7. FINANCE COSTS

	Three months ended	
	31.3.2017 HK\$'000	31.3.2016 HK\$'000
The finance costs represent interest on:		
– Bank borrowings	174	158
	174	158

8. LOSS BEFORE TAXATION

	Three months ended	
	31.3.2017 HK\$'000	31.3.2016 HK\$'000
Loss before taxation has been arrived at after charging:		
Listing expense	–	4,342
Raw material and consumables used in respect of:		
Restaurant operation	6,451	8,287
Bakery products	1,567	1,142
	8,018	13,771
Loss on disposal of plant and equipment (included in other gains and losses)	–	146
Lease payments under operating leases in respect of:		
Minimum payments	6,698	6,498
Contingent rents (<i>note</i>)	148	311
	6,846	6,809

Note: The operating lease rentals for certain restaurants are determined as the higher of a fixed rental or a predetermined percentage on revenue of respective restaurants pursuant to the terms and conditions that are set out in the respective rental agreements.

9. TAXATION

	Three months ended	
	31.3.2017 HK\$'000	31.3.2016 HK\$'000
Hong Kong Profits Tax:		
Current tax	–	613
Underprovision in prior year	–	
	–	613

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

10. DIVIDENDS

No dividends were paid, declared and proposed by the Company during the current period (three months ended 31 March 2016: nil). The directors have determined that no dividend will be paid in respect of the current period.

11. LOSS PER SHARE

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	Three months ended	
	31.3.2017 HK\$'000	31.3.2016 HK\$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	7,132	1,680
	31.3.2017 '000	31.3.2016 '000
Number of shares Number of ordinary shares for the purpose of basic loss per share	400,000	320,000

The number of ordinary shares for the purpose of calculating basic (loss) earnings per share has been determined on the assumption that the reorganisation and the capitalisation issue had been effective on 1 January 2016.

No diluted loss per share for the periods was presented as there were no potential ordinary shares in issue during the periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Hong Kong economy remained sluggish for the first quarter of 2017 and the business environment of food and beverage industry is always challenging, dynamic with keen competitions. Pressures from raising food cost, rental expenses, utilities expenses and labour costs are enduring so further squeeze profit margin. People are more budget conscious and sensitive to the amounts they spend on food and the revenues of our restaurants, especially for our full service restaurants, were weaker than expected. The management believes the difficult situation will continue for the whole year and adversely affect the food and beverage industry and Group's performance.

To operate in such a difficult macroeconomic environment, we will be agile, flexible and adaptive. We will embrace changes with flexible marketing strategies and efficient operational discipline, continue to reshape our business model and make decisions necessary to enhance the profitability of the Group.

Business Overview

"Classified" restaurants are a collection of casual European cafés specializing in artisan breads and cheeses, boutique wines and are renowned for their breakfast & all-day dining menu. Offering casual seating areas in most locations, Classified encourages neighbourhood street-level interaction. It is our flagship brand of the Group and contributes over 63.1% of our total revenue. During the three months ended 31 March 2017, Classified had recorded revenue of approximately HK\$21,418,000, representing a decrease of 5.3% as compared to the last corresponding period.

"The Pawn" is a full-service restaurant located in one of Hong Kong's most iconic landmarks. It marries a brand new dining and bar concept with a unique innovative space aiming to be more than just a dining experience. A communal social venue for an eclectic mix of groups and sub-cultures at any time of the day or night, celebrating retro-futurism, arts and design through casual-chic, alfresco and contemporary dining. During the three months ended 31 March 2017, The Pawn had recorded revenue of approximately HK\$8,657,000, representing a decrease of 36.7% as compared to the last corresponding period.

“The Fat Pig” is a full service restaurant with a pork-based concept by British Chef Tom Aikens. The restaurant was upgraded from previous restaurant, namely SML after three months renovation and was re-opened in November 2015. Showcasing the best of all that is pork, from piglets to full-grown cuts and parts, butchered or in the form of charcuterie. From soups to suckling pig, pates to knuckles, the menu choices are diverse and multi-cultural. During the three months ended 31 March 2017, The Fat Pig had recorded revenue of approximately HK\$2,715,000, representing a decrease of 65.1% as compared to the last corresponding period.

In addition to the above restaurants, our group also owns and operates a central kitchen which supplies bread, bakery and semi-finished food products to our restaurants and other corporate customers. Management believes central kitchen can improve operation efficiency in future. During the three months ended 31 March 2017, our central kitchen had recorded revenue of approximately HK\$2,040,000, representing a decrease of 31.0% as compared to the last corresponding period.

Future Prospects

F&B industry is always a challenging industry with intense competition and success is heavily dependent on the dining concepts and economic conditions of Hong Kong. Given the recent slowdown in the Hong Kong economy, we plan to open one “Classified” restaurant as well as carrying out renovation work on several restaurants during this year. No lease agreement had been signed or confirmed for the new “Classified” restaurant. Our ongoing expansion plans will enhance our market share while we will continue to refine our business strategy to cope with the continuing challenges.

FINANCIAL REVIEW

For the three months ended 31 March 2017, the group’s unaudited turnover was approximately HK\$33,898,000 (2016: HK\$46,595,000), representing a decrease of 27.2% compared with the same period of the last financial year.

The loss attributable to owners of the Company was approximately HK\$7.1 million (2016: loss HK\$1.7 million) and was mainly due to the sluggish economy with lower revenue recorded.

Foreign Currency Exposure

Most of transactions of the Group are denominated in Hong Kong dollars and the Group is not exposed to significant foreign exchange exposure.

Capital Commitments

As at 31 March 2017, the Group did not have any material capital commitments.

Contingent Liabilities

As at 31 March 2017, the Group did not have any contingent liabilities.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

During the three-month period ended 31 March 2017 and up to the date of this report, there has been no purchase, sale or redemption of any Company's listed securities.

Interests and Short Positions of Directors in the Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at the date of this report, the interests or short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), Chapter 571 under the Laws of Hong Kong), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the ordinary shares of the Company

Name of Directors	Capacity/ nature of interest	Number of shares held	Approximate percentage of shareholding
Mr. Wong Arnold Chi Chiu	interest in controlled corporation (Note 1)	76,000,000	19.0%
Mr. Lo Yeung Kit Alan	interest in controlled corporation (Note 2)	76,000,000	19.0%
Mr. Pong Kin Yee	interest in controlled corporation (Note 3)	76,000,000	19.0%

Notes:

1. Mr. Wong beneficially owns 100% equity interest in Wiltshire Global Limited. Therefore, Mr. Wong is deemed to be interested in 76,000,000 shares held by Wiltshire Global Limited.
2. Mr. Lo beneficially owns 100% equity interest in Easy Fame Investments Limited. Therefore, Mr. Lo is deemed to be interested in 76,000,000 shares held by Easy Fame Investments Limited.
3. Mr. Pong beneficially owns 100% equity interest in Peyton Global Limited. Therefore, Mr. Pong is deemed to be interested in 76,000,000 shares held by Peyton Global Limited.

Save as disclosed above, as at the date of this report, none of the Directors had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

Interests and Short Positions of Substantial Shareholders and Other Persons in the Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at the date of this report, so far as it is known to the Directors, the following persons, not being a Director or chief executive of the Company, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in the ordinary shares of the Company

Name	Capacity/ nature of interest	Number of shares held	Approximate percentage of shareholding
Wiltshire Global Limited	Beneficial owner	76,000,000	19.0%
Ms. Lee Yuen Ching Charmaine	Interest of spouse (Note 1)	76,000,000	19.0%
Easy Fame Investments Limited	Beneficial owner	76,000,000	19.0%
Ms. Wong Pui Yin	Interest of spouse (Note 2)	76,000,000	19.0%
Peyton Global Limited	Beneficial owner	76,000,000	19.0%
Ms. Cheng Chi Man	Interest of spouse (Note 3)	76,000,000	19.0%
UG PRG Venture Limited	Beneficial owner	27,220,000	6.8%
Mr. Ma Chi Un Fred	Interest in controlled corporation (Note 4)	27,220,000	6.8%
Mr. Ngan Chi Wing	Interest in controlled corporation (Note 5)	27,220,000	6.8%

Notes:

1. Mr. Wong beneficially owns 100% equity interest in Wiltshire Global Limited. Ms. Lee Yuen Ching Charmaine, the spouse of Mr. Wong, is deemed to be interested in all the shares Mr. Wong is interested in pursuant to the SFO.
2. Mr. Lo beneficially owns 100% equity interest in Easy Fame Investments Limited. Ms. Wong Pui Yain, being the spouse of Mr. Lo, is deemed to be interested in all the shares Mr. Lo is interested in pursuant to the SFO.
3. Mr. Pong beneficially owns 100% equity interest in Peyton Global Limited. Ms. Cheng Chi Man, the spouse of Mr. Pong, is deemed to be interested in all the shares Mr. Pong is interested in pursuant to the SFO.
4. Mr. Ma Chi Un Fred beneficially owns 50% equity interest in UG PRG Venture Limited (“**UG PRG Venture**”). Therefore, Mr. Ma is deemed to be interested in all the shares held by UG PRG Venture.
5. Mr. Ngan Chi Wing beneficially owns 50% equity interest in UG PRG Venture. Therefore, Mr. Ngan is deemed to be interested in all the shares held by UG PRG Venture.

Save as disclosed above, as at the date of this report, the Directors are not aware of any interests and short positions owned by any parties (other than a Director) in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Competing Interests

Save as disclosed in the section headed “Directors’ Interests in Competing Business” in the 2016 annual report and as at the date of this report, none of the Directors, the controlling shareholders or the substantial shareholders of the Company or any of their respective close associates (as defined under the GEM Listing Rules) are engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which any such person has or may have with the Group.

Interests of the Compliance Adviser

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Guotai Junan Capital Limited (“Guotai Junan”) to be the compliance adviser. As informed by Guotai Junan, neither Guotai Junan nor any of its directors or employees or associates, has or may have, any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities), which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules, except for the compliance adviser agreement entered into between the Company and Guotai Junan dated 26 February 2016.

Audit Committee

The Company has established an audit committee on 14 June 2016 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company’s draft annual, interim and quarterly financial reports and accounts and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The audit committee comprises three independent non-executive Directors, namely Dr. Chan Kin Keung Eugene, Mr. Chum Kwan Yue Desmond and Mr. Ng Chun Fai Frank. Mr. Chum Kwan Yue Desmond is the chairman of the audit committee.

Up to the date of approval of the Group’s unaudited results for the three months ended 31 March 2017, the audit committee had held meeting and had reviewed the draft 1st quarterly financial report and accounts for the three months ended 31 March 2017 prior to recommending such report and accounts to the Board for approval.

Directors’ Securities Transactions

The Company adopted a code of conduct regarding directors’ securities transactions 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. Having made specific enquiries of all Directors, the Company confirms that all of the Directors complied with such required standard of dealings and its code of conduct regarding directors’ securities transactions as at the date of this report.

Corporate Governance

The Company is firmly committed to maintaining and ensuring a high level of corporate governance standards and will review and improve the corporate governance practices and standards constantly. The Company has complied with the code provisions set out in the Corporate Governance Code (the “Code Provisions”) contained in Appendix 15 of the GEM Listing Rules.

On behalf of the Board
Classified Group (Holdings) Limited
Mr. Wong Arnold Chi Chiu
Chairman and executive Director

Hong Kong, 12 May 2017

As at the date of this report, the Company’s executive Directors are Mr. Wong Arnold Chi Chiu, Mr. Lo Yeung Kit Alan and Mr. Pong Kin Yee; the independent non-executive Directors are Dr. Chan Kin Keung Eugene, Mr. Chum Kwan Yue Desmond and Mr. Ng Chun Fai Frank.

This report will remain on the GEM website on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the Company’s website at www.classifiedgroup.com.hk.