

Classified Group (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8232

2017

INTERIM
REPORT



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

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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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WONG Arnold Chi Chiu (*Chairman*)
Mr. LO Yeung Kit Alan
Mr. PONG Kin Yee
Mr. MA Chun Fai

Independent non-executive Directors

Dr. CHAN Kin Keung Eugene BBS,JP
Mr. CHUM Kwan Yue Desmond
Mr. NG Chun Fai Frank

COMPLIANCE OFFICER

Mr. WONG Arnold Chi Chiu

AUTHORIZED REPRESENTATIVES

Mr. WONG Arnold Chi Chiu
Mr. LI Kai Leung

Company Secretary

Mr. LI Kai Leung (*HKICPA*)

Audit Committee Members

Mr. CHUM Kwan Yue Desmond (*Chairman*)
Dr. CHAN Kin Keung Eugene BBS,JP
Mr. NG Chun Fai Frank

Remuneration Committee Members

Dr. CHAN Kin Keung Eugene BBS,JP (*Chairman*)
Mr. CHUM Kwan Yue Desmond
Mr. NG Chun Fai Frank

Nomination Committee Members

Mr. NG Chun Fai Frank (*Chairman*)
Dr. CHAN Kin Keung Eugene BBS,JP
Mr. CHUM Kwan Yue Desmond

Auditors

Deloitte Touche Tohmatsu
Certified Reporting Accountants

Legal Advisers to the Company

Robertsons

Principal Bankers

Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

Registered Office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head Office, Headquarters and Principal Place of Business in Hong Kong	Unit B, 23/F 38 Heung Yip Road Wong Chuk Hang Hong Kong
Hong Kong Share Registrars and Transfer Office	Union Registrars Limited Suites 3301-04, 33/F Two Chinachem Exchange Square 338 King's Road North Point Hong Kong
Company Website	www.classifiedgroup.com.hk
GEM Stock Code	8232

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	Three months ended		Six months ended	
		30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)	30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
Revenue	5	35,783	44,613	69,681	90,731
Other income	6	252	126	524	181
Other losses		-	-	-	(147)
Impairment loss for property, plant and equipment		(6,529)	-	(6,529)	-
Allowance for rental deposits		(1,868)	-	(1,868)	-
Raw materials and consumable used		(8,599)	(9,551)	(16,618)	(19,086)
Staff costs		(16,897)	(16,428)	(33,263)	(32,948)
Depreciation		(2,577)	(2,020)	(5,121)	(4,208)
Property rental and related expenses		(6,838)	(7,857)	(14,850)	(15,823)
Utility expenses		(1,091)	(1,174)	(2,034)	(2,189)
Advertising and promotion expenses		(771)	(840)	(1,459)	(1,581)
Other expenses		(4,633)	(7,324)	(9,184)	(17,851)
Finance costs	7	(163)	(158)	(337)	(316)
Loss before taxation	8	(13,931)	(613)	(21,058)	(3,237)
Taxation	9	-	(447)	-	(1,118)
Loss and total comprehensive expense for the period		(13,931)	(1,060)	(21,058)	(4,355)
Loss and total comprehensive expense for the period attributable to:					
– Owners of the Company		(13,931)	(1,016)	(21,058)	(4,257)
– Non-controlling interests		-	(44)	-	(98)
		(13,931)	(1,060)	(21,058)	(4,355)
Loss per share					
Basic (HK cents)	11	(3.48)	(0.32)	(5.26)	(1.33)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	NOTES	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	12	23,982	34,385
Deposits	13	8,959	9,557
Deferred tax assets		1,482	1,482
		34,423	45,424
Current assets			
Inventories		3,490	3,481
Trade and other receivables, deposits and prepayments	13	5,178	12,857
Amounts due from related companies		120	363
Amounts due from directors		509	2,770
Tax recoverable		1,166	1,166
Bank balances and cash		39,444	54,069
		49,907	74,706
Current liabilities			
Trade and other payables and accrued charges	14	14,850	21,310
Amounts due to related companies		375	458
Tax payable		96	96
Bank borrowings	15	17,966	26,165
		33,287	48,029

	<i>NOTES</i>	30.6.2017 HK\$'000 (unaudited)	31.12.2016 <i>HK\$'000</i> <i>(audited)</i>
Net current assets		16,620	26,677
Total assets less current liabilities		51,043	72,101
Non-current liabilities			
Provision		1,758	1,758
Net assets		49,285	70,343
Capital and reserves			
Share capital	16	4,000	4,000
Reserves		45,285	66,343
Equity attributable to owners of the Company		49,285	70,343

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to owners of the Company					Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (note)	Accumulated profits (losses) HK\$'000	Total 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	-	-	-	(21,058)	(21,058)	-	(21,058)
At 30 June 2017 (unaudited)	4,000	45,296	766	(777)	49,285	-	49,285
At 1 January 2016 (audited)	-	10,000	1,512	33,355	44,867	(542)	44,325
Loss and total comprehensive expense for the period	-	-	-	(4,257)	(4,257)	(98)	(4,355)
At 30 June 2016 (unaudited)	-	10,000	1,512	29,098	40,610	(640)	39,970

Note: Other reserve represents the difference between the share capital of group entities and that of the Company issued pursuant of the group reorganisation.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended	
	30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
Net cash used in operating activities	(12,392)	(8,898)
Net cash from investing activities		
Purchase of property, plant and equipment	(1,247)	(746)
Repayment from related companies	–	102
Advance to directors	(509)	(5,521)
Repayment from directors	2,770	23,344
Receipts from other receivables	5,289	–
	6,303	17,179
Net cash (used in) from financing activities		
Repayment to a related company	–	(25)
Repayment to a non-controlling shareholder of a subsidiary	–	(52)
New bank borrowings raised	–	1,439
Repayment of bank borrowings	(8,199)	(754)
Repayment of obligation under finance lease	–	(142)
Interest paid	(337)	(316)
	(8,536)	150
Net (decrease) increase in cash and cash equivalents	(14,625)	8,431
Cash and cash equivalents at beginning of the period	54,069	17,062
Cash and cash equivalents at end of the period representing by bank balances and cash	39,444	25,493

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 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 six months ended 30 June 2017 has been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certificate Public Accountants (“HKICPA”) and the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities in the GEM of the Stock Exchange.

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 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 six months ended 30 June 2017 are the same as those followed in the preparation of the financial statements for the year ended 31 December 2016.

5. REVENUE AND SEGMENT INFORMATION

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 makers, 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.

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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.

- Full service restaurant operation ("Full service")

This segment derives its revenue from 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 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.

Segment revenue and results

Six months ended 30 June 2017

	Casual	Full service	Bakery	Segment total	Elimination	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue						
External sales	44,634	22,957	2,090	69,681	-	69,681
Inter segment sales	-	-	2,259	2,259	(2,259)	-
Total	44,634	22,957	4,349	71,940	(2,259)	69,681
Segment results	2,907	(13,812)	(1,823)	(12,728)	-	(12,728)
Other income						524
Unallocated operating costs						(8,615)
Finance costs						(239)
Loss before taxation						(21,058)

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

Six months ended 30 June 2016

	Causal <i>HK\$'000</i>	Full service <i>HK\$'000</i>	Bakery <i>HK\$'000</i>	Segment total <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue						
External sales	45,366	40,241	5,124	90,731	-	90,731
Inter segment sales	-	-	872	872	(872)	-
Total	45,366	40,241	5,996	91,603	(872)	90,731
Segment results	5,962	6,382	(219)	12,125	-	12,125
Other income						181
Unallocated operating costs						(7,242)
Listing expenses						(8,085)
Finance costs						(216)
Loss before taxation						(3,237)

Inter-segment sales are charged at mutually agreed terms.

Segment result represents the loss incurred/profit earned by each segment without allocation of other income, unallocated operating costs (including head office staff cost, rental and other corporate expenses), listing expenses and certain finance costs.

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

As at 30 June 2017

	Causal <i>HK\$'000</i>	Full service <i>HK\$'000</i>	Bakery <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS				
Segment assets	17,410	17,417	4,985	39,812
Property, plant and equipment				543
Deferred tax assets				1,482
Other receivables				1,374
Amounts due from directors				509
Tax recoverable				1,166
Bank balances and cash				39,444
Consolidated total assets				84,330
LIABILITIES				
Segment liabilities	6,874	7,039	1,482	15,395
Other payables				1,588
Tax payable				96
Bank borrowings				17,966
Consolidated total liabilities				35,045

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (continued)

As at 31 December 2016

	Causal <i>HK\$'000</i>	Full service <i>HK\$'000</i>	Bakery <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS				
Segment assets	21,388	29,555	6,554	57,497
Property, plant and equipment				589
Deferred tax assets				1,482
Other receivables				2,557
Amounts due from directors				2,770
Tax recoverable				1,166
Bank balances and cash				54,069
Consolidated total assets				120,130
LIABILITIES				
Segment liabilities	8,014	15,459	1,441	24,914
Other payables				4,777
Tax payable				96
Bank borrowings				20,000
Consolidated total liabilities				49,787

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (continued)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating and reportable segments, other than certain property, plant and equipment, deferred tax assets, certain other receivables, certain amounts due from related companies, amounts due from directors, tax recoverable and bank balances and cash.
- all liabilities are allocated to operating and reportable segments, other than tax payable, certain bank borrowings and certain other payables.

6. OTHER INCOME

	Three months ended		Six months ended	
	30.6.2017 HK\$'000	30.6.2016 HK\$'000	30.6.2017 HK\$'000	30.6.2016 HK\$'000
Promotion income	178	–	335	–
Franchise fee income	60	58	122	108
Others	12	68	64	73
Interest income	2	–	3	–
	252	126	524	181

7. FINANCE COSTS

	Three months ended		Six months ended	
	30.6.2017 HK\$'000	30.6.2016 HK\$'000	30.6.2017 HK\$'000	30.6.2016 HK\$'000
The finance costs represent interest on bank borrowings	163	158	337	316

8. LOSS BEFORE TAXATION

	Three months ended		Six months ended	
	30.6.2017 HK\$'000	30.6.2016 HK\$'000	30.6.2017 HK\$'000	30.6.2016 HK\$'000
Loss before taxation has been arrived at after charging:				
Listing expenses	–	2,043	–	8,085
Raw materials and consumables used in respect of:				
– Restaurant operations	6,750	8,563	13,203	16,849
– Bakery products	1,849	988	3,415	2,237
	8,599	9,551	16,618	19,086
Loss on disposal of property, plant and equipment (included in other losses)	–	–	–	147
Lease payments under operating leases in respect of:				
– Minimum payments	5,338	6,509	12,036	13,007
– Contingent rents (note)	318	225	466	536
	5,656	6,734	12,502	13,543

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		Six months ended	
	30.6.2017 <i>HK\$'000</i>	30.6.2016 <i>HK\$'000</i>	30.6.2017 <i>HK\$'000</i>	30.6.2016 <i>HK\$'000</i>
Hong Kong Profits Tax:				
Current tax	–	(228)	–	(554)
Deferred taxation	–	(219)	–	(564)
	–	(447)	–	(1,118)

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 interim period (six months ended 30 June 2016: nil). The directors have determined that no dividend will be paid in respect of the current interim 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		Six months ended	
	30.6.2017 HK\$'000	30.6.2016 HK\$'000	30.6.2017 HK\$'000	30.6.2016 HK\$'000
Loss:				
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	(13,931)	(1,016)	(21,058)	(4,257)
	30.6.2017 '000	30.6.2016 '000	30.6.2017 '000	30.6.2016 '000
Number of shares				
Number of ordinary shares for the purpose of basic loss per share	400,000	320,000	400,000	320,000

The number of ordinary shares for the purpose of calculating basic loss 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.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of approximately HK\$1,247,000 (six months ended 30 June 2016: HK\$746,000).

During the current interim period, the Group recognised an impairment loss of property, plant and equipment of HK\$6,529,000 due to the proposed closure plan on a restaurant, which is loss making in current interim period, as at 30 June 2017.

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30.6.2017 <i>HK\$'000</i>	31.12.2016 <i>HK\$'000</i>
Trade receivables from restaurant operations	806	1,956
Trade receivables from sales of bakery products	313	762
Rental deposits	8,138	9,140
Other deposits	1,278	2,096
Prepayments and others	3,602	8,460
	14,137	22,414
Analysed as:		
Current	5,178	12,857
Non-current	8,959	9,557
	14,137	22,414

There was no credit period to individual customers for the restaurant operations. The Group's trading terms with its customers are mainly by cash and credit card settlement. The settlement terms of credit card companies are usually 7 days after the service rendered date.

The Group allows a credit period of 30 days to the corporate customers for launching activities in the Group's restaurants.

The Group's sales of bakery products to customers are mainly from credit sales. The Group allows a credit period of 30 to 60 days to these trade customers.

The credit period provided to customers can vary based on a number of factors including nature of operations, the Group's relationship with the customer and the customer's credit profile.

No interest is charged on the trade receivables on the outstanding balance.

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

The following is an aged analysis of trade receivables from restaurant operations presented based on the invoice date, which approximated the service rendered date, at the end of the reporting periods.

	30.6.2017 <i>HK\$'000</i>	31.12.2016 <i>HK\$'000</i>
0 to 30 days	316	1,692
31 to 60 days	253	195
61 to 90 days	20	61
Over 90 days	217	8
	806	1,956

The following is an aged analysis of trade receivables from sales of bakery products based on the invoice date, which is approximately the revenue recognition date, at the end of the reporting periods.

	30.6.2017 <i>HK\$'000</i>	31.12.2016 <i>HK\$'000</i>
0 to 30 days	37	428
31 to 60 days	155	18
61 to 90 days	18	9
Over 90 days	103	307
	313	762

During the current interim period, the Group recognised an allowance for rental deposits of HK\$1,868,000 because the management of the Group considered that the rental deposits are unlikely to be recovered upon the early termination of the tenancy agreement with landlord due to the proposed closure plan of a restaurant as stated in note 12.

14. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	30.6.2017 <i>HK\$'000</i>	31.12.2016 <i>HK\$'000</i>
Trade payables	5,617	7,226
Other payables:		
Accrued staff related costs	3,269	4,761
Other payables and accrued charges	5,964	9,323
	14,850	21,310

The credit period for purchases of goods is 30 – 90 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting periods.

	30.6.2017 <i>HK\$'000</i>	31.12.2016 <i>HK\$'000</i>
0 to 30 days	2,776	4,666
31 to 60 days	2,775	2,291
61 to 90 days	61	60
Over 90 days	5	209
	5,617	7,226

15. BANK BORROWINGS

	30.6.2017 <i>HK\$'000</i>	31.12.2016 <i>HK\$'000</i>
Carrying amount of term loan (shown under current liabilities) that contains repayable on demand clause:		
– within one year	4,068	5,625
– within a period of more than one year but not exceeding two years	4,068	5,625
– within a period of more than two years but not exceeding five years	9,830	14,915
	17,966	26,165

During the current interim period, the Group repaid bank borrowings of HK\$8,199,000 (six months ended 30 June 2016: HK\$754,000). During the six months ended 30 June 2016, the Group obtained new bank borrowings of HK\$1,439,000.

The bank borrowings are at floating rates which carry interest at one-month Hong Kong Interbank Offered Rate plus 2% to 2.5% per annum.

The unsecured bank borrowing of HK\$17,966,000 (31 December 2016: HK\$26,165,000) as at 30 June 2017 was guaranteed by the Company and certain group entities.

16. ISSUED SHARE CAPITAL

	Number of shares	Amount <i>HK\$</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each			
Authorised:			
At 1 January 2017 and 30 June 2017	800,000,000	8,000,000	8,000
Issued and fully paid:			
At 1 January 2017 and 30 June 2017	400,000,000	4,000,000	4,000

17. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group had the following transactions with related parties during the period.

	Six months ended	
	30.6.2017 HK\$'000	30.6.2016 HK\$'000
Catering income from directors of the Company	136	68
Catering income from Altaya Wines Limited (note (i))	–	70
Catering income from Gold Peak Industries (Holdings) Limited (note (ii))	179	313
Catering income from GP Batteries International Limited (note (ii))	204	102
Sales of bakery products to AAP Investments Limited (note (iii))	–	57
Sales of bakery products to Big Team Ventures Limited and its subsidiaries (note (iv))	–	74
Purchases of goods from Altaya Wines Limited (note (i))	965	1,229
Purchases of goods from Cubatabaco Limited (note (i))	40	–
Consultancy fee to a non-controlling shareholder of a subsidiary	–	330

17. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

- (i) Altaya Wines Limited and Cubatabaco Limited are controlled by Mr. Pong Kin Yee (“Mr. Pong”), a director of the Company, and his family.
- (ii) Father of Mr. Lo Yeung Kit, Alan (“Mr. Lo”), a director of the Company, is the director of Gold Peak Industries (Holdings) Limited and GP Batteries International Limited.
- (iii) Mr. Wong Arnold Chi Chiu, Mr. Lo and Mr. Pong, directors of the Company, were the controlling shareholders of AAP Investments Limited prior to the disposal of their entire equity interest in AAP investments Limited to an independent third party on 9 March 2015.
- (iv) Big Team Ventures Limited is controlled by the spouse of Mr. Lo.

During the current interim period, the emoluments of key management personnel were HK\$540,000 (six months ended 30 June 2016: HK\$360,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Hong Kong economy remained sluggish for the first six months of 2017 and the business environment of food and beverage industry is always challenging, dynamic with keen competitions. Pressures from raising 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 will continue for the remaining of 2017, which will 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 specialising 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 64.1% of our total revenue. During the six months ended 30 June 2017, Classified had recorded revenue of approximately HK\$44,634,000, representing a decrease of 1.6% 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 six months ended 30 June 2017, The Pawn had recorded revenue of approximately HK\$17,398,000, representing a decrease of 31.8% 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. The Fat Pig’s financial performance has been below our expectation due to the decrease in the number of visitors and shoppers and spending of customers, which the Directors believe was caused by the sluggish economy. During the six months ended 30 June 2017, The Fat Pig had recorded revenue of approximately HK\$5,558,000, representing a decrease of 62.3% as compared to the last corresponding period. Given the adverse impact of The Fat Pig’s financial performance on the Group’s overall financial performance, the Directors consider that it is in the best interest of the Shareholders to close down The Fat Pig (the “Proposed Closure”) and divert the Group’s existing resources to the remaining brands, being “Classified” and “The Pawn”. Such Proposed Closure is expected to take place in September 2017. The management has been in discussion with landlord of The Fat Pig premises in respect of an early termination of the lease which was originally signed for a period of approximately five years from 1 September 2015 to 31 May 2020 (the “Lease”). No consensus has been reached nor any agreement has been signed as at the date of this report.

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 six months ended 30 June 2017, our central kitchen had recorded revenue of approximately HK\$4,349,000, representing a decrease of 27.5% 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 proposed opening of the “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 six months ended 30 June 2017, the Group recorded revenue of HK\$69.7 million (six months ended 30 June 2016: HK\$90.7 million), representing an decrease of 23.2% compared with the same period of the last financial period. The decrease in revenue was mainly due to the decrease in revenue from our existing restaurants as affected by the sluggish economy.

During the six months ended 30 June 2017, the Group recorded an impairment loss of property, plant and equipment of HK\$6.5 million as a result of the Proposed Closure for The Fat Pig restaurant. The Group also recorded an allowance for rental deposits of HK\$1.9 million during the same period, which represented the existing security deposit in full held by the landlord of The Fat Pig premises in respect of the early termination of the Lease.

Loss attributable to owners of the Company was HK\$21.1 million (six months ended 30 June 2016: loss of HK\$4.3 million).

The gross profit margin (representing revenue less raw materials and consumable used divided by revenue and multiply the resulting value by 100%) of the Group was 76.2% (six months ended 30 June 2016: 79.0%).

Total operating expenses (representing raw materials and consumable used, staff costs, depreciation, property rental and related expenses, utility expenses, advertising and promotion expenses, other expenses and finance costs) decreased by 11.8% to HK\$82.9 million (six months ended 30 June 2016: HK\$94.0 million) mainly due to the absence of listing fee during the period.

Financial Resources and Liquidity

As at 30 June 2017, current assets amounted to HK\$49.9 million (as at 31 December 2016: HK\$74.7 million) of which HK\$39.4 million (as at 31 December 2016: HK\$54.1 million) was bank balances and cash, HK\$5.2 million (as at 31 December 2016: HK\$12.9 million) was trade and other receivables, deposits and prepayments. The Group's current liabilities amounted to HK\$33.3 million (as at 31 December 2016: HK\$48.0 million), mainly including trade and other payables and accrued charges in the amount of HK\$14.9 million (as at 31 December 2016: HK\$21.3 million) and bank borrowings of HK\$18.0 million (as at 31 December 2016: HK\$26.2 million.)

Current ratio and quick assets ratio were 1.50 and 1.39 respectively (as at 31 December 2016: 1.56 and 1.48 respectively). Gearing ratio is calculated as total debt divided by total equity and multiply the resulting value by 100%. Gearing ratio were 36.5% (as at 31 December 2016: 37.2%).

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 30 June 2017, the Group did not have any material capital commitments.

Contingent Liabilities

As at 30 June 2017, the Group did not have any contingent liabilities.

Employees and Remuneration Policies

As at 30 June 2017, the Group had 239 employees in Hong Kong (at 30 June 2016: 259 employees in Hong Kong). Remuneration is determined with reference to market terms and in accordance with the performance, qualification and experience of each individual employee. Discretionary bonuses, based on each individual's performance, are paid to employees as recognition and in reward for their contributions. Other fringe benefits such as medical insurance, retirement benefits and other allowances are offered to all our employees.

OTHER INFORMATION

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

During the six-month period ended 30 June 2017 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 30 June 2017, 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 (<i>Note 1</i>)	73,330,000	18.3%
Mr. Lo Yeung Kit Alan	interest in controlled corporation (<i>Note 2</i>)	73,330,000	18.3%
Mr. Pong Kin Yee	interest in controlled corporation (<i>Note 3</i>)	73,330,000	18.3%

Notes:

1. Mr. Wong beneficially owns 100% equity interest in Wiltshire Global Limited. Therefore, Mr. Wong is deemed to be interested in 73,330,000 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 73,330,000 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 73,330,000 shares held by Peyton Global Limited.

Save as disclosed above, as at 30 June 2017, 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 30 June 2017, 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	73,330,000	18.3%
Ms. Lee Yuen Ching Charmaine	Interest of spouse (<i>Note 1</i>)	73,330,000	18.3%
Easy Fame Investments Limited	Beneficial owner	73,330,000	18.3%
Ms. Wong Pui Yain	Interest of spouse (<i>Note 2</i>)	73,330,000	18.3%
Peyton Global Limited	Beneficial owner	73,330,000	18.3%
Ms. Cheng Chi Man	Interest of spouse (<i>Note 3</i>)	73,330,000	18.3%
UG PRG Venture Limited	Beneficial owner	27,220,000	6.8%
Mr. Ma Chi Un Fred	Interest in controlled corporation (<i>Note 4</i>)	27,220,000	6.8%
Mr. Ngan Chi Wing	Interest in controlled corporation (<i>Note 5</i>)	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 30 June 2017, 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 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 six months ended 30 June 2017, which was 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. LO Yeung Kit Alan
Executive Director

Hong Kong, 14 August 2017

As at the date of this report, the Company's executive Directors are Mr. WONG Arnold Chi Chiu, Mr. LO Yeung Kit Alan, Mr. PONG Kin Yee and Mr. MA Chun Fai; 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.