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Classified Group (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8232)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

This announcement, for which 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 of Hong Kong Limited 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 announcement 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 announcement misleading.

ANNUAL RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016, together with the audited comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>NOTES</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue	4	167,864	175,717
Other income		802	845
Other losses		(219)	(596)
Raw materials and consumable used	5	(36,196)	(40,578)
Staff costs	5	(64,274)	(62,168)
Depreciation		(8,630)	(8,240)
Property rental and related expenses		(31,681)	(29,557)
Utility expenses		(4,500)	(4,892)
Advertising and promotion expenses		(4,149)	(3,346)
Other expenses		(30,203)	(22,401)
Finance costs		(680)	(451)
(Loss) profit before taxation	5	(11,866)	4,333
Income tax expense	6	(1,410)	(1,513)
(Loss) profit and total comprehensive (expense) income for the year		<u>(13,276)</u>	<u>2,820</u>
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
– Owners of the Company		(13,074)	2,936
– Non-controlling interests		(202)	(116)
		<u>(13,276)</u>	<u>2,820</u>
(Loss) earnings per share			
Basic (HK cents)	8	<u>(3.65)</u>	<u>0.92</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>NOTES</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		34,385	31,828
Deposits	<i>9</i>	9,557	8,789
Deferred tax assets		1,482	2,775
		<hr/> 45,424	<hr/> 43,392
Current assets			
Inventories		3,481	3,650
Trade and other receivables, deposits and prepayments	<i>9</i>	12,857	10,914
Amounts due from related companies		363	398
Amounts due from directors		2,770	17,823
Tax recoverable		1,166	1,139
Bank balances and cash		54,069	17,062
		<hr/> 74,706	<hr/> 50,986
Current liabilities			
Trade and other payables and accrued charges	<i>10</i>	21,310	20,794
Amounts due to related companies		458	810
Amount due to a non-controlling shareholder of a subsidiary		–	52
Tax payable		96	340
Obligation under a finance lease		–	59
Bank borrowings		26,165	26,259
		<hr/> 48,029	<hr/> 48,314
Net current assets		<hr/> 26,677	<hr/> 2,672
Total assets less current liabilities		<hr/> 72,101	<hr/> 46,064

	<i>NOTE</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current liabilities			
Obligation under a finance lease		–	83
Provision		<u>1,758</u>	<u>1,656</u>
		<u>1,758</u>	<u>1,739</u>
Net assets		<u>70,343</u>	<u>44,325</u>
Capital and reserves			
Issued share capital	<i>11</i>	4,000	–
Reserves		<u>66,343</u>	<u>44,867</u>
Equity attributable to owners of the Company		70,343	44,867
Non-controlling interests		<u>–</u>	<u>(542)</u>
Total equity		<u>70,343</u>	<u>44,325</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company				Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Issued share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (note)	Accumulated profits HK\$'000			
At 1 January 2015	10	10,000	1,502	30,419	41,931	(426)	41,505
Profit (loss) and total comprehensive income (expense) for the year	-	-	-	2,936	2,936	(116)	2,820
Arising from group reorganisation	(10)	-	10	-	-	-	-
At 31 December 2015	-	10,000	1,512	33,355	44,867	(542)	44,325
Loss and total comprehensive expense for the year	-	-	-	(13,074)	(13,074)	(202)	(13,276)
Issue of shares (note 11)	800	43,200	-	-	44,000	-	44,000
Capitalisation issue (note 11)	3,200	(3,200)	-	-	-	-	-
Transaction costs directly attributable to issue of shares	-	(4,704)	-	-	(4,704)	-	(4,704)
Acquisition of additional interest of a subsidiary	-	-	(746)	-	(746)	744	(2)
At 31 December 2016	4,000	45,296	766	20,281	70,343	-	70,343

Note: Other reserve represents the difference between the share capital of group entities and that of the Company issued pursuant to the group reorganisation as stated in note 2 and the difference between the consideration paid and the proportionate share of net liabilities attributable to non-controlling interests of a subsidiary arising from the acquisition of additional interest of a subsidiary during the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 PRESENTATION OF FINANCIAL INFORMATION

Prior to the reorganisation as described below, all the companies comprising the Group were equally owned by each of Mr. Wong Arnold Chi Chiu (“Mr. Wong”), Mr. Lo Yeung Kit Alan (“Mr. Lo”), Mr. Pong Kin Yee (“Mr. Pong”) and the then shareholders (collectively known as the “Controlling Shareholders”). They are acting in concert on their ownerships and exercise their control collectively over the companies now comprising the Group.

In the preparation for the Listing, the Company underwent the reorganisation which included the following steps:

- (i) On 24 October 2014, the Company was incorporated in the Cayman Islands with limited liability. The initial authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. Upon its incorporation, one subscriber share was allotted and issued, to the subscriber, which was transferred to Wiltshire Global Limited (“Wiltshire Global”). On 11 November 2014, 24 shares, 25 shares and 25 shares were allotted and issued at par value to Wiltshire Global, Easy Fame Investments Limited (“Easy Fame”) and Peyton Global Limited (“Peyton Global”) respectively;
- (ii) Wiltshire Global was set up by Mr. Wong, Easy Fame was set up by Mr. Lo and Peyton Global was set up by Mr. Pong during the year ended 31 December 2014. On 16 October 2014, Ever Alliance Ventures Limited (“EAVL”) was incorporated in the British Virgin Islands (the “BVI”) with limited liability as a shell company and the Company subscribed 1 share of EAVL at par by cash on 4 November 2014. EAVL is authorised to issue 50,000 shares at a par value of United States Dollar (“US\$”) 1 each;
- (iii) UG PRG Venture Limited (“Pre-IPO Investor”), an independent third party and a limited company incorporated in the BVI, entered into a subscription agreement with the Company, Mr. Wong, Mr. Lo and Mr. Pong for the subscription of 10 new shares of the Company for HK\$10,000,000 on 21 November 2014;

- (iv) On 31 December 2014, Classified Limited (“CL”) entered into a sale and purchase agreement with AAP Enterprise Limited pursuant to which CL agreed to transfer its entire equity interest in Classified Bread & Cheese Limited (“CBCL”) to AAP Enterprise Limited, which is controlled by Mr. Wong, Mr. Lo and Mr. Pong, for a minimal consideration. On 13 February 2015, Noble Network Investments Limited (“NNIL”) was incorporated and one share of NNIL was allotted and issued to EAVL on 11 March 2015. On 31 March 2015, AAP Enterprise Limited transferred its interest in CBCL to NNIL in consideration of the allotment and issue of 1, 1 and 1 share of the Company to Wiltshire Global, Easy Fame and Peyton Global, respectively;
- (v) On 31 December 2014, Mr. Wong, Mr. Lo and Mr. Pong transferred their entire shareholding interest in Press Room Group Investments Limited (“PRGIL”) to EAVL in consideration of the allotment and issue of 1, 1 and 1 share of the Company to Wiltshire Global, Easy Fame and Peyton Global, respectively. Upon the completion of the transfer, PRGIL and its subsidiary, Press Room Group Management Limited (“PRGML”), became the wholly-owned subsidiary of the Company;
- (vi) On 31 December 2014, Mr. Wong, Mr. Lo and Mr. Pong transferred their entire shareholding interest in CL to EAVL in consideration of the allotment and issue of 1, 1 and 1 share of the Company to Wiltshire Global, Easy Fame and Peyton Global, respectively. Upon the completion of the transfer, CL became the wholly-owned subsidiary of the Company;
- (vii) On 31 December 2014, Mr. Wong, Mr. Lo and Mr. Pong transferred their entire shareholding interest in The Pawn Limited (“TPL”) to EAVL in consideration of the allotment and issue of 1, 1 and 1 share of the Company to Wiltshire Global, Easy Fame and Peyton Global, respectively. Upon the completion of the transfer, TPL became the wholly-owned subsidiary of the Company;
- (viii) On 31 December 2014, Mr. Wong, Mr. Lo and Mr. Pong transferred their entire shareholding interest in Small Medium Large Limited (“SMLL”) to EAVL in consideration of the allotment and issue of 1, 1 and 1 share of the Company to Wiltshire Global, Easy Fame and Peyton Global, respectively. Upon the completion of the transfer, SMLL became the wholly-owned subsidiary of the Company; and
- (ix) On 5 February 2015, Ease Summit Investments Limited (“ESIL”) was incorporated and one share of ESIL was allotted and issued to EAVL on 12 February 2015.

Pursuant to the reorganisation detailed above, the Company has legally become the holding company of the companies now comprising the Group since 31 March 2015, whereas the Company and its subsidiaries have been under the common control of Controlling Shareholders historically and throughout the period prior to the completion of the reorganisation on 31 March 2015. Accordingly, the financial information has been prepared under the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2015 include the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence as of 1 January 2015 and throughout the year ended 31 December 2015.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants

The application of the amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments ²
HKFRS 15	Revenue from contracts with customers and the related amendments ²
HKFRS 16	Leases ³
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts ²
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁴
Amendments to HKAS 7	Disclosure initiative ¹
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses ¹

¹ Effective for annual periods beginning on or after 1 January 2017.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

⁴ Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 “Financial instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirement of HKFRS 9 which is relevant to the Group is in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company have reviewed the Group’s financial assets as at 31 December 2016 and anticipate that the application of HKFRS 9 in the future may result in early recognition of credit losses based on expected loss model in relation to the Group’s financial assets measured at amortised cost and is not likely to have other material impact on the results and financial position of the Group based on an analysis of the Group’s existing business model.

HKFRS 15 “Revenue from contracts with customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including Hong Kong Accounting Standard (“HKAS”) 18 “Revenue”, HKAS 11 “Construction contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK\$56,287,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Except for the above, the directors of the Company anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

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

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

The Group's operating and reportable segments under HKFRS 8 "Operating 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 restaurant. Full table service is provided, including seating arrangements, order taking, delivery of food to the table, and payment processing. The full service restaurants aim to provide dining experience with full table services.

- Production and sales of bakery products ("Bakery")

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

Segment revenue and results

Year ended 31 December 2016

	Casual <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	87,866	71,785	8,213	167,864	–	167,864
Inter segment sales	–	–	2,218	2,218	(2,218)	–
Total	<u>87,866</u>	<u>71,785</u>	<u>10,431</u>	<u>170,082</u>	<u>(2,218)</u>	<u>167,864</u>
Segment results	<u>8,948</u>	<u>7,199</u>	<u>(2,464)</u>	<u>13,683</u>	–	13,683
Other income						802
Unallocated operating costs						(15,420)
Listing expenses						(10,442)
Finance costs						<u>(489)</u>
Loss before taxation						<u>(11,866)</u>

Year ended 31 December 2015

	Casual <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	93,041	72,340	10,336	175,717	–	175,717
Inter segment sales	–	–	3,619	3,619	(3,619)	–
Total	<u>93,041</u>	<u>72,340</u>	<u>13,955</u>	<u>179,336</u>	<u>(3,619)</u>	<u>175,717</u>
Segment results	<u>10,389</u>	<u>8,315</u>	<u>167</u>	<u>18,871</u>	–	18,871
Other income						845
Other losses						(115)
Unallocated operating costs						(11,338)
Listing expenses						(3,500)
Finance costs						<u>(430)</u>
Profit before taxation						<u>4,333</u>

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

Inter-segment sales are charged at mutually agreed terms.

Information about major customers

No revenue from individual external customer contributes over 10% of total revenue of the Group for both years.

Geographical information

All the Group's operations are located in Hong Kong. Accordingly, the Group's revenue from external customers and all the non-current assets are located in the Hong Kong.

5. (LOSS) PROFIT BEFORE TAXATION

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
(Loss) profit before taxation has been arrived at after charging:		
Auditor's remuneration	1,200	350
Listing expenses	10,442	3,500
Directors' remuneration	1,083	907
Other staff costs		
Salaries and other benefits	60,536	58,680
Retirement benefits scheme contributions	2,655	2,581
Total staff costs	<u>64,274</u>	<u>62,168</u>
Raw material and consumables used in respect of:		
Restaurant operation	31,605	35,098
Bakery products	4,591	5,480
	<u>36,196</u>	<u>40,578</u>
Lease payments under operating leases in respect of land and buildings:		
Minimum lease payments	26,268	23,861
Contingent rents (<i>note</i>)	846	1,545
	<u>27,114</u>	<u>25,406</u>

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.

6. INCOME TAX EXPENSE

	2016 HK\$'000	2015 HK\$'000
Hong Kong Profits Tax:		
Current tax	(128)	(1,142)
Over (under) provision in prior years	11	(25)
	(117)	(1,167)
Deferred taxation charge	(1,293)	(346)
	(1,410)	(1,513)

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

7. DIVIDENDS

No dividends were paid, declared and proposed by the Company during the year ended 31 December 2016 (2015: nil).

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil).

8. (LOSS) EARNINGS PER SHARE

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

	2016 HK\$'000	2015 HK\$'000
(Loss) earnings		
(Loss) earnings for the year attributable to owners of the Company for the purpose of basic (loss) earnings per share	(13,074)	2,936
	2016 '000	2015 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	358,033	320,000

The number of ordinary shares for the purpose of calculating basic (loss) earnings per share has been determined on the assumption that the reorganisation and the capitalisation issue (details as disclosed in note 11) had been effective on 1 January 2015.

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables from restaurant operations	1,956	1,473
Trade receivables from sales of bakery products	762	1,585
Rental deposits	9,140	9,952
Other deposits	2,096	2,233
Prepayments and others	8,460	4,460
	<u>22,414</u>	<u>19,703</u>
Analysed as:		
Current	12,857	10,914
Non-current	9,557	8,789
	<u>22,414</u>	<u>19,703</u>

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. However, the Group allows a credit period of 30 days to its 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.

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits by customers. Limits and scoring attributed to customers are reviewed regularly by directors of the Company. Trade receivables which are past due are provided for impairment loss based on estimated irrecoverable amounts from sales of goods, determined by reference to past default experience.

The following is an ageing 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 period.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 30 days	1,692	1,473
31 to 60 days	195	–
61 to 90 days	61	–
Over 90 days	8	–
	<u>1,956</u>	<u>1,473</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 30 days	428	877
31 to 60 days	18	536
61 to 90 days	9	117
Over 90 days	307	55
	<u>762</u>	<u>1,585</u>

10. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables	7,226	7,768
Other payables:		
Accrued staff related costs	4,761	6,319
Other payables and accrued charges	9,323	6,707
	<u>21,310</u>	<u>20,794</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 30 days	4,666	4,072
31 to 60 days	2,291	3,146
61 to 90 days	60	69
Over 90 days	209	481
	<u>7,226</u>	<u>7,768</u>

11. ISSUED SHARE CAPITAL

The share capital as at 1 January 2015 represented the aggregate share capital of the Company and CBCL. The share capital as at 31 December 2015 and 2016 represented the share capital of the Company with the details as follows:

	Number of shares	Amount HK\$	HK\$'000
Ordinary shares of HK\$0.01 each			
Authorised:			
At 1 January 2015 and 31 December 2015	38,000,000	380,000	380
Increase in authorised share capital (<i>note i</i>)	<u>762,000,000</u>	<u>7,620,000</u>	<u>7,620</u>
At 31 December 2016	<u><u>800,000,000</u></u>	<u><u>8,000,000</u></u>	<u><u>8,000</u></u>
Issued and fully paid:			
At 1 January 2015, 31 December 2015	100	1	–
Issue of shares (<i>note ii</i>)	80,000,000	800,000	800
Capitalisation issue (<i>note ii</i>)	<u>319,999,900</u>	<u>3,199,999</u>	<u>3,200</u>
At 31 December 2016	<u><u>400,000,000</u></u>	<u><u>4,000,000</u></u>	<u><u>4,000</u></u>

Notes:

- (i) On 14 June 2016, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each to HK\$8,000,000 divided into 800,000,000 shares of HK\$0.01 each by creation of an additional 762,000,000 shares of HK\$0.01 each which rank pari passu in all respects with existing shares.
- (ii) The shares of the Company have been listed on the GEM of the Stock Exchange by way of placing on 11 July 2016. 80,000,000 shares of the Company of HK\$0.01 each of the Company were issued at a placing price of HK\$0.55 per share. On the same date, 319,999,900 shares of the Company were issued through capitalisation of HK\$3,200,000 standing to the credit of share premium account of the Company.

BUSINESS OVERVIEW

“Classified” restaurants are a collection of casual European cafés specializing in artisan breads and cheeses, boutique wines and are renowned for their breakfast & all-day dining menu. Offering casual seating areas in most locations, Classified encourages neighbourhood street-level interaction. It is our flagship brand of the Group and contributes over 52% of our total revenue. In 2016, Classified recorded revenues of approximately HK\$87.9 million (2015: HK\$93.0 million), representing a decrease of 5.6% as compared to the previous year.

“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. In 2016, The Pawn had recorded revenues of approximately HK\$47.8 million, representing a decrease of 4.8% as compared to the previous year (2015: HK\$50.3 million).

“The Fat Pig” is a full service restaurant with a pork-based concept by British Chef Mr. Tom Aikens. The restaurant was upgraded from previous restaurant, namely SML, after a three-month 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. In 2016, The Fat Pig had recorded revenues of approximately HK\$23.9 million, an increase of 8.4% as compared to the previous year. However, “The Fat Pig” was under renovation in the mid-August 2015 until early of November 2015. If we exclude this renovation period, the revenue of The Fat Pig is less than the previous year. This was mainly attributable to the decreasing number of visitors and shoppers. According to landlord information, tenants sales in Times Square dropped by 15.7%.

In addition to the above restaurants, the Group also operated a bakery factory which supplies cheeses, bread and other bakery products to our restaurants and other corporate customers. Customers of our bakery factory include hotels, restaurants, clubs, coffee shops, cafés and supermarkets. The landlord of bakery factory had informed us on 31 August 2016 that we had to return the premises for landlord’s own use and the tenancy agreement would not be extended. Considering the bakery factory prospects and the initial set-up and investment costs, we decided to cease the bakery factory business on 7 October 2016 and acquired 15% of the entire share capital in CBCL from Leader Asia Pacific Limited at a consideration of HK\$1,500. CBCL has become a wholly-owned subsidiary of the Group subsequent to the acquisition. Consequently, we have transferred part of the bakery factory business to our new central kitchen which we had acquired on 1 October 2016.

FINANCIAL REVIEW

The Group recorded a turnover of HK\$167.9 million in 2016, representing a decrease of 4.5% as compared to the previous year (2015: HK\$175.7 million). The loss attributable to owners of the Company was HK\$13.1 million (2015: profit HK\$2.9 million) and was mainly due to the non-recurring listing expenses, sluggish economy, start-up operation costs for new restaurant and central kitchen.

Total operating expenses increased by 10.0% to HK\$144.1 million as compared to the previous year (2015: HK\$131.1 million) which was mainly due to the non-recurring listing fee, increase in property rental related expenses and staff costs.

Financial Resources and Liquidity

As at 31 December 2016, current assets amounted to HK\$74.7 million (as at 31 December 2015: HK\$51.0 million) of which HK\$54.1 million (as at 31 December 2015: HK\$17.1 million) was bank balances and cash, HK\$12.9 million (as at 31 December 2015: HK\$10.9 million) was trade and other receivables, deposits and prepayments. The Group's current liabilities amounted to HK\$48.0 million (as at 31 December 2015: HK\$48.3 million), including trade and other payables and accrued charges in the amount of HK\$21.3 million (as at 31 December 2015: HK\$20.8 million). Current ratio and quick assets ratio were 1.6 and 1.5 respectively (as at 31 December 2015: 1.1 and 1.0 respectively). Gearing ratio is calculated based on the total debt at the end of the year divided by total equity at the end of the year. Gearing ratio was 37.2% (as at 31 December 2015: 59.7%).

FUTURE PROSPECTS

The Group always strives to improve its operation efficiency and profitability of its businesses. We will enhance and upgrade the facilities in five existing "Classified" restaurants as well as open a new restaurant under "Classified" brand during the year ended 31 December 2017. We will also proactively seek potential business opportunities that will broaden our sources of income and enhance value to the shareholders.

FOREIGN CURRENCY EXPOSURE

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

CAPITAL COMMITMENTS

As at 31 December 2016, the Group did not have any material capital commitments.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any material contingent liabilities

PLEDGE OF ASSETS

As at 31 December 2016, the Group did not have any mortgage or charge over its assets.

CAPITAL STRUCTURE

The shares of the Company were listed on the GEM of the Stock Exchange on 11 July 2016. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares. As at 31 December 2016, the Company's issued share capital was HK\$4,000,000 and the number of its issued ordinary shares was 400,000,000 of HK\$0.01 each.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus and in this announcement, the Group did not have other plans for material investments or capital assets as of 31 December 2016.

Comparison of Business Strategies and Actual Business Progress

An analysis comparing the business strategies as set out in the Prospectus with the Group's actual business progress for the period from 11 July 2016 (being the Listing date) to 31 December 2016 is set out below:

Business Strategies	Actual progress
Expanding Classified brand to different locations	We had opened a new Classified restaurant in Sai Wan on 1 December 2016
Establishing a new central kitchen for Classified restaurants	We had opened a new central kitchen in Wong Chuk Hang on 30 September 2016
Enhancing and upgrading existing restaurant facilities	We had renovated our Classified restaurant in Exchange Square which was re-opened on 6 October 2016
Strengthening staff training	We had provided on-the-job trainings to our employees, including food & beverage supervision certificate, food hygiene, first aid and interview skills courses etc.
Enhancing our marketing and promotion initiatives	We had launched different promotion campaigns with some well-known business partners, such as credit card issuer and frequent flyer programmes

USE OF PROCEEDS FROM THE PLACING

On 11 July 2016, the Company's shares were listed on the GEM of the Stock Exchange. A total of 80,000,000 new shares with nominal value of HK\$0.01 each of the Company were issued at HK\$0.55 per share for a total of approximately HK\$44.0 million. The net proceeds raised by the Company from abovementioned Placing were approximately HK\$25.1 million. As at the date of this announcement, approximately HK\$3.8 million, HK\$4.0 million and HK\$3.3 million had been utilized to open a new restaurant in Sai Wan, to establish a central kitchen and to enhance and upgrade our Classified restaurant in Exchange Square respectively.

An analysis of the utilization of the net proceeds from the Placing and the unused amount as at 31 December 2016 is set out below:

	Planned amount utilized up to 31 December 2016 HK\$'000	Utilized amount as at 31 December 2016 HK\$'000	Unutilized amount as at 31 December 2016 HK\$'000
Opening two new restaurants under "Classified" brand	9,000	(3,771)	5,229
Establishing a new central kitchen for Classified restaurants	4,000	(4,000)	–
Enhancing and upgrading existing restaurant facilities	7,800	(3,260)	4,540
General working capital	1,800	(1,800)	–
	<u>22,600</u>	<u>(12,831)</u>	<u>9,769</u>

COMPETING BUSINESS

As disclosed in the Prospectus and as at the date of this announcement, Ms. Wong Pui Yain ("Mrs. Lo"), the spouse of Mr. Lo Yeung Kit Alan, one of our executive Directors, was a controlling shareholder in Jia Group which is engaged in the business of restaurant operations in Hong Kong. Esquina Tapas Bar, being a restaurant operated by the Jia Group and based in Singapore which served European cuisine, had ceased business in December 2016. Meanwhile, Commissary, a restaurant situated at Shop 405, 4/F Pacific Place, 88 Queensway, Hong Kong, which served American cuisine, had commenced business in November 2016. As at 31 December 2016, the Jia Group operated 11 restaurants in Hong Kong.

Save as disclosed in the Prospectus and above, the Directors are not aware of any business and interest of the Directors nor the controlling shareholders of the Company nor any of their respective close associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interests which any such person has or may have with the Group during the year ended 31 December 2016. The independent non-executive Directors confirmed that the internal control measures in relation to managing actual or potential conflict of interest between the Group and the Jia Group have been properly implemented.

INTERESTS OF THE COMPLIANCE ADVISER

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

AUDIT COMMITTEE

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

The Audit Committee has reviewed this announcement and the audited consolidated results of the Group for the year ended 31 December 2016 and the effectiveness of internal control system.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

The Directors confirm that as at the date of the Listing on 11 July 2016 and up to the date this announcement, there has been no purchase, sale or redemption of the Company’s listed securities.

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 from the date of Listing and up to the date of this announcement.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group had 251 employees in Hong Kong (2015: 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.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "Scheme") on 14 June 2016. The terms of the Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules. No share option has been granted since the adoption of the Scheme and there was no share option outstanding as at 31 December 2016.

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 contained in Appendix 15 of the GEM Listing Rules from the date of Listing up to the date of this announcement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A separate environmental, social and governance report is expected to be published on the Stock Exchange's website and the Company's website no later than three months after the annual report had been published.

ANNUAL GENERAL MEETING

The first annual general meeting ("AGM") of the Company will be held on 28 June 2017, the notice of which shall be sent to the shareholders of the Company in accordance with the articles of association of the Company, the GEM Listing Rules and other applicable laws and regulations.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the forthcoming AGM, the register of members of the Company will be closed from 23 June 2017 to 28 June 2017, both days inclusive, during which period no transfer of the shares will be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, at Suites, 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on 22 June 2017.

COMMUNICATION WITH SHAREHOLDERS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public. The Company updates the shareholders on its latest business developments and financial performance through its quarterly, interim and annual reports and communicates with the shareholders through annual general meetings and extraordinary general meetings. In compliance with the requirements of the GEM Listing Rules, the Company issued regular reports, announcements, circulars and notice of general meetings. Always updated with latest information, the corporate website of the Company (www.classifiedgroup.com.hk) has provided an effective communication platform to the public and the shareholders.

APPRECIATION

The Board would like to extend its sincere thanks to our shareholders, business partners and customers for their utmost support to the Group. We would also like to take this opportunity to thank all management members and staff for their hard work and dedication throughout the year.

By order of the Board
Classified Group (Holdings) Limited
WONG Arnold Chi Chiu
Chairman and Executive Director

Hong Kong, 23 March 2017

As at the date of this announcement, the chairman and the executive director of the Company is Mr. WONG Arnold Chi Chiu, the executive directors of the Company are Mr. LO Yeung Kit Alan and Mr. PONG Kin Yee; and the independent non-executive directors of the Company are Dr. CHAN Kin Keung Eugene, Mr. CHUM Kwan Yue Desmond and Mr. NG Chun Fai Frank.

This announcement will remain on the GEM website at www.hkgem.com 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.