



Classified Group (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8232

2018

FIRST
QUARTERLY
REPORT

CHARACTERISTICS OF THE GEM (“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 2018

	NOTES	Three months ended 31.3.2018 HK\$'000 (unaudited)	Three months ended 31.3.2017 HK\$'000 (unaudited)
Revenue	5	30,961	33,898
Other income	6	261	271
Other gains and (losses)		(1)	1
Raw materials and consumable used		(7,256)	(8,018)
Staff costs		(14,285)	(16,367)
Depreciation		(1,730)	(2,544)
Property rentals and related expenses		(6,378)	(8,012)
Utility expenses		(787)	(943)
Advertising and promotion expenses		(781)	(688)
Other operating expenses		(3,750)	(4,556)
Finance costs	7	–	(174)
Loss before taxation	8	(3,746)	(7,132)
Taxation	9	–	–
Loss for the year		(3,746)	(7,132)
Loss and total comprehensive expense for the period			
Loss and total comprehensive expense for the period attributable to:			
– Owners of the Company		(3,746)	(7,132)
		(3,746)	(7,132)
Loss per share	11		
Basic (HK cents)		(0.84)	(1.78)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2018

	Attributable to owners of the Company						
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Accumulated	Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
				profits (losses) HK\$'000			
At 1 January 2018 (audited)	4,460	127,329	766	(15,691)	116,864	-	116,864
Loss and total comprehensive expense for the period	-	-	-	(3,746)	(3,746)	-	(3,746)
At 31 March 2018 (unaudited)	4,460	127,329	766	(19,437)	113,118	-	113,118
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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2018

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 GEM ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of placing on 11 July 2016 (the "Listing"). The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of the Company's principal place of business in Hong Kong is Unit B, 23/F, 38 Heung Yip Road, Wong Chuk Hang, Hong Kong.

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 unaudited condensed consolidated financial statements are presented in Hong Kong Dollars ("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 2018 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 disclosure requirements of the Hong Kong Companies Ordinance. The unaudited condensed consolidated financial statements also comply with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

The unaudited consolidated financial statements have not been audited or reviewed by the Company's auditors, but have been reviewed by the audit committee of the Company (the "Audit Committee").

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has applied all new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the accounting period beginning on or after 1 January 2018.

The application of the new amendments to HKFRSs in the current 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 2018 are the same as those followed in the preparation of the financial statements for the year ended 31 December 2017, except for the application of the new and revised HKFRSs as mentioned in note 3.

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 the 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 the operation of casual dining restaurants in which customers would place orders at the front desk and basic table service would be 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 the operation of full service restaurants. 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 experiences 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	
	31.3.2018 HK\$'000	31.3.2017 HK\$'000
Casual	21,514	21,418
Full Service	8,701	11,372
Bakery	1,413	2,040
Inter-segment transaction elimination	31,628 (667)	34,830 (932)
	30,961	33,898

6. OTHER INCOME

	Three months ended	
	31.3.2018 HK\$'000	31.3.2017 HK\$'000
Promotion income	62	157
Franchise fee income	60	62
Others	4	51
Interest income	135	1
	261	271

7. FINANCE COSTS

	Three months ended	
	31.3.2018 HK\$'000	31.3.2017 HK\$'000
The finance costs represent interest on:		
– Bank borrowings	–	174
	–	174

8. LOSS BEFORE TAXATION

	Three months ended	
	31.3.2018 HK\$'000	31.3.2017 HK\$'000
Loss before taxation has been arrived at after charging:		
Raw material and consumables used in respect of:		
Restaurant operation	6,188	6,451
Bakery products	1,068	1,567
	7,256	8,018
Lease payments under operating leases in respect of:		
Minimum payments	5,478	6,698
Contingent rents (<i>note</i>)	142	148
	5,620	6,846

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

No provision for Hong Kong Profits Tax has been provided as the Company has no assessable profits for the period.

10. DIVIDENDS

No dividends were paid, declared and proposed by the Company during the current period (31 March 2017: 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	
	31.3.2018 HK\$'000	31.3.2017 HK\$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	3,746	7,132
	31.3.2018 '000	31.3.2017 '000
Number of shares Number of ordinary shares for the purpose of basic loss per share	446,000	400,000

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 2017.

No diluted loss per share for the periods was presented as there were no potential ordinary shares in issue during the three months ended 31 March 2018 and 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

During the three months ended 31 March 2018, the business environment of the food and beverage industry remained challenging, dynamic, and competitive. Pressure from rising food costs, rental expenses, utilities expenses and labour costs are enduring, which 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 may continue, which will adversely affect the food and beverage industry and Group's performance.

To operate in such a difficult macroeconomic environment, we need to 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

During the three months ended 31 March 2018, our Group operated eleven restaurants under the "Classified" brand and one restaurant under "The Pawn" brand.

"Classified" restaurants are a collection of casual European cafés specializing in artisan breads, cheeses and boutique wines, and are renowned for their breakfast and all-day dining menu. Offering casual seating areas in most locations, Classified encourages neighbourhood street-level interaction. It is our Group's flagship brand and contributes to over 69.5% of our total revenue. During the three months ended 31 March 2018, Classified recorded revenue of approximately HK\$21.5 million (31 March 2017: HK\$21.4 million), representing an increase of 0.5% as compared to the last corresponding period.

"The Pawn" is a full service restaurant located in one of Hong Kong's iconic landmarks. It marries a contemporary 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 2018, The Pawn recorded revenue of approximately HK\$8.7 million (31 March 2017: HK\$8.7 million), which remained relatively stable as compared to the last corresponding period.

“The Fat Pig” was a full service restaurant with a pork-based concept by British Chef Mr. Tom Aikens. The Fat Pig’s financial performance was below our expectation due to the decrease in the number of visitors and shoppers and spending of customers in that district. Given the adverse impact of The Fat Pig’s financial performance on the Group’s overall financial performance, the Directors considered that it was in the best interest of the Shareholders to close down The Fat Pig and divert the Group’s existing resources to the remaining brands, namely “Classified” and “The Pawn”. As such, The Fat Pig was closed on 7 September 2017 and no revenue was recorded for the three months ended 31 March 2018 (31 March 2017: HK\$2.7 million).

In addition to the above restaurants, the Group also owns and operates a central kitchen which supplies bread, bakery and semi-finished food products to our restaurants and other corporate customers. Our central kitchen commenced operation in October 2016. Management believes our central kitchen can improve our operational efficiency in future. During the three months ended 31 March 2018, our central kitchen recorded revenue of approximately HK\$1.4 million (31 March 2017: HK\$2.0 million), representing a decrease of approximately 30.0%, as compared to the last corresponding period.

Future Prospects

The food and beverage industry is always a challenging industry with intense competition and high operating costs, such as rising rental expenses, food costs and labour costs. Our success is heavily dependent on the dining concepts and economic conditions of Hong Kong.

Our Group’s key risk exposures and uncertainties are summarised as follows:

- (1) our Group may fail to find commercially attractive locations for new restaurants and/or renew existing leases on commercially acceptable terms, and the aforesaid potential failure would have a material adverse effect on the Group’s business and future development;
- (2) the operation of the Group may be affected by the price of the food ingredients, including the price of the imported food ingredients which will be affected by the fluctuating exchange rate; and
- (3) there may be labour shortage in the future and competition for qualified individuals in the food and beverage industry may be intense.

For further details on the risks and uncertainties faced by our Group, please refer to the section headed “Risk Factors” of the prospectus of the Company dated 30 June 2016 (the “Prospectus”).

In order to improve the overall business of the Group, we currently plan to:

- (1) open four new restaurants and relocate one restaurant, with at least two in Kowloon in order to establish our business presence in Kowloon. We have identified potential locations for some new restaurants and received various tenancy offers from relevant landlords. We are still negotiating terms with the relevant landlords and have not yet signed any lease agreement for such new restaurants;
- (2) enhance and upgrade our existing restaurant facilities; and
- (3) enhance our premium food and fine wine programme in order to entice higher spending customers to visit our restaurants.

Our ongoing expansion and enhancement plans will improve our market share while we will continue to refine our business strategy to cope with the continuing challenges. We will also proactively seek potential business opportunities that will broaden our sources of revenue and enhance value to the shareholders.

FINANCIAL REVIEW

For the three months ended 31 March 2018, the group's unaudited turnover was approximately HK\$31.0 million (31 March 2017: HK\$33.9 million), representing a decrease of approximately 8.6% compared with the last corresponding period. The decrease in revenue for the three months ended 31 March 2018 was mainly due to the closure of The Fat Pig restaurant in September 2017.

The loss attributable to owners of the Company was approximately HK\$3.7 million (2017: loss HK\$7.1 million) for the three months ended 31 March 2018. The decrease in our loss of the Company was mainly due to the decrease in staff costs, property rentals and related expenses and depreciation, which were primarily attributable to the closure of The Fat Pig restaurant in September 2017.

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 2018, the Group did not have any material capital commitments.

Contingent Liabilities

As at 31 March 2018, the Group did not have any contingent liabilities.

OTHER INFORMATION

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

During the three months ended 31 March 2018 and up to the date of this report, there has been no purchase, sale or redemption of any Company's listed securities by the Company or any of its subsidiaries.

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

As at 31 March 2018, 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)	41,340,000	9.3%
Mr. Lo Yeung Kit Alan	interest in controlled corporation (Note 2)	68,000,000	15.3%
Mr. Pong Kin Yee	interest in controlled corporation (Note 3)	68,000,000	15.3%

Notes:

1. Mr. Wong beneficially owns 100% equity interest in Wiltshire Global Limited. Therefore, Mr. Wong is deemed to be interested in 41,340,000 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 68,000,000 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 68,000,000 shares held by Peyton Global Limited.

Save as disclosed above, as at 31 March 2018, 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 31 March 2018, 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 which was required pursuant to section 336 of the SFO to be recorded in the register of the Company 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	41,340,000	9.3%
Ms. Lee Yuen Ching Charmaine	Interest of spouse (Note 1)	41,340,000	9.3%
Easy Fame Investments Limited	Beneficial owner	68,000,000	15.3%
Ms. Wong Pui Yin	Interest of spouse (Note 2)	68,000,000	15.3%
Peyton Global Limited	Beneficial owner	68,000,000	15.3%
Ms. Cheng Chi Man	Interest of spouse (Note 3)	68,000,000	15.3%
Millennium Pacific Information Technology Limited	Beneficial owner	53,320,000	13.3%
Huge China Holdings Limited	Beneficial owner	28,025,000	7.0%

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.

Save as disclosed above, as at 31 March 2018, 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 2017 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 Audit Committee of the Company was established 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.

The Audit Committee of the Company has discussed and reviewed with management, the unaudited condensed consolidated financial statements of the Group for the three months ended 31 March 2018, and is of the opinion that such statements complied with the applicable accounting standards and requirements, and that adequate disclosures have been made.

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, 11 May 2018

As at the date of this announcement, the chairman and the executive director of the Company is Mr. WONG Arnold Chi Chiu, the executive directors of the Company are Mr. LO Yeung Kit Alan, Mr. PONG Kin Yee and Mr. MA Chun Fai; and the independent non-executive directors of the Company 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.