

PACIFIC LEGEND GROUP LIMITED

(Incorporated in the Cayman Islands
with limited liability)

Stock Code: 8547



THIRD QUARTERLY REPORT 2021

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*This report, for which the directors (the “**Directors**”) of Pacific Legend Group Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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 enquires, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material aspects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.*

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\$170.7 million for the nine months ended 30 September 2021, representing an increase of approximately HK\$5.3 million or 3.2% as compared with the revenue of approximately HK\$165.4 million for the nine months ended 30 September 2020.
- The unaudited loss of the Group after tax was approximately HK\$17.2 million for the nine months ended 30 September 2021 as compared with a loss of approximately HK\$20.9 million for the nine months ended 30 September 2020.
- Basic and diluted loss per share were both 1.45 Hong Kong cents for the nine months ended 30 September 2021 compared with the basic and diluted loss per share of 2.09 Hong Kong cent for the nine months ended 30 September 2020.
- No interim dividend is recommended by the Board for the nine months ended 30 September 2021.

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 2021 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 2021

(Expressed in Hong Kong dollars)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	4	74,271	68,408	170,717	165,390
Cost of sales		(34,701)	(26,168)	(77,477)	(64,632)
Gross profit		39,570	42,240	93,240	100,758
Other income and gains	5	694	5,031	4,842	9,105
Selling and distribution costs		(11,503)	(13,492)	(34,294)	(41,401)
Administrative and other operating expenses		(23,128)	(30,130)	(80,361)	(88,231)
Profit/(loss) from operations		5,633	3,649	(16,573)	(19,769)
Finance costs		(155)	(363)	(608)	(1,095)
Profit/(loss) before taxation	6	5,478	3,286	(17,181)	(20,864)
Income tax credit/(expense)	7	–	3	–	(33)
Profit/(loss) for the period attributable to equity shareholders of the Company		5,478	3,289	(17,181)	(20,897)
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		(6)	(225)	151	(309)
Total comprehensive income/(loss) for the period attributable to equity shareholders of the Company		5,472	3,064	(17,030)	(21,206)
Earnings/(loss) per share					
Basic and diluted (HK Cents)	8	0.45	0.33	(1.45)	(2.09)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021
(Expressed in Hong Kong dollars)

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Other reserve HK\$'000	Accumulated profits/ (losses) HK\$'000	Total HK\$'000
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>
Balance at 1 January 2021 (audited)	10,000	67,136	3,874	298	789	7,019	89,116
Loss for the period	-	-	-	-	-	(17,181)	(17,181)
Other comprehensive income	-	-	-	151	-	-	151
Total comprehensive income/(loss) for the period	-	-	-	151	-	(17,181)	(17,030)
Proceeds from placing of new shares	3,200	22,240	-	-	-	-	25,440
Issuing expenses of placing new shares	-	(1,394)	-	-	-	-	(1,394)
Share options lapsed	-	-	(856)	-	-	856	-
Equity settled share-based payments transaction	-	-	(4)	-	-	-	(4)
Balance at 30 September 2021 (unaudited)	<u>13,200</u>	<u>87,982</u>	<u>3,014</u>	<u>449</u>	<u>789</u>	<u>(9,306)</u>	<u>96,128</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**”) (the “**Listing**”) on 18 July 2018 (the “**Listing Date**”).

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 2021, 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**”) as the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited. The unaudited condensed consolidated financial information should be read in conjunction with the audited consolidated financial information for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “**HKFRSs**”) issued by the HKICPA, as included in the Company’s 2020 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:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39 HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

The application of the amendments to HKFRSs in the current accounting period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

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 net of impairment losses on non-current assets. 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	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue from contract with customers within the scope of HKFRS 15				
– Point in time				
– Sale of home furniture and accessories	43,928	49,349	121,486	121,033
– Over time				
– Project and hospitality services	25,251	12,784	36,675	28,789
Revenue from other source				
– Over time				
– Rental of home furniture and accessories	5,092	6,275	12,556	15,568
	<u>74,271</u>	<u>68,408</u>	<u>170,717</u>	<u>165,390</u>
Segment results				
– Sale of home furniture and accessories	26,426	30,799	70,252	74,178
– Project and hospitality services	8,990	6,328	12,222	14,119
– Rental of home furniture and accessories	4,154	5,113	10,766	12,461
	<u>39,570</u>	<u>42,240</u>	<u>93,240</u>	<u>100,758</u>
Other income and gains	694	5,031	4,842	9,105
Selling and distribution costs	(11,503)	(13,492)	(34,294)	(41,401)
Administrative and other operating expenses	(23,128)	(30,130)	(80,361)	(88,231)
Finance costs	(155)	(363)	(608)	(1,095)
Profit/(loss) before taxation	<u>5,478</u>	<u>3,286</u>	<u>(17,181)</u>	<u>(20,864)</u>

There was no inter-segment revenue for the nine months ended 30 September 2021 and 2020.

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	
	2021	2020	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hong Kong	41,727	48,826	102,561	124,359
United Arab Emirates (the "UAE")	22,665	13,674	44,886	27,267
The People's Republic of China (excluding Hong Kong and Macao, the "PRC")	9,879	5,908	23,270	13,764
	<u>74,271</u>	<u>68,408</u>	<u>170,717</u>	<u>165,390</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	
	2021	2020	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Bank interest income	–	60	33	398
Interest income from finance leases	60	75	215	163
Royalty income from franchising	242	–	838	260
Other income from franchisee	–	–	1,780	–
Write off expired trade and other payables	172	–	172	458
Government grants received	–	3,383	–	4,043
COVID-19-related rent concessions	262	1,070	1,120	3,158
Gain on lease modification	–	–	–	111
Sundry income	161	23	234	94
Net exchange gains	(203)	420	450	420
	<u>694</u>	<u>5,031</u>	<u>4,842</u>	<u>9,105</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	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
(a) Finance costs:				
Interest on short-term loans	50	46	118	122
Interest on lease liabilities	105	317	490	973
	<u>155</u>	<u>363</u>	<u>608</u>	<u>1,095</u>
(b) Staff costs:				
Salaries, allowances and commissions	16,263	18,016	53,435	53,567
Share-based payment expenses	(54)	208	(4)	1,006
Retirement benefits scheme contributions	812	650	2,492	1,974
Provision for long service payments and employees' end-of-service benefits	200	285	598	856
	<u>17,221</u>	<u>19,159</u>	<u>56,521</u>	<u>57,403</u>
(c) Other items:				
Amortisation of intangible assets	305	-	915	-
Auditor's remuneration	256	261	789	800
Cost of inventories recognised as expense	34,115	25,578	76,303	62,591
Depreciation of property, plant and equipment	672	1,824	2,103	4,790
Depreciation of right-of-use assets	3,457	7,244	10,131	23,133
Loss/(gain) on disposals of property, plant and equipment	177	(2)	177	303
Expenses related to short term leases	897	3,114	3,778	6,337
Variable lease payments not included in the measurement of lease liabilities	30	52	127	193

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	
	2021	2020	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax – credit/(provision) for the period				
Hong Kong Profits Tax	<u>-</u>	<u>3</u>	<u>-</u>	<u>(33)</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 2021 is calculated at 8.25% (nine months ended 30 September 2020: 8.25%) of the first HK\$2,000,000 and 16.5% (2020: 16.5%) of the remaining estimated assessable profits for the period.

No provision for Hong Kong profits tax has been made as the Group did not have assessable profit in Hong Kong for current period.

No provision for the PRC Enterprise Income Tax is made as the Group has no assessable profit arising in or derived from the PRC for the both period.

8. EARNINGS/(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\$17,181,000 (nine months ended 30 September 2020: HK\$20,897,000) and the weighted average of 1,182,564,103 (nine months ended 30 September 2020: 1,000,000,000) ordinary shares in issue.

No diluted loss per share for the nine months ended 30 September 2021 and 2020 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 2021 (nine months ended 30 September 2020: 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 involve designing, styling, decorating and furnishing commercial or residential properties such as hotels, serviced apartments and showflats).

During the three months ended 30 September 2021, the general market conditions continued to be challenging across all of our markets with the continuing struggle of COVID-19 knock-on effects. Because we were hampered by the lockdowns in some of the countries where our suppliers are located, we widened our supplier base across the region which has helped with product delivery. Furthermore, we have focused more marketing efforts toward the local market in Hong Kong. Both these efforts have helped us improve in the third quarter of 2021. Project sales have picked up on Hong Kong and Dubai markets, which are also helping our bottom line. Our continued cost cutting exercises across all our markets have also helped us to turn the company around.

On 14 September 2021, we have also completed another placing under the Company’s general mandate of 120,000,000 shares, with net proceeds of approximately HK\$12.8 million which will be used as general working capital of the Group. The placing represents an opportunity to raise additional funding for the business operations of the Group and should strengthen the Group’s financial position. It will enlarge our shareholders’ base and may in turn enhance the liquidity of the Company’s shares and provide working capital to the Group to meet any financial obligations of the Group without any interest burden, within a relatively shorter time frame and at lower costs when compared with other means of fundraising.

The Group also continues to develop and upgrade its design and build capabilities (contracting) in the residential and commercial area. During this third quarter of 2021, the Group entered into a joint venture agreement with an independent third party who has substantial experience in interior design and renovation industry. The Group considers this joint venture agreement could provide the Group’s customers a one-stop solution ranging from design, furniture supply, contracting to installation.

On 13 October 2021, the Company also appointed Mr. Lee Fung Lun as our new independent non-executive director. Mr. Lee has more than 22 years of experience in real estate investment, construction, property mortgage and property management services. The Company believes his qualifications and professional experiences could bring diversity of perspective, skills and experience to the Board.

For the balance of 2021, we will continue to focus on development of our suppliers, products and services in all regions, to differentiate ourselves in our markets such as increased B2C design services both in store and online. The forthcoming quarter will continue to be challenging due to the competitive market conditions in the industry, extended supply chain issues as well as the uncertainty because the rate of vaccine take-up in Hong Kong is not sufficiently high enough to re-open the borders. However, as we continue our cost cutting exercises, we believe that we could consolidate our position to provide best-in-class furnishings and design services and further grow our businesses from here.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Revenue

The Group's revenue for the nine months ended 30 September 2021 (the "YTD Third Quarter 2021") was approximately HK\$170.7 million, representing a slight increase of HK\$5.3 million or 3.2% as compared with that of the nine months ended 30 September 2020 (the "YTD Third Quarter 2020" or the "Corresponding Period in 2020") of HK\$165.4 million.

The revenue derived from the Furniture Sales business slightly increased by approximately 0.4% from approximately HK\$121.0 million in YTD Third Quarter 2020 to approximately HK\$121.5 million in YTD Third Quarter 2021.

In Hong Kong, the retail sales revenue decreased by approximately 7.3% in YTD Third Quarter 2021 as compared to YTD Third Quarter 2020. The decline was mainly attributable to the change in demography as a result of growing number of expatriates returning to their home countries as soon as their kids break for summer holidays, which adversely affected our retail sales performance. Apart from Yoho Mall store in Yuen Long, Hong Kong which was closed down in July 2021, the lease of our Repulse Bay store in Hong Kong was also terminated in October 2021. On the other hand, our new store in Times Square, Causeway Bay, Hong Kong will be opened in November 2021 with a view to attract local and mainland customers.

The corporate sales in Hong Kong, which consists mainly of the sales of showflats furniture to property developers, noted a decrease in revenue by approximately 25.1% from as compared to the Corresponding Period in 2020. Delay in construction site continued to affect corporate sales client's timetable to release their projects hence in sales bookings.

Retail revenue from our Sheikh Zayed Road and Al Wasl Road stores in Dubai, the UAE increased by approximately 15.4% in YTD Third Quarter 2021 as compared to the Corresponding Period in 2020. Despite an improvement in stock optimisation in the first half year of 2021, the revenue growth momentum was hampered as the receipts of incoming stock were delayed by lack of availability in shipping & manufacturing delays due to COVID-19 lockdowns. This had delayed our fall/winter seasonal launch. Notwithstanding a slower growth in our revenue from UAE in the third quarter of 2021 due to delay in our product shipment in September 2021, revenue from UAE corporate sales still noted an approximate increase of 39.9% in YTD Third Quarter 2021, due to our UAE team's successful effort to develop and convert client pipeline to sales orders.

Our An Fu Lu Store in Shanghai, the PRC recorded an approximate 95.4% increase in revenue in the YTD Third Quarter 2021, following recovery of business from COVID-19 pandemic. A pop-up store by Coach, another luxury brand has been set up within this store since mid-October 2021 with a view to increasing the store footfall and bringing in potential new customers.

The Group's online business in the YTD Third Quarter 2021 declined by approximately 19.6% compared to the Corresponding Period in 2020. The revenue from the Group's franchise business in Saudi Arabia noted an approximate increase of 30.8% recorded sales in the YTD Third Quarter 2021, compared to the Corresponding Period in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The revenue from the Furniture Rental business decreased by approximately 19.3% from approximately HK\$15.6 million in the YTD Third Quarter 2020 to approximately HK\$12.6 million in the YTD Third Quarter 2021. The fall in revenue from the Furniture Rental was mainly due to COVID-19 travelling restrictions which affected the staff mobility across the borders. As a result, the new rental contracts entered into in 2021 could not sufficiently replace the expiring ones.

The revenue from the Projects business increased significantly by approximately 27.4% from approximately HK\$28.8 million in the YTD Third Quarter 2020 to approximately HK\$36.7 million in the YTD Third Quarter 2021. Our project business in Hong Kong, which has been seriously suffered in the first half year 2021 by the delay in building construction and in the property developer's timetable to release their residential flats for sale, has gradually picked up in the third quarter of 2021. On the other hand, our UAE project revenue has significantly increased in YTD Third Quarter 2021, thanks to partial completion of a significant hospitality project in UAE.

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 approximately HK\$7.5 million or 7.5% from approximately HK\$100.8 million in YTD Third Quarter 2020 to approximately HK\$93.2 million in YTD Third Quarter 2021. We saw an approximate 6.3% decrease in overall gross profit percentage (from 60.9% in YTD Third Quarter 2020 to 54.6% in YTD Third Quarter 2021) due to (a) our effort to clear aging stock at a discount which reduced our gross margin, (b) the increase in the proportion of our design consultancy in our Hong Kong Retail business, which involves renovation of the client's houses and therefore have a lower gross profit percentage than general retail sales, and (c) the increase in shipping costs as a result of global shipping containers shortage, which affects the gross margin of both retail and projects businesses.

Other income and gains

The Group's other income and gains for the YTD decreased significantly by approximately 46.8% from approximately HK\$9.1 million in the YTD Third Quarter 2020 to approximately HK\$4.8 million in the YTD Third Quarter 2021. The decrease in other income and gains costs mainly due to the cessation of employee support scheme subsidies from the Hong Kong SAR Government and the decrease in COVID-19-related rent concession in YTD Third Quarter 2021.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Selling and Distribution Costs

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

The Group's selling and distribution costs decreased by approximately 17.2% from approximately HK\$41.4 million in YTD Third Quarter 2020 to approximately HK\$34.3 million in YTD Third Quarter 2021. The decrease of HK\$7.1 million was mainly the result of the savings in sales-related staff costs, advertising and promotion expenses, and the saving of agency fee paid to the owner of the brand of Sonder Living following the cessation of Sonder Living @Indigo store in Horizon Plaza, Hong Kong in July 2020.

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 8.8% from approximately HK\$88.2 million in YTD Third Quarter 2020 to approximately HK\$80.4 million in YTD Third Quarter 2021. Such decrease was mainly the result of the reduction in depreciation as a result of impairment of certain non-current assets in 2020, net of the additional payroll costs following the staff reorganisation in Hong Kong office.

Finance costs

The Group incurred bank interest expenses on short term import loan financing of approximately HK\$118,000 in the YTD Third Quarter 2021 (YTD Third Quarter 2020: approximately HK\$122,000).

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 approximately HK\$490,000 in the YTD Third Quarter 2021 (YTD Third Quarter 2020: approximately HK\$973,000).

Loss for the period

Loss attributable to equity shareholders of the Company for YTD Third Quarter 2021 amounted to approximately HK\$17.2 million (YTD Third Quarter 2020: a loss of approximately HK\$20.9 million).

The decrease in loss in the YTD Third Quarter 2021 was mainly attributable to the net effects of the decline in gross margin in sales of furniture and project businesses and savings of selling and distribution costs and administrative and other operating expenses as mentioned above.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Fund raising activities

(a) Use of proceeds from the Listing

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 2021 <i>HK\$'000</i> (Unaudited)	Unutilised amount up to 30 September 2021 <i>HK\$'000</i> (Unaudited)
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%	3,550	343
Recruitment of additional staff	5,545	11.4%	5,545	–
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	–
	<u>48,475</u>	<u>100.0%</u>	<u>24,799</u>	<u>23,676</u>

(b) Use of proceeds from the placings

On 7 January 2021, the Company entered into a placing agreement with Lego Securities Limited, pursuant to which Lego Securities Limited as the placing agent agreed to place 200,000,000 new shares of the Company (the “**Shares**”) under a general mandate (granted by the shareholders of the Company (the “**Shareholders**”) at the Company’s annual general meeting on 25 May 2020) to not less than six independent placees at HK\$0.060 per share (the “**January 2021 Placing**”). The January 2021 Placing was completed on 4 February 2021.

On 25 August 2021, the Company entered into another placing agreement with Lego Securities Limited, pursuant to which Lego Securities Limited as the placing agent agreed to place 120,000,000 new Shares to not less than six independent placees at HK\$0.112 per share under the general mandate granted by Shareholders at the Company’s annual general meeting on 9 June 2021 (the “**August 2021 Placing**”). The August 2021 Placing was completed on 14 September 2021.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Event	Reason of Placing	Net proceeds (after deduction of commission and other expenses of the placing) (Unaudited)	Actual use of proceeds as 30 September 2021 (Unaudited)
January 2021 Placing	<p>In view of the current market conditions, the Directors consider that the January 2021 Placing will strengthen the Group's financial position and represents an opportunity to raise additional funding for the business operations of the Group (including but not limited to achievement of the Company's business objectives as set out in the Prospectus) and will enlarge Shareholders' base of the Company which may in turn enhance the liquidity of the Shares, and provide working capital to the Group to meet any financial obligations of the Group without any interest burden, within a relatively shorter time frame and at lower costs when compared with other means of fundraising.</p>	Approximately HK\$11,279,000	Fully utilized with administrative and operations of HK\$11,279,000
August 2021 Placing	<p>In view of the current market conditions, the Directors consider that the August 2021 Placing will strengthen the Group's financial position and represents an opportunity to raise additional funding for the business operations of the Group (including but not limited to achievement of the Company's business objectives as set out in the Prospectus) and will enlarge Shareholders' base of the Company which may in turn enhance the liquidity of the Shares, and provide working capital to the Group to meet any financial obligations of the Group without any interest burden, within a relatively shorter time frame and at lower costs when compared with other means of fundraising.</p>	Approximately HK\$12,767,000	Approximately HK\$1,865,000 utilised in administrative and operations

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 2021, 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

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)	414,500,000	-	414,500,000	31.40%
Mrs. Jennifer Carver MCLENNAN	Interest of spouse (note 4)	414,500,000	-	414,500,000	31.40%
Ms. MOK Lai Yin Fiona (note 5)	Beneficial interests	-	9,980,000	9,980,000	0.76%

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 1,320,000,000 Shares in issue as at 30 September 2021 (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%
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 2021, 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	414,500,000 (L)	31.40%
Ms. Tracy-Ann FITZPATRICK	Interest in a controlled corporation, interest held jointly with other persons <i>(note 1)</i> and interest of spouse <i>(note 3)</i>	414,500,000 (L)	31.40%
Mr. David Frances BULBECK	Interest of spouse <i>(note 3)</i>	414,500,000 (L)	31.40%
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>	414,500,000 (L)	31.40%
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>	414,500,000 (L)	31.40%
Mr. John Martin RINDERKNECHT	Interest in a controlled corporation and interest held jointly with other persons <i>(note 1)</i>	414,500,000 (L)	31.40%
Mr. CHEUNG Wai Keung	Beneficial interest	120,000,000 (L)	9.09%

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 1,320,000,000 Shares in issue as at 30 September 2021 (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 2021, 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 2021 (nine months ended 30 September 2020: 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 2021

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 2021 are as follows:

	Exercise price HK\$	Number of share options at 1 January 2021	Number of share options lapsed during the period	Number of share options at 30 September 2021
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	8,405,100	(3,556,700)	4,848,400
— 18 July 2020 to 17 July 2022	0.22	8,405,100	(3,556,700)	4,848,400
— 18 July 2021 to 17 July 2022	0.22	8,659,800	(3,696,600)	4,963,200
		<u>35,450,000</u>	<u>(10,810,000)</u>	<u>24,640,000</u>

During the nine months ended 30 September 2021, a total of 10,810,000 share options were lapsed, no share options were issued or cancelled. The number of share options outstanding as at 30 September 2021 was 24,640,000, all of which are exercisable as at 30 September 2021.

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 2021 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 2021, 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 2021, 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.

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 Mr. SO Alan Wai Shing, 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 of the GEM Listing Rules and to the best knowledge of the Board, the Company had complied with the code provisions of the CG Code, except that Mr. MCLENNAN serves as both the chairman of the Board and the chief executive officer (“**CEO**”) of the Company with effect from 1 July 2021, such practice deviates from code provision A.2.1 of the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) as contained in Appendix 15 to the GEM Listing Rules. The Board believes that vesting the roles of both the chairman of the Board and the CEO of the Company in the same person can facilitate the execution of the Group’s business strategies and boost effectiveness of its operation. Taking into account Mr. MCLENNAN’s substantial experience and leadership position in the management of the Company, the Board considers that Mr. MCLENNAN acting as both the chairman of the Board and the CEO of the Company enables effective management of the Company and is in the interests of the Group and the Shareholders as a whole. In addition, the Board now comprises four executive Directors, one non-executive Director and five independent non-executive Directors. The Board will remain appropriately structured with balance of power to provide sufficient checks and supervision to protect the interests of the Company and the Shareholders.

By Order of the Board

Pacific Legend Group Limited

John Warren MCLENNAN

Executive Director, Chairman and Chief Executive Officer

Hong Kong, 12 November 2021

As at the date of this report, the Board comprises Mr. John Warren MCLENNAN, Ms. MOK Lai Yin Fiona, Mr. Wilson SO Kin Ting and Mr. ZHENG Tianzhi as executive Directors; Mrs. Jennifer Carver MCLENNAN as non-executive Director; and Ms. Lale KESEBI, Mr. Roderick Donald NICHOL, Mr. SO Alan Wai Shing, Mr. LEE Kwong Ming and Mr. LEE Fung Lun as independent non-executive Directors.