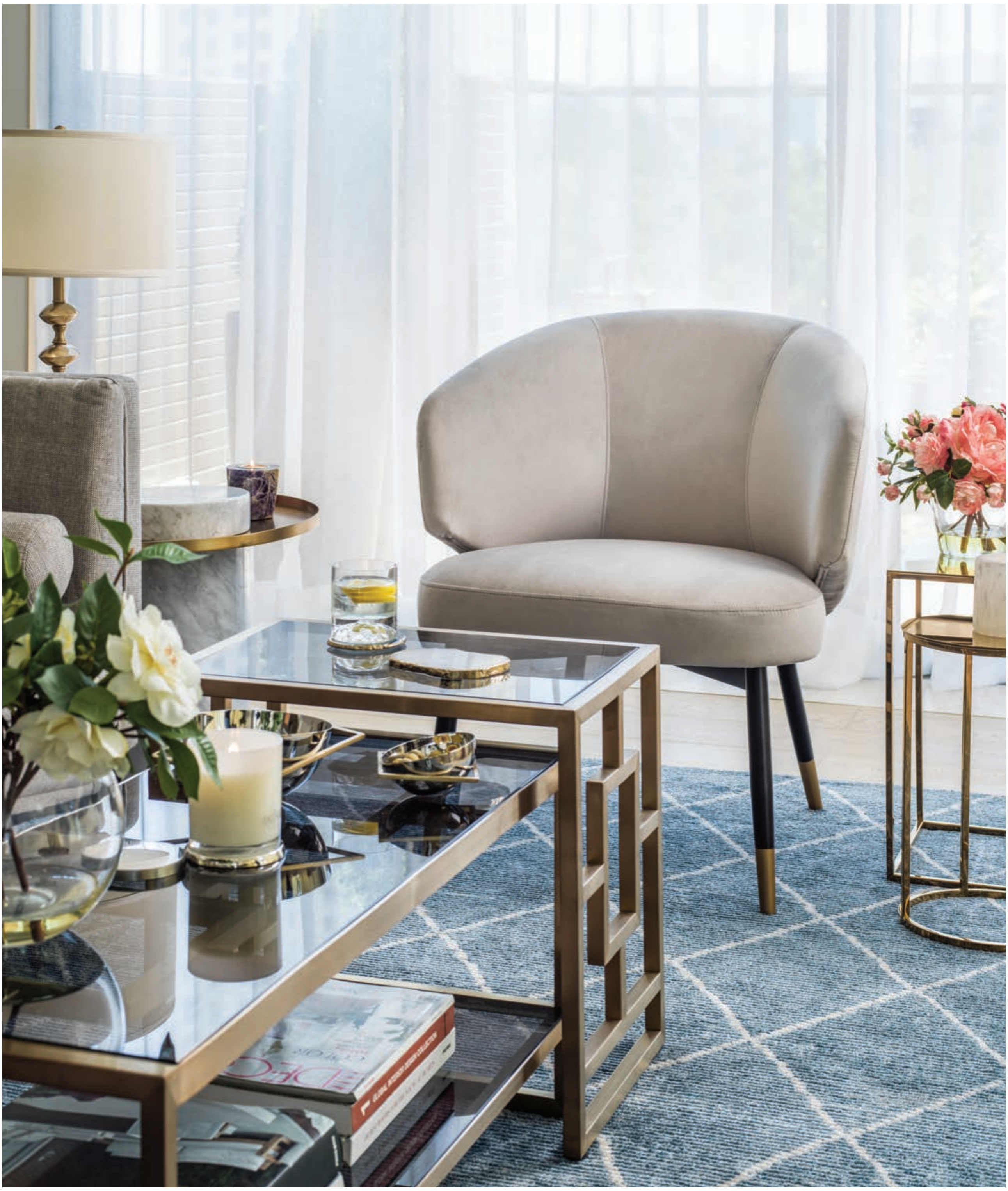
PACIFIC LEGEND GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8547



2018 ANNUAL REPORT

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized 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 means that it is a market more suited to professional and other sophisticated investors.

Given the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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CORPORATE INFORMATION

DIRECTORS

Executive Directors:

John Warren MCLENNAN *(Chairman)*
Tracy-Ann FITZPATRICK
(Vice Chairperson and Chief Executive Officer)
MOK Lai Yin Fiona

Non-Executive Director:

Jennifer Carver MCLENNAN

Independent Non-Executive Directors:

Elaine June CHEUNG
Roderick Donald NICHOL
LI Yan Yan

COMPLIANCE OFFICER

Tracy-Ann FITZPATRICK

AUTHORISED REPRESENTATIVES

Tracy-Ann FITZPATRICK
FU Chi Wing Jason

COMPANY SECRETARY

FU Chi Wing Jason

AUDIT COMMITTEE

Elaine June CHEUNG *(Chairperson)*
Roderick Donald NICHOL
LI Yan Yan

REMUNERATION COMMITTEE

Roderick Donald NICHOL *(Chairman)*
John Warren MCLENNAN
LI Yan Yan
Elaine June CHEUNG

NOMINATION COMMITTEE

LI Yan Yan *(Chairperson)*
Tracy-Ann FITZPATRICK
Roderick Donald NICHOL
Elaine June CHEUNG

AUDITOR

Baker Tilly Hong Kong Limited

LEGAL ADVISOR AS TO HONG KONG LAW

Stevenson, Wong & Co.

COMPLIANCE ADVISOR

Altus Capital Limited

REGISTERED OFFICE

Cricket Square, Hutchins Drive,
PO Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 1202–1204,
Level 12, Cyberport 2,
100 Cyberport Road, Cyberport,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
PO Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

PRINCIPAL BANKERS

CMB Wing Lung Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

INVESTOR RELATIONS CONTACT

Email: info@pacificlegendgroup.com

COMPANY WEBSITE

http://www.pacificlegendgroup.com

STOCK CODE

Hong Kong Stock Exchange (GEM): 8547

FINANCIAL HIGHLIGHTS

- The shares of the Company have been listed on the GEM of the Stock Exchange on 18 July 2018.
- The revenue of the Group amounted to approximately HK$278.1 million for the year ended 31 December 2018, representing a slight decrease of approximately HK$0.5 million or 0.2% as compared with the revenue of approximately HK$278.6 million for the year ended 31 December 2017.
- The loss of the Group after tax was approximately HK$17.4 million for the year ended 31 December 2018 as compared to a profit of approximately HK$3.1 million for the year ended 31 December 2017.
- No dividend is recommended by the Board for the year ended 31 December 2018.

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the Board of Directors (the "Board"), I am pleased to present the first annual report of Pacific Legend Group Limited (the "Company") and its subsidiaries (together with the Company (the "Group")) for the year ended 31 December 2018 after the successful listing of the Company's shares on GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 July 2018 (the "Listing") by way of share offer. The successful Listing marks a significant milestone for the Group.

2018 IN REVIEW

Although the general market conditions in 2018 were challenging across all of our markets and although this negatively affected our growth targets we maintained our revenue position against 2017. We incurred increased costs as a result of the listing and in preparation of our growth strategy. Global economic momentum slowed during the course of the year which has been closely associated with heightened uncertainty, captured both by financial market volatility and global economic policy uncertainty. The US-Mainland trade conflicts have impacted market sentiment and we have seen a cooling off in the Hong Kong residential property market.

2019 – CELEBRATING 40 YEARS OF OPERATIONS

Our mission for 2019 will remain the same – to enable our customers and their clients to ***Live Beautifully***. In 2019 we will continue to focus on delivering on this promise through continual development of our products and services to differentiate ourselves in our markets such as increased B2C design services both in store and online. With the implementation of Netsuite (our new ERP system) we anticipate greater efficiencies in many areas of our business.

The forthcoming financial year is expected to be challenging due to the competitive market conditions in the industry. However, we will continue to follow our strategic development plans and take advantage of growth opportunities as they arise in all regions. We will continue to develop the Sonder Living@Indigo partnership which will allow us to gain more retail and B2B market share. We will also continue to develop the brand to stay aligned with current market trends and technology ensuring we remain ahead of the competitor curve.

CHAIRMAN'S STATEMENT (CONTINUED)

APPRECIATION

The achievements made this year required incredible drive and focus by the entire staff of the Group. On behalf of the Board we would like to thank all the staff for their hard work and dedication. We would also like to thank all our stakeholders, shareholders, suppliers and partners, for their trust and confidence. Last, but not least, we'd like to thank our customers for their continued support as we embark upon this new era of life as a GEM listed company.

John Warren MCLENNAN
Chairman and Executive Director
Pacific Legend Group Limited

Hong Kong, 11 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

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). The shares of the Company were successfully listed on the GEM by way of share offer on 18 July 2018 (the "Share Offer").

- During the year 2018 we launched two new retail stores, one in Yuen Long, Hong Kong in May 2018 and the other one on Al Wasl Road, Dubai in late August 2018.

- In November 2018 we took on the distribution of the Sonder Living brand in the Hong Kong market which included taking over the operations and staff of their existing retail store at Horizon Plaza ("Sonder Living@Indigo"). As one of our current top 5 suppliers this relationship offers a wide range of products to further optimise our Furniture Sales and Projects business.

- In December 2018 we terminated the lease of our Horizon Plaza (Discount store) on the 10th floor and integrated our discount outlet into our Horizon Plaza 6th floor retail store.

- In line with our business strategy we have enhanced our in-store design consultancy capabilities with a full design centre set up in the Al Wasl Road store and improvement of these services within Hong Kong including the consolidation of our design centres to our Horizon Plaza 6th floor retail store by the end of the year 2018.

- We continue to actively search for appropriate store locations in China in line with our plan for use of proceeds from the Listing. Timing of this is subject to finding suitable retail locations.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2018 (the "Current Year") was approximately HK$278.1 million, representing a slight decrease of HK$0.5 million or 0.2% as compared with the year ended 31 December 2017 (the "Last Year") of HK$278.6 million.

The revenue from the Furniture Sales increased by approximately 0.4% from approximately HK$190.5 million in the Last Year to approximately HK$191.3 million in the Current Year. Nevertheless, overall Furniture Sales fell short of our expectations due to tough market conditions.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In Hong Kong, the same store sales revenue drop from HK$88.5 million in the Last Year to HK$84.3 million for the Current Year. This was mainly attributable to a drop in our Shatin store sales of HK$3.8 million as compared to the Last Year which was mainly due to the renovation and downsizing of the store in line, with our new rental contract that took place in August 2018.

Our new Yuen Long store and our Sonder Living@Indigo operation made moderate contributions to our Furniture Sales revenue, but were insufficient to cover the shortfall in the same store sales revenue.

Retail revenue from our Sheikh Zayed Road store in Dubai, the United Arab Emirates (the "UAE") has weakened, with 29.6% decline in revenue in the Current Year as compared to the Last Year. This has been in some part due to the weakness of the Dubai retail market. Sales from Al Wasl Road store since its opening in late 2018 accounted for HK$4.4 million. Although it could not fully offset the revenue decline in Sheikh Zayed Road store, it has enabled us to widen our reach and target a different customer segment.

A number of customers coming to our Sheikh Zayed Road store were ultimately handled through our corporate sales business due to the complexity of their requirements which accounted in part for the HK$4.1 million increase in corporate sales in the UAE, and partly offset the decline in revenue of the Sheikh Zayed Road store.

On the other hand, the Group's retail business in the Shanghai An Fu Lu store noted a growth of approximately 10.8% to HK$12.8 million in the Current Year, and China's online sales doubled in Current Year from HK$2.0 million in Last Year to HK$4.2 million in Current Year.

The Current Year's corporate sales in Hong Kong were not as strong as Last Year as the fact that certain one-off projects in 2017 were completed. A number of corporate sales projects in 2018 were delayed from the 3rd quarter in the aftermath of Typhoon Mangkhut, to the 4th quarter, but we still had a shortfall of HK$5.7 million in the Current Year revenue as compared to Last Year.

The Group's franchise business in Saudi Arabia, which has been commenced in June 2017, was in full year operation in 2018. It experienced growth of HK$4.7 million, from HK$2.9 million in Last Year to HK$7.6 million in Current Year. However, its gross margin was lower than retail and corporate sales customers and therefore it caused a lesser impact on the Group's gross profit.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The revenue from the Furniture Rental decreased by approximately 18.2% from approximately HK$28.3 million in the Last Year to approximately HK$23.1 million in the Current Year. The fall in revenue from the Furniture Rental was mainly the result of the completion of lease periods for rental contracts from 2016.

The revenue from the Projects business increased by approximately 6.3% from approximately HK$59.9 million in the Last Year to approximately HK$63.6 million in the Current Year. This has been in large part due to an increase in projects in Hong Kong, a significant portion of which could be booked in 2018, especially in the 4th quarter.

We continue to be reliant on the performance of the property market in Hong Kong and the recent vacancy tax has been beneficial to our Projects business as developers seek to find furniture solutions to quickly improve occupancy.

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 conditions of the markets and their effects on product pricing, product mix and our cost of sales. Generally 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 in the latter.

The gross profit of the Group increased HK$3.4 million or 2.1% from approximately HK$161.9 million in the Last Year to approximately HK$165.3 million in the Current Year. Despite the small decline in the Group's revenue, we saw an overall improvement in gross profit margins of our Projects business as we provided new customised solutions and creative service for some of our corporate clients.

Selling and Distribution Costs

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

The Group's selling and distribution costs increased by approximately 9.2% from approximately HK$53.3 million in the Last Year to approximately HK$58.3 million in the Current Year.

This increase of HK$3.9 million was mainly the result of the surge in sales-related staff costs (HK$2.5 million) and in marketing, transportation and delivery expenses (HK$1.4 million), in a view to drive our online and B2B business strategy as well as the launch of our new stores in Hong Kong and Dubai during the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Apart from an increase in staff costs following a review of Hong Kong retail salaries packages in June 2018, and the additional headcount in China sales team as disclosed in previous quarterly reports, we have also strengthened our sales team in Hong Kong to support the Sonder Living@Indigo operation with effect from 1 November 2018.

Administrative and other operating expenses

Our administrative and other operating expenses comprise mainly staff cost (other than the sales teams), rental and related expenses, depreciation on property, plant and equipment (other than those relating to the furniture for rental), staff benefits and others. Such expenses increased by approximately 17.4% from approximately HK$97.9 million in the Last Year to approximately HK$115.0 million in the Current Year. This increase is mainly the result of:

(i) the growth in staff costs (other than sales teams) of approximately HK$4.4 million for additional staff with the necessary skills and knowledge to implement our strategies and planned expansion, and to meet the additional workload and requirements for Listing (and those after Listing);

(ii) an increase in staff costs of approximately HK$2.8 million which covered a Listing bonus of HK$1.6 million for the Chairman and Chief Executive Officer and the share based-payments of HK$1.2 million relating to share options granted to employees;

(iii) an increase in rental expenses of approximately HK$4.3 million related in main part to the opening of our new stores in Yuen Long, Hong Kong and new store on Al Wasl Road, Dubai; and

(iv) an increase in professional expenses of approximately HK$1.9 million which included service fees on hiring new employees, their visa applications and renewal of contracts in Dubai, public relations fees on the Listing (which are not treated as Listing expenses) and professional fees for post Listing compliance.

Listing expenses

The Company started the preparation work for the Listing in the 2nd quarter of 2017. We incurred Listing expenses of approximately HK$6.6 million in the Last Year, as compared to approximately HK$12.1 million in the Current Year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Loss for the year

Loss attributable to equity shareholders of the Company for the Current Year amounted to approximately HK$17.4 million (Last Year: profit of approximately HK$3.1 million).

The loss was mainly attributable to the net effects of (i) non-recurring Listing expenses of approximately HK$12.1 million incurred in the Current Year, as compared to only approximately HK$6.6 million in the Last Year; (ii) the decline in revenue for Hong Kong retail and corporate sales, Dubai retail, together with the fall in Furniture Rental revenue in all regions, as mentioned above; and (iii) the increase of selling and distribution costs and administrative and other operating expenses as mentioned above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Historically, we have funded our operations primarily through net cash flow generated from our operations. Our primary uses of cash have been, and are expected to continue to be, operational costs and capital expenditures for business expansion. We currently expect that there will not be any material change in the sources and uses of cash of our Group, except that we have started using our import financing facilities as well as the additional funds from proceeds of the Share Offer for implementing our future plans as detailed in the heading "Use of Proceeds" below.

The Group had cash and cash equivalents of approximately HK$70.2 million as at 31 December 2018 (31 December 2017: HK$45.9 million). Most of such cash and cash equivalents were denominated in the functional currencies of the countries/region in which the Group's subsidiaries operate. As at 31 December 2018, the Group had total bank borrowings of approximately HK$5.0 million (31 December 2017: Nil). All borrowings were denominated in Hong Kong Dollars with variable interest rates based on HIBOR. The details of the bank borrowings can be referenced to note 19 of the consolidated financial statements.

GEARING RATIO

The Group monitors capital using a gearing ratio, which is the Group's total debts (short term bank loans) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level.

The Group's gearing ratio as at 31 December 2018 was 3.7% (31 December 2017: Nil). The increase in the gearing ratio of the Group was primarily resulted from the start of using import financing facilities for trade payments, which are usually drawn for purchases for each season and for significant sales projects.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PLEDGE OF ASSETS

As at 31 December 2018 and 2017, a pledged bank deposit of HK$3,000,000 was applied as security for the general banking facilities granted to a subsidiary. These facilities were also secured by a personal guarantee of HK$8,000,000 from Mr. John Warren McLennan (chairman and executive Director of the Company) which had been released upon the Listing of the Company's shares on GEM of the Stock Exchange on 18 July 2018 (the "Listing Date").

In addition, as at 31 December 2017, a pledged bank deposit of HK$2,164,000 was applied as security for a performance guarantee of the same amount issued by a bank (see note 26 to the consolidated financial statements). Such pledged bank deposit had been released during the Current Year.

FOREIGN CURRENCY RISK

The Group's sales and direct costs were primarily denominated in the functional currency of the operations to which the transactions are related. Accordingly, we consider that the Group's exposure to foreign currency risk is minimal.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group did not have any significant capital commitments (31 December 2017: Nil).

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, as at 31 December 2018, the Group did not hold any significant investment in equity interest in any other company.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no significant contingent liabilities.

At 31 December 2017, the Group had contingent liabilities in respect of a performance guarantee of HK$2,164,000 issued by a bank in favour of a customer in respect of the projects undertaken by the Group. The performance guarantee was secured by a pledged bank deposit of HK$2,164,000.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

USE OF PROCEEDS

The Company intends to utilise such 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	Approximate percentage of the proceeds	Amount utilised up to 31 December 2018	Unutilised amount up to 31 December 2018
	HK$'000	*%*	*HK$'000*	*HK$'000*
Expand our retail network by opening additional retail stores	28,382	58.6%	–	28,382
Enhance our online shop and our information technology capability	3,893	8.0%	161	3,732
Recruitment of additional staff	5,545	11.4%	921	4,624
Recruitment for our planned new retail stores	1,556	3.2%	–	1,556
Increasing our inventory	5,056	10.4%	907	4,149
General working capital	4,043	8.4%	4,043	–
	48,475	100.0%	6,032	42,443

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

COMPARISON OF BUSINESS PLAN WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the Listing Date to 31 December 2018 is set out below:

Business objectives	Actual business progress up to 31 December 2018
Expand our retail network by opening additional retail stores (including additional staff for such stores)	We have been actively looking for locations in Shanghai, China which is our top priority. To date we have not been successful in securing a site but continue our search bearing in mind market conditions and availability of suitable locations, and are currently in negotiation for a site. Save as disclosed above, the Group intends at this time to use up the unutilised fund for opening additional stores as planned in the Prospectus. Timing will be in part subjected to prevailing market conditions and suitable site availability.
Enhance our online shop and our information technology capability	Successful Hong Kong radio frequency identification system (RFID) pilot conducted for the end-of-year stocktake and product photoshoot, enabling operational efficiencies. RFID will be rolled-out further across the Hong Kong operation and Group. Development of a mobile application has been delayed until we have full integration of our enterprise resource planning system with our online platform by mid 2019. We have engaged a new digital agency who has undertaken digital marketing activity in the form of uplifted search engine optimisation activity and will support our planned digital marketing use of proceeds. The Group intends to use up the remaining unutilised fund for this objective within the timeline as outlined in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business objectives	Actual business progress up to 31 December 2018
Recruitment of additional staff	Seven staff, five in Hong Kong and two in China, have been primarily hired to support growth areas of design services, kids brand and e-Commerce activity. The Group intends to use up the remaining unutilised funds for this objective within the timeline as outlined in the Prospectus.
Increasing our inventory	New product has been introduced to underpin renewed focus on the Indigo Kids brand. New TMall product offering has been introduced to enhance ability to drive awareness and sales. New Indigo developed Pedder range has also been introduced. The Group intends to use up the remaining unutilised fund for this objective within the timeline outlined in the Prospectus.

The remaining net proceeds as at 31 December 2018 had been placed in interest-bearing deposits in banks in Hong Kong.

The Directors will constantly evaluate the Group's business objectives and will change or modify plans against the changing market conditions to ascertain the business growth of the Group.

As at the date of this report, the Directors do not anticipate any change to the plan as to the use of proceeds.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the "Future Plans and Use of Proceeds" section of the Prospectus, the Group did not have other plans for material investments and capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 11 January 2018, the entire issued capital in Deep Blue Living Limited ("Deep Blue"), the holding company of Indigo China Home Furniture Trading (Shanghai) Limited* (因邸高家居商貿(上海)有限公司) ("Indigo China") and Shanghai Indigo Decoration and Design Works Limited* (上海因邸閣裝潢設計工程有限公司) ("Indigo Shanghai"), ultimately held by the owners of Double Lions Limited ("Double Lions", a company controlled by Controlling Shareholders (see below for definition)) was transferred to Group in consideration of the Company allotting and issuing 346 shares, credit as fully paid, to Double Lions.

Save as disclosed above, during the Current Year, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

(For identification only)*

EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2018, the employee headcount (including executive Directors) of the Group was 210 (31 December 2017: 193) and the total staff costs, share-based payments and sales commission (including Directors' emoluments) amounted to approximately HK$77.8 million in the Current Year (Last Year: approximately HK$68.1 million).

The Group recruits and promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff and to enable smooth operations within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis. The emoluments of the Directors and senior management are reviewed and approved by the Board of the Company, having regard to the Company's operating results, market competitiveness, individual performance and achievement.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group participates a Mandatory Provident Fund Scheme (the "MPF Scheme") under rules and regulations of Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong) (the "MPF Ordinance") for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the MPF Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, contributions are made based on a percentage of the participating employees' relevant income from the Group and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. When an employee leaves the MPF Scheme, the mandatory contributions are fully vested with the employee.

The employees of the Group in the People's Republic of China (excluding Hong Kong and Macao) (the "PRC") are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. John Warren MCLENNAN ("Mr. MCLENNAN"), aged 56, is an executive Director and the chairman of the Board. He is also a member of our Remuneration Committee. He is our founder and joined the Group in July 2002 as managing director of Options Home Furnishings Limited, which is the predecessor of Indigo Living Limited (currently a subsidiary of the Company). Mr. MCLENNAN is also our creative director and responsible for the overall strategic and creative development of our Group. Furthermore, Mr. MCLENNAN specifically oversees the project businesses of the Group. Mr. MCLENNAN graduated from the University of British Columbia, Vancouver, Canada with a degree of bachelor of arts majoring in geography in 1987. Between 1987 and 2002, Mr. MCLENNAN worked at a number of companies in Taiwan and Hong Kong which businesses were related to children toys, premium gifts, education contents and interior design; he gained experience in setting up a business, staff management, quality control, sourcing materials and distribution. Mr. MCLENNAN has more than 16 years of experience in the home furnishing industry. He is the spouse of Mrs. Jennifer Carver MCLENNAN.

Ms. Tracy-Ann FITZPATRICK ("Ms. FITZPATRICK"), aged 52, is an executive Director, chief executive officer and vice-chairperson of the Board. She is also the Compliance Officer of the Group and a member of Nomination Committee. She joined the Group in February 2007 as the director of operations. Ms. FITZPATRICK is responsible for the day to day operations of the global business of the Group. She graduated from the University of Otago, New Zealand with a degree of bachelor of arts in December 1988. Between 1989 and 2007, Ms. FITZPATRICK worked at a number of companies in New Zealand, Australia, and Hong Kong which businesses were related to shipping and logistics; she gained experience in general management, operation, project management and marketing. She has more than 11 years of experience in the home furnishing industry in Asia.

Ms. MOK Lai Yin Fiona ("Ms. MOK"), aged 45, is an executive Director. Ms. MOK joined our Group in December 1999 as our wholesale manager, and has been our rental and project sales director since February 2007. Ms. MOK is responsible for our corporate sales and in particular, working with property developers and hospitality groups to supply, design and furnish showflats, serviced apartments and hotel rooms across Asia. Ms. MOK obtained a professional diploma in business logistics from the University of Hong Kong, School of Professional and Continuing Education in 2005, and graduated from Curtin University of Technology (currently known as Curtin University), Western Australia, Australia with a degree of bachelor of commerce in marketing and advertising through long-distance learning in 2009. She has more than 19 years of experience in the home furnishing industry.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

NON-EXECUTIVE DIRECTOR

Mrs. Jennifer Carver MCLENNAN ("Mrs. MCLENNAN"), aged 55, is a non-executive Director. From April 2017 to February 2018, Mrs. MCLENNAN acted as a consultant to our Group. Mrs. MCLENNAN is responsible for assisting the Group in financial strategic planning. She is the spouse of Mr. MCLENNAN and a niece of Mr. John Martin RINDERKNECHT, one of the Controlling Shareholders (see below for definition).

In May 1985, Mrs. MCLENNAN graduated from Pomona College in Claremont, California, USA with a degree in international relations. Mrs. MCLENNAN has more than 10 years of experience in asset management, investment advisory and technology.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Elaine June CHEUNG ("Ms. CHEUNG"), aged 52, was appointed as an independent non-executive Director on 19 June 2018. She is also the chairperson of our Audit Committee and a member of our Remuneration and Nomination Committees. She is responsible for giving independent advice to the Board. Ms. CHEUNG graduated from San Francisco State University, California, USA with a bachelor of science degree, majoring in business administration (accounting) in 1990. She has been a member of the American Institute of Certified Public Accountants since 1994. Ms. CHEUNG has more than 17 years of experience in accounting and finance, and is the chief financial officer of Regal Springs AG Group, a global vertically integrated aquaculture company. Prior to joining Regal Springs AG Group, she served a number of sizable companies including a multinational company in wholesaling and distribution of pharmaceutical, health and beauty products, a US-listed international apparel, footwear and accessories company. Ms. CHEUNG is a member of the audit committee for the United Nations World Food Programme since 2015. She serves on the Board of Governors for the American Chamber of Commerce in Hong Kong since January 2016 and is also serving as a member of its Finance Committee since then.

Mr. Roderick Donald NICHOL ("Mr. NICHOL"), aged 51, was appointed as an independent non-executive Director on 19 June 2018. He is also the chairman of our Remuneration Committee and a member of our Audit and Nomination Committees. He is responsible for giving independent advice to the Board. Mr. NICHOL received a bachelor of commerce degree from the University of British Columbia, Vancouver, Canada in 1990, and graduated from London Business School, the University of London, the United Kingdom with a master of business administration degree in 1998. Mr. NICHOL has more than 20 years of experience in the private investments, consulting and investment banking industries, and is currently a director of Lionsgate Capital Limited, a company engaged in private investment and advisory.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Ms. LI Yan Yan ("Ms. LI"), aged 53, was appointed as an independent non-executive Director on 19 June 2018. She is also the chairperson of our Nomination Committee and a member of our Audit and Remuneration Committees. She is responsible for giving independent advice to the Board. Ms. LI graduated from the University of British Columbia, Vancouver, Canada with a bachelor of laws degree in 1989. She was also admitted to practise law as a solicitor in British Columbia, Canada in August 1990, in England and Wales in March 1992 and in Hong Kong in June 1992. Ms. LI has around 20 years of experience in legal and compliance in the asset management, consulting and investment banking industries, and is currently a legal consultant at AIA Investment Management HK Limited.

SENIOR MANAGEMENT

Mr. FU Chi Wing Jason ("Mr FU"), aged 44, is the finance controller and company secretary of the Group. He is responsible for overseeing the financial and accounting functions of Hong Kong and United Arab Emirates ("UAE") regions of the Group. Mr. FU graduated from the Hong Kong Polytechnic University with a degree of bachelor of arts in accountancy in 1996. He also graduated from the University of London, London, the United Kingdom, with a degree of bachelor of law as an external student through distance learning. Mr. FU has become a member of the Hong Kong Institute of Certified Public Accountants since January 2001. He has become a fellow member of the Association of Chartered Certified Accountants since August 2005. He has been an associate of the Hong Kong Institute of Chartered Secretaries since May 2003. Mr. FU has over 22 years of experience in auditing and accountancy. Prior to joining the Group, he had been an audit associate of PricewaterhouseCoopers and finance manager of a carpet manufacturing company listed in the main board of the Stock Exchange.

Ms. LEUNG Po Ling Sally ("Ms. LEUNG"), aged 52, is the retail sales director of the Group. She is responsible for overseeing all the sales operations relating to our retail stores in Hong Kong and looking for opportunities for expansion of our network of retail stores in Hong Kong. Ms. LEUNG joined the Group in May 2000 and has over 18 years of experience in the furniture retail industry.

Ms. AU Ching Wai Anya ("Ms. AU"), aged 44, is the China general manager of the Group. She is also the executive director and legal representative of Indigo China and Indigo Shanghai and a director of Deep Blue, all being wholly-owned subsidiaries of the Company. She is responsible for strategic development and day to day operation of the Group in the PRC. Ms. AU has over 8 years of experience in the furniture retail industry. Before joining the Group as business development manager in April 2011, she worked at Tree Limited (an indirect wholly-owned subsidiary of Tree Holdings Limited which is currently listed on GEM (Stock code: 8395)) from 2008 to 2010.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Omar ADRA ("Mr. ADRA"), aged 39, is the general manager of the UAE operation of the Group. He is responsible for implementing brand-recognition strategies for our brands, business development, expansion, strategic and operation development of the Group in the UAE. Mr. ADRA graduated from the Lebanese American University, Beirut, Lebanon with a degree of bachelor of science in business in 2003. Mr. ADRA has over 12 years of experience in the retail industry. Prior to joining the Group in January 2013, Mr. ADRA was a brand manager of a retail and hospitality conglomerate and a sales manager of retail consumer products company.

Ms. Ana Maria OLAZABAL CUNHA-REIS ("Ms. OLAZABAL CUNHA-REIS"), aged 42, is the Head of Image and Style of the Group. She is responsible for overseeing the visual merchandising across the Group for all stores including new store design and layout and responsible for producing our semi-annual catalogues "Lookbook" and other projects including showflats styling. Ms. OLAZABAL CUNHA-REIS obtained a postgraduate diploma from the University of Manchester in 2003. Ms. OLAZABAL CUNHA-REIS has more than 12 years in the visual merchandising industry. Before joining the Group as head of visual merchandising in April 2012, she worked in Homes in Heaven from 2006 to 2011 with her last position as buyer and creative director.

Ms. YOUNG Chiu Yee Mary ("Ms. YOUNG"), aged 40, is the Head of Project Management of the Group. She is responsible for leading our project division and managing an international portfolio of residential and hospitality projects across Asia, Europe and the Middle East. Ms. YOUNG graduated from University College London, the University of London, London, the United Kingdom, with a bachelor degree of science in architecture, planning, building and environmental studies in August 2000. She then obtained a master degree of science in housing (international) from The London School of Economics and Political Science, the University of London, London, the United Kingdom In November 2002. Ms. YOUNG is a qualified chartered surveyor and has been a professional member of the Royal Institution of Chartered Surveyors since December 2009. Ms. YOUNG has over 15 years of experience in quantity surveying and project management. Before joining the Group as senior project manager in April 2011, Ms. YOUNG worked at the London office of Tweeds, a construction consultancy company, from 2003 to 2010 with her last position as a senior quantity surveyor.

Ms. Yvonne Louise LACEY ("Ms. LACEY"), aged 35, is the Head of Buying of the Group. She is responsible for overseeing the buying, merchandise, quality-control and overseeing our furniture design team and coordinating different departments in developing our products. Ms. LACEY graduated from University of Strathclyde, Glasgow, the United Kingdom with a master of engineering/diploma in management of engineers in product design engineering in July 2007. Ms. LACEY has over 11 years of buying experience. Prior to joining the Group as accessories buyer in January 2014, she had been a junior buyer of a department store chain selling clothing and household items and of a retail consumer products company.

DIRECTORS' REPORT

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the "Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 28 to the consolidated financial statements.

CORPORATE REORGANISATION

Pursuant to a reorganisation of the Group (the "Reorganisation") which was completed in May 2018 to rationalise the corporate structure in preparation for the Listing of the Company's shares on GEM of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 29 June 2018 (the "Prospectus"). The shares of the Company have been listed on the GEM of the Stock Exchange on 18 July 2018.

RESULTS AND DIVIDENDS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 83 of this annual report.

On 4 January 2018, the Company paid HK$26.3 million to the then sole shareholder of the Company, Double Lions, prior to the Listing.

The Directors did not recommend the payment of a final dividend for the Year.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the Group's business, a discussion and analysis of the Group's performance during the Year and an analysis of the likely future development of the Group's business are set out in the Management Discussion and Analysis from pages 7 to 17.

PRINCIPAL RISKS AND UNCERTAINTIES

Description of the principal risks and uncertainties facing the Group are set out in the note 24 to the financial statements. The Company's approach on risk management is set out in Corporate Governance Report from pages 42 to 52 of this annual report.

DIRECTORS' REPORT

EVENTS AFTER REPORTING PERIOD

Save as disclosed in this annual report, the Board is not aware of any important event affecting the Group that had occurred since the end of the Year up to the date of this report.

ENVIRONMENT POLICIES AND COMPLIANCE WITH LAWS AND REGULATIONS

Discussion on the key relationships with the Company's key stakeholders, the Group's environmental policies and performance as well as compliance with relevant laws and regulations which have a significant impact on the Group are set out in the Environmental, Social and Governance Report.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group are set out in note 10 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

RETAINED PROFITS

Details of movements in the retained profits of the Group during the year are set out on page 86 of this annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserve available for distribution to the shareholders of the Company (the "Shareholders") amounted to HK$47,561,000 (2017: deficit of HK$6,556,000).

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last three financial years is set out on page 166 of this annual report.

DIRECTORS' REPORT (CONTINUED)

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in the consolidated statement of financial position and note 19 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as defined and disclosed in note 21 to the consolidated financial statements, no equity-linked agreements were entered into by the Company during the Year or subsisted at the end of the Year.

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

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The Directors during the Year and up to the date of this annual report were:

Executive Directors:

Mr. John Warren MCLENNAN	(appointed Director on 1 September 2017, redesignated as executive Director on 5 February 2018)
Ms. Tracy-Ann FITZPATRICK	(appointed Director on 4 February 2018, redesignated as executive Director on 5 February 2018)
Ms. MOK Lai Yin Fiona	(appointed Director on 4 February 2018, redesignated as executive Director on 5 February 2018)

Non-Executive Director:
Mrs. Jennifer Carver MCLENNAN (appointed on 4 February 2018)

Independent Non-Executive Directors:
Ms. Elaine June CHEUNG (appointed on 19 June 2018)
Mr. Roderick Donald NICHOL (appointed on 19 June 2018)
Ms. LI Yan Yan (appointed on 19 June 2018)

Biographical details of the Directors and senior management of the Company as at the date of this report are set out from pages 18 to 21 of this annual report. Details of Directors' remuneration are set out in note 8 to the consolidated financial statements.

DIRECTORS' REPORT (CONTINUED)

Pursuant to Article 83(3) of the Articles, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. Mr. John Warren MCLENNAN (Mr. MCLENNAN), Ms. Tracy-Ann FITZPATRICK (Ms. FITZPATRICK), Ms. MOK Lai Yin Fiona (Ms. MOK) and Mrs. Jennifer Carver MCLENNAN (Mrs. MCLENNAN) who were appointed by the Board during the year will retire at the forthcoming annual general meeting (the "AGM"), and being eligible, offer themselves, for re-election.

Pursuant to Article 84(1) of the Articles, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each AGM, provided that every Director shall be subject to retirement at an AGM at least once every three years. As such, Ms. Elaine June CHEUNG (Ms. CHEUNG) will retire by rotation at the forthcoming AGM, and being eligible, will offer herself for re-election.

DIRECTORS OF SUBSIDIARIES

The names of all directors who have served on the boards of the subsidiaries of the Company during the Year and up to the date of this annual report are set out below:

Mr. John Warren MCLENNAN*
Ms. Tracy-Ann FITZPATRICK*
Ms. MOK Lai Yin Fiona*
Ms. Alison Siobhan BAILEY
Ms. AU Ching Wai Anya
(* Also Directors of the Company)

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Group's business were entered into or existed during the Year.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed under the heading "Connected Transactions" of this report, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the company or an entity connected with a Director had a material interest, subsisted at the end of the year or at any time during the year.

CONTRACTS OF SIGNIFICANCE BETWEEN THE GROUP AND THE CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE SUBSIDIARIES

The particulars of the contracts of significance between the Group and the Controlling Shareholders or their respective subsidiaries or the contracts of significance for the provision of services to the Group by the Controlling Shareholders or their respective subsidiaries are set out under heading "Connected Transaction" in this annual report.

PERMITTED INDEMNITY PROVISIONS

During the Year and up to the date of this report, the Company has in force permitted indemnity provisions which are provided for in the Company's Articles of Association and in the Directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against the Directors and the directors of the members of the Group respectively.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

REMUNERATION BANDS OF MEMBERS OF SENIOR MANAGEMENT

Details of the remuneration bands of members of senior management of the Group are set out in note 27(a) to the consolidated financial statements.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 8 to the consolidated financial statements.

DIRECTORS' REPORT (CONTINUED)

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 31 December 2018, 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 of the Company (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. MCLENNAN	Interest in a controlled corporation and interest held jointly with other persons *(note 3)*	634,500,000	–	634,500,000	63.45%
Mrs. MCLENNAN	Interest of spouse *(note 4)*	634,500,000	–	634,500,000	63.45%
Ms. FITZPATRICK	Interest in a controlled corporation and interest held jointly with other persons *(note 3)*	634,500,000	–	634,500,000	63.45%
Ms. MOK *(note 5)*	Beneficial interests	–	9,980,000	9,980,000	1.00%

DIRECTORS' REPORT (CONTINUED)

Notes:

(1) These share options were granted by the Company under the Company's Share Option Scheme, as defined and disclosed in note 21 to the consolidated financial statements.

(2) The calculation is based on the total number of 1,000,000,000 Shares in issue as at 31 December 2018 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 disclosed in note 21 to the consolidated financial statements.

(3) Double Lions Limited is owned as to 40.48% by Mr. MCLENNAN, 20.00% by Ms. FITZPATRICK, 14.88% by Ms. Alison Siobhan BAILEY (Ms. BAILEY), 14.88% by Mr. John Martin RINDERKNECHT (Mr. RINDERKNECHT) and 9.76% by Mr. James Seymour Dickson LEACH (Mr. LEACH) (collectively with Double Lions, the "Controlling Shareholders"). Each of the Controlling Shareholders executed the deed of confirmation (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.

(4) Mrs. MCLENNAN is the spouse of Mr. MCLENNAN and is deemed to be interested in the Shares held by Mr. MCLENNAN by virtue of the SFO.

(5) Share options were granted by the Company to Ms. MOK pursuant to a Share Option Scheme of the Company. The details are set out in note 21 to the consolidated financial statements.

(i) 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. MCLENNAN	Double Lions	Beneficial interest and interest held jointly with other persons *(note 1)*	2,530	40.48%
Ms. FITZPATRICK	Double Lions	Beneficial interest and interest held jointly with other persons *(note 1)*	1,250	20.00%
Mrs. MCLENNAN	Double Lions	Interest of spouse *(note 2)*	2,530	40.48%

DIRECTORS' REPORT (CONTINUED)

Notes:

(1) Double Lions is owned as to 40.48% by Mr. MCLENNAN, 20.00% by Ms. FITZPATRICK, 14.88% by Ms. BAILEY, 14.88% by Mr. RINDERKNECHT and 9.76% by Mr. LEACH. By virtue of acting in concert arrangement as documented and confirmed under the Deed of AIC, each of Mr. MCLENNAN, Ms. FITZPATRICK, Ms. BAILEY, Mr. RINDERKNECHT and Mr. LEACH is deemed to be interested in the entire issued shares of Double Lions under the SFO. Mr. MCLENNAN and Ms. FITZPATRICK are directors of Double Lions.

(2) Mrs. MCLENNAN is the spouse of Mr. MCLENNAN and is deemed to be interested in the shares of Double Lions held by Mr. MCLENNAN by virtue of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the Year ended 31 December 2018 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.

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.

NON-COMPETITION UNDERTAKING BY THE CONTROLLING SHAREHOLDERS

Each of the controlling shareholders of the Company, namely Double Lions, Mr. MCLENNAN, Ms. FITZPATRICK, Ms. BAILEY, Mr. RINDERKNECHT and Mr. LEACH (collectively, the "Controlling Shareholders"), entered into the Deed of Non-Competition in favour of the Company on 19 June 2018 (the "Deed of Non-Competition"), details of which have been set out in the Prospectus.

DIRECTORS' REPORT (CONTINUED)

The Company has received an annual confirmation from the Controlling Shareholders in respect of their compliance with the non-competition undertakings under the Deed of Non-Competition throughout the period from the Listing Date up to the date of this annual report. The independent non-executive Directors have also reviewed the compliance with the non-competition undertakings under the Deed of Non-Competition by the Controlling Shareholders and confirmed that the Controlling Shareholders have not been in breach of the Deed of Non-Competition from the Listing Date up to the date of this annual report.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the Year ended 31 December 2018, which did not constitute connected transactions and were not required to be disclosed under the GEM Listing Rules, are disclosed in note 27 to the consolidated financial statements.

Other related party transactions entered into by the Group in 2018 and up to the date of this annual report, which fall under the definition of "connected transactions" or "continuing connected transactions" and not exempted from annual reporting requirements under chapter 20 of the GEM Listing Rules, are as follows:

(1) Corporate Sales Delivery Services by Winford Inc. Limited

Winford Inc. Limited ("Winford") has been from time to time providing delivery service and manpower support to Indigo Living Limited ("Indigo HK"), a wholly-owned subsidiary of the Company. These transactions fall under the definition of continuing connected transactions under the GEM Listing Rules by virtue of the fact that Winford is owned as to 50% by Mr. MCLENNAN, the chairman of the Board, an executive Director and a Controlling Shareholder of the Company. Therefore, Winford is a connected person of the Company under Rule 20.07 of the GEM Listing Rules. In anticipation of the Share Offer under the Listing, on 22 June 2018, Indigo HK and Winford entered into a corporate sales delivery service contract (the "2018 Delivery Service Contract"), pursuant to which Winford agreed to provide such delivery service and manpower support to Indigo HK for its retail and rental businesses from time to time, with annual caps of HK$3,000,000 for 3 years ending 31 December 2020. Following a review of the transactions with Winford up until the 3rd quarter of 2018, a supplemental agreement (the "Supplemental Agreement") was entered into between Winford and Indigo HK on 28 November 2018 to increase the annual caps of the transactions to (i) HK$3,800,000 for the Year; (ii) HK$4,200,000 for the year ending 31 December 2019; and (iii) HK$4,500,000 for the year ending 31 December 2020. An announcement for the revision of the annual caps was made on 28 November 2018. For each of the two years ended 31 December 2016 and 31 December 2017, the Group paid HK$2,982,000 and HK$3,115,000 in respect of the above-mentioned services. For the Year, the total transactions amount with Winford was HK$3,317,000.

DIRECTORS' REPORT (CONTINUED)

The Directors, including all the independent non-executive Directors, have reviewed the transactions with Winford confirmed that they have been entered into:

i. in the ordinary and usual course of business of the Group;

ii. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to independent third parties; and

iii. in accordance with the 2018 Delivery Service Contract as supplemented by the Supplemental Agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor has reported to the Directors in their letter that based on their work performed:

i. the transactions with Winford have been approved by the Board;

ii. the transactions with Winford have been entered into in accordance with 2018 Delivery Service Contract and Supplemental Agreement; and

iii. the transactions amount with Winford for the year ended 31 December 2018 has not exceeded the revised annual cap amount under the Supplemental Agreement.

DIRECTORS' REPORT (CONTINUED)

(2) UAE Transactions

The table below sets forth the connected persons of our Company involved in the UAE Transactions and the nature of their respective connections with our Group:

Name of connected person	Connected relationship
Links Commercial Brokers LLC (the "UAE Nominee")	The UAE Nominee is a corporate nominee service provider. The UAE Nominee owns 51% legal interests in Indigo Living LLC ("Indigo Dubai") and, through the Contractual Arrangements (as defined below), has enabled our Group to have 100% control over Indigo Dubai. The UAE Nominee is regarded as a connected person of our Company.
Mr. Mohamed Ameen Hasan Mohamed Mubasheri Almarzooqi	Mr. Mohamed Ameen Hasan Mohamed Mubasheri Almarzooqi owns 90% of the UAE Nominee and is therefore a connected person of our Company.
Ms. Maimoona Abdulla Ali Ahmed Alrais	Ms. Maimoona Abdulla Ali Ahmed Alrais is the spouse of Mr. Mohamed Ameen Hasan Mohamed Mubasheri Almarzooqi and is therefore a connected person of our Company.

As disclosed in the section headed "Contractual Arrangements" of prospectus of the Company dated 29 June 2018, the United Arab Emirates (the "UAE") laws limits non-Gulf Cooperation Council/UAE Entities to owning no more than 49% of the share capital in a UAE limited company, and the Anti-Fronting Law, on its face, has the effect of prohibiting situations where companies seek to circumvent the 51/49 foreign ownership restrictions. As a result, in order to protect our Group's interests in the UAE, our Group, the UAE Nominee, a limited company incorporated under the laws of the UAE and the registered holder of 51% equity interest in Indigo Dubai and is a corporate nominee service provider pursuant to the Contractual Arrangements, and its shareholders entered into the following two transactions (collectively, the "UAE Transactions"):

DIRECTORS' REPORT (CONTINUED)

(i) Service Agreement

Pursuant to the terms of a service agreement (the "Service Agreement") dated 29 March 2018, the UAE Nominee will assist Deep Ocean SPV and/or Indigo Dubai to obtain and maintain company registration and licenses, apply visas for employees of Indigo Dubai and their respective family members to work and stay in the UAE and assist with other company secretarial and legal matters necessary for Deep Ocean SPV and Indigo Dubai to operate in the UAE.

For each of the two years ended 31 December 2016 and 31 December 2017, our Group paid the UAE Nominee AED295,000 (approximately HK$628,000) and AED356,000 (approximately HK$758,000) respectively for the above-mentioned services in relation to Indigo Dubai. For the Year, the Group paid the UAE Nominee AED584,000 (approximately HK$1,244,000).

(ii) Contractual Arrangements

There are a series of agreements narrowly tailored to provide the Group with control and ownership over Indigo Dubai, achieve the business purposes of the Group, minimise the potential for conflict with relevant UAE laws and regulations and grant the Group the right to acquire the equity interests of Indigo Dubai when permitted by the UAE laws and regulations.

The series of agreements (the "Contractual Arrangements") comprise:

(1) Loan agreement dated 7 March 2018 and entered into among Pacific Legend Development as lender, the UAE Nominee as borrower and Deep Ocean SPV (the "Loan Agreement") provides that:

   (a) Pacific Legend Development lends to the UAE Nominee in the amount of US$10,000 (for subscribing the entire share capital of Deep Ocean SPV) and approximately AED13.9 million (for paying 51% of Indigo Dubai, which value was by reference to the unaudited net asset value of Indigo Dubai as at 31 December 2017).

DIRECTORS' REPORT (CONTINUED)

(b) The loan is interest free.

(c) The UAE Nominee gave an undertaking to Pacific Legend Development including but not limited to the following: (i) not to mortgage, charge, pledge or otherwise encumber the shares of Deep Ocean SPV; (ii) to direct all dividend from Deep Ocean SPV to be paid to Pacific Legend Development; (iii) to keep the 100% shareholding in Deep Ocean SPV isolated from any of the other transactions (including those in the ordinary course of business) of the UAE Nominee; and (iv) not to sell, transfer or otherwise dispose of the shares of Deep Ocean SPV without prior notice and written consent of Pacific Legend Development.

(d) The UAE Nominee shall distribute the dividends, income, assets and capital of Deep Ocean SPV according to the instruction of Pacific Legend Development.

(e) Repayment of the loan may only be made by the UAE Nominee transferring the entire share capital of Deep Ocean SPV to Pacific Legend Development or, where the law permits, to any third party designated in the sole and absolute discretion by Pacific Legend Development.

(f) The Loan Agreement shall remain valid until the loan is fully repaid or upon the happening of (i) material default on the part of the UAE Nominee to observe or perform the terms and conditions of the Loan Agreement, (ii) the UAE Nominee compounds with its creditors in consequence of debt or is being threatened to satisfy the debt of its creditors with any of the assets of the UAE Nominee, (iii) Pacific Legend Development is permitted under the laws of Abu Dhabi Global Market of the Emirates of Abu Dhabi of the UAE ("ADGM") or the UAE to hold Indigo Dubai in its own name, or (iv) upon the bankruptcy of the UAE Nominee.

(2) Share charge dated 7 March 2018 entered into by the UAE Nominee in favour of Pacific Legend Development (the "Share Charge") under which the UAE Nominee agrees (i) to charge the entire shares in Deep Ocean SPV to Pacific Legend Development as continuing security for the payment of the loans pursuant to the Loan Agreement; (ii) that Pacific Legend Development are entitled to the dividends paid on the shares of Indigo Dubai that are held by the UAE Nominee and/or Deep Ocean SPV; (iii) not to create any security interest over or assign or transfer its rights or obligation under the Share Charge without prior notice to and written consent of Pacific Legend Development; and (iv) Pacific Legend shall

DIRECTORS' REPORT (CONTINUED)

retain possession of the share certificate of Deep Ocean SPV as securities for the repayment of the loan under the Loan Agreement. On 11 March 2018, the Share Charge was registered with the ADGM pursuant to the ADGM Companies Law Regulations, which also govern the registration and enforcement of charges in the ADGM. Due to such registration, even upon the death of any of the shareholders of the UAE Nominee, the interests of Pacific Legend Development in Indigo Dubai are protected. Until the UAE Nominee repays the loan fully under the Loan Agreement, the UAE Nominee continues to hold 100% of Deep Ocean SPV.

(3) Proxy dated 29 March 2018 entered into by Deep Ocean SPV in favour of Pacific Legend Development (the "Proxy") under which Deep Ocean SPV irrevocably appoints the nominee of Pacific Legend Development to be its proxy to vote at shareholders' meetings of Indigo Dubai in respect of any existing or further shares of Indigo Dubai which may have been or may from time to time be issued and/or registered in the name of Deep Ocean SPV.

(4) Special power of attorney notarised on 18 April 2018 and entered into by the UAE Nominee in favour of Pacific Legend Development (the "SPOA") under which, pursuant to the terms of the Loan Agreement, the UAE Nominee appointed the nominee of Pacific Legend Development to receive all bonus shares and other rights attaching or accruing to the shares of Deep Ocean SPV including the right to transfer the shares of Deep Ocean SPV to another nominee should the UAE Nominee be in breach of its obligations and grant the power to Pacific Legend Development's directors and their successors (including the rights to vote in a shareholders' meeting of Deep Ocean SPV, sign minutes, file documents with the ADGM; the UAE Nominee shall ensure that the SPOA does not give rise to any potential conflicts of interest.

(5) Undertaking dated 29 March 2018 entered into by the UAE Nominee, Deep Ocean SPV and the shareholders of the UAE Nominee in favour of Pacific Legend Development (the "Undertaking") provides that the UAE Nominee irrevocably undertakes the following:

(a) the UAE Nominee will terminate and unwind the Contractual Arrangements as soon as the UAE allows Indigo Dubai to be owned without a local 51% shareholder;

(b) the UAE Nominee will return to Pacific Legend Development any consideration they receive in the event that Pacific Legend Development acquires the 51% of Indigo Dubai from the UAE Nominee; and

DIRECTORS' REPORT (CONTINUED)

(c) the UAE Nominee ensures that the Contractual Arrangements will not give rise to any potential conflicts of interest at Indigo Dubai.

(6) General power of attorney notarised on 3 April 2018 and entered into by Pacific Legend Development and Deep Ocean SPV in favour of Mr. McLennan (the "GPOA") to have full rights of management of Indigo Dubai. According to our UAE Legal Advisers, the GPOA was duly notarised and cannot be revoked other than by all the parties to the GPOA.

There was no additional payment from our Group to the UAE Nominee in respect of the Contractual Arrangements.

The Directors believe that the Company's structure whereby Indigo Dubai's financial results are consolidated into the Company's consolidated financial statements as if Indigo Dubai was a wholly-owned subsidiary and the flow of economic benefits from their business to the Company, places the Group in a special position in relation to the connected transactions rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions for the purposes of Chapter 20 of the GEM Listing Rules, the Directors consider that it would be unduly burdensome and impracticable and would impose unnecessary administrative costs on us to be subject to strict compliance with the requirements set out under Chapter 20 of the GEM Listing Rules in respect of these continuing connected transactions. Accordingly, the Company has, pursuant to the GEM Listing Rules, applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirements relating to these continuing connected transactions under the GEM Listing Rules. In addition, the Directors confirm that the Company has complied and will continue to comply with the applicable provisions under the GEM Listing Rules.

The Directors, including all the independent non-executive Directors, have reviewed the UAE Transactions and confirmed that they have been entered into:

i. the transactions carried out during such year have been entered into in accordance with the relevant provisions of the UAE Transactions so that the revenue generated by Indigo Dubai have been mainly retained by our Group;

DIRECTORS' REPORT (CONTINUED)

ii. no dividends or other distributions have been made by Indigo Dubai to the holders of its equity interests which are not retained by or assigned or transferred to our Group; and

iii. the UAE Transactions entered into, renewed or reproduced between the UAE Nominee and our Group during the Year are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

The Company's auditor has reported to the Directors in their letter that based on their work performed:

i. the UAE Transactions have received the approval of our Directors;

ii. the UAE Transactions have been entered into in accordance with the relevant UAE Transactions;

iii. no dividends or other distributions have been made by Indigo Dubai to the holders of its equity interests which are not retained by or assigned or transferred to our Group;

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules in respect of the connected transactions and continuing connected transactions. A copy of the auditor's letters have been provided by the Company to the Stock Exchange.

DIRECTORS' REPORT (CONTINUED)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, 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 *(note 6)*	Percentage of shareholding *(note 2)*
Double Lions	Beneficial interest	634,500,000 (L)	63.45%
Mr. David Frances BULBECK	Interest of spouse *(note 3)*	634,500,000 (L)	63.45%
Ms. BAILEY	Interest in a controlled corporation, interest held jointly with other persons *(note 1)* and interest of spouse *(note 4)*	634,500,000 (L)	63.45%
Mr. LEACH	Interest in a controlled corporation, interest held jointly with other persons *(note 1)* and interest of spouse *(note 4)*	634,500,000 (L)	63.45%
Mr. RINDERKNECHT	Interest in a controlled corporation and interest held jointly with other persons *(note 1)*	634,500,000 (L)	63.45%
Great Metro Limited	Beneficial interest	75,075,000 (L)	7.51%
Mr. KWAN Hoi Wang	Interests in controlled corporations *(note 5)*	90,425,000 (L)	9.04%

DIRECTORS' REPORT (CONTINUED)

Notes:

(1) Double Lions is owned as to 40.48% by Mr. MCLENNAN, 20.00% by Ms. FITZPATRICK, 14.88% by Ms. BAILEY, 14.88% by Mr. RINDERKNECHT and 9.76% by Mr. LEACH (collectively, with Double Lions, 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.

(2) The calculation is based on the total number of 1,000,000,000 Shares in issue as at 31 December 2018 (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 set out in note 21 to the consolidated financial statements).

(3) Mr. David Frances BULBECK is the spouse of Ms. FITZPATRICK and is deemed to be interested in the Shares held by Ms. FITZPATRICK by virtue of the SFO.

(4) Ms. BAILEY and Mr. 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 by virtue of the SFO.

(5) Mr. KWAN Hoi Wang is interested in the entire issued share capital of Great Metro Limited. Mr. KWAN Hoi Wang is deemed to be interested in the Shares held by Great Metro Limited by virtue of the SFO.

(6) The letter "L" denotes the entity/person's long position in the shares of the Company.

Save as disclosed above, as at Listing Date and up to the date of this report, 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the GEM Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

DIRECTORS' REPORT (CONTINUED)

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the Group sold less than 30% of its goods and services to its five largest customers and purchased less than 30% of its goods and services from its five largest suppliers.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report from pages 42 to 52 of this annual report.

INTERESTS OF THE COMPLIANCE ADVISER

As advised by Altus Capital Limited, at 31 December 2018 and up to the date of this report, except for the compliance adviser agreement entered into between the Company and Altus Capital Limited, the compliance adviser of the Company, neither Altus Capital Limited, nor any of its directors, employees or close associates had any interests in relation to the Company or any other companies of the Group pursuant to Rule 6A.32 of GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, as at the latest practicable date prior to the issue of this annual report, there was sufficient public float of at least 25% of the Company's issued Shares as required under the Listing Rules.

CHARITABLE DONATIONS

During the Year, the Group made charitable donation amounting to HK$16,500 (2017: Nil).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS' REPORT (CONTINUED)

CLOSURE OF THE REGISTER OF MEMBERS

For ascertaining the entitlement of the Shareholders to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 24 April 2019 to Monday, 29 April 2019, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 23 April 2019.

AUDITOR

The consolidated financial statements for the year have been audited by Baker Tilly Hong Kong Limited who will retire at the forthcoming AGM and a resolution for their reappointment as auditors of the Company will be proposed thereat.

On behalf of the Board
Tracy-Ann FITZPATRICK
Vice Chairperson, Chief Executive Officer and Executive Director

Hong Kong, 11 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to establishing and ensuring high standards of corporate governance and adopt sound corporate governance practices on the basis of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules.

This Corporate Governance Report is presented for the period from 18 July 2018 (the "Listing Date"), being the date the shares of the Company commenced trading on the Stock Exchange to 31 December 2018 (the "Relevant Period"). The Directors consider that the Company has complied with all the code provisions set out in the CG Code during the Relevant Period.

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 confirmed that they had complied with the Required Standard of Dealings throughout the Relevant Period, 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.

BOARD OF DIRECTORS

Board Composition

Up to the date of this report, the Board comprises seven Directors. Details of the composition are as follows:

(i) Executive Directors

Mr. John Warren MCLENNAN (Mr. MCLENNAN) *(Chairman)*	(appointed Director on 1 September 2017, redesignated as executive Director on 5 February 2018)
Ms. Tracy-Ann FITZPATRICK (Ms. FITZPATRICK) *(Vice Chairperson and Chief Executive Officer)*	(appointed Director on 4 February 2018, redesignated as executive Director on 5 February 2018)
Ms. MOK Lai Yin Fiona (Ms. MOK)	(appointed Director on 4 February 2018, redesignated as executive Director on 5 February 2018)

CORPORATE GOVERNANCE REPORT (CONTINUED)

(ii) Non-executive Director

Mrs. Jennifer Carver MCLENNAN (Mrs. MCLENNAN)	(appointed Director on 4 February 2018, redesignated as non-executive Director on 5 February 2018)

(iii) Independent non-executive Directors

Ms. Elaine June CHEUNG (Ms. CHEUNG)	(appointed on 19 June 2018)
Mr. Roderick Donald NICHOL (Mr. NICHOL)	(appointed on 19 June 2018)
Ms. LI Yan Yan (Ms. LI)	(appointed on 19 June 2018)

The Board had complied with the Rule 5.05 of the GEM Listing Rules to have at least three independent non-executive Directors (who collectively represent at least one-third of the board) and at least one independent non-executive Director has appropriate professional qualifications or accounting or related financial management expertise.

Each of the independent non-executive Director has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Board considers that all independent non-executive Directors to be independent to the Company and meet the requirements set out in Rules 5.09 of the GEM Listing Rules at the date of this report.

Except that Mrs. MCLENNAN is the spouse of Mr. MCLENNAN, none of the members of the Board has any relationship (including financial, business, family or other material/relevant relations) among each other.

Each of the executive Directors, namely, Mr. MCLENNAN, Ms. FITZPATRICK and Ms. MOK has entered into a service agreement on 19 June 2018 with our Company for an initial term of three years commencing from the Listing Date. During the initial term, either party to the service agreement shall be entitled to terminate the service agreement by serving not less than three months' written notice upon the other side.

Each of the independent non-executive Directors, namely Ms. CHEUNG, Mr. NICHOL and Ms. LI, and a non-executive Director, namely Mrs. MCLENNAN, has entered into a letter of appointment with the Company on 19 June 2018 for an initial term of one year commencing on the Listing Date. During the initial term, either party to the letter of appointment shall be entitled to terminate the letter of appointment by serving not less than three months' written notice upon the other side.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Roles and Responsibilities of the Board

The Company is headed by the Board which is responsible for the leadership, control and promotion of the success of the Group in the interests of the Shareholders by directing and supervising its affairs and by formulating strategic directions and monitoring the financial and management performance of the Group.

Some of the key responsibilities of the Board include:

– setting the Group's values, vision and mission;

– establishing and maintaining the strategic direction and objectives of the Group;

– monitoring the performance of management;

– ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed; and

– review and approve the quarterly/interim/final financial results of the Company.

The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference which are published on the respective websites of GEM and the Company. The Board may from time to time delegate certain functions to senior management of the Group if and when considered appropriate. The management of day-to-day operation of the Group's businesses and implementation of the business plans, strategies and policies adopted by the Board has been delegated to the senior management of the Group.

The Company has an experienced and committed management team. All of the executive Directors and our senior management have been serving the Group for an average of 10 years. The executive Directors are also interested in our business outcomes and thus their own interests align with that of the Company. The committed and continued service of our management team allows the Group to execute our business strategy with long term vision and objective without interruption.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Directors' Attendance on Board Meetings

Four board meetings were held during the Relevant Period, in which two meetings were held to approve the interim financial results for the six months ended 30 June 2018 and the third quarterly financial results for the nine months ended 30 September 2018, respectively; the other two meetings were held to approve the grant of share options under the Company's Share Option Scheme (refer to note 21 to the consolidated financial statements) and the revision of the annual caps in respect of continuing connected transactions entered into by the Group (see Directors' Report for details).

The attendance of individual Directors during the year ended 31 December 2018 is set out in the table below.

Name of Director	Attendance/Number of Board Meetings held
Executive Directors	
Mr. John Warren MCLENNAN	4/4
Ms. Tracy-Ann FITZPATRICK	4/4
Ms. MOK Lai Yin Fiona	3/4
Non-executive Director	
Mrs. Jennifer Carver MCLENNAN	4/4
Independent non-executive Directors	
Ms. Elaine June CHEUNG	3/4
Mr. Roderick Donald NICHOL	3/4
Ms. LI Yan Yan	4/4

Directors' Training and Professional Development

To assist Directors' continuing professional development, the Company recommends Directors to attend relevant seminars to develop and refresh their knowledge and skills. The Company also encourages Directors to attend continuous professional development programmes such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board.

CORPORATE GOVERNANCE REPORT (CONTINUED)

All the Directors also understand the importance of continuous professional development and are committed to participate any suitable training to develop and refresh their knowledge and skills.

During the Relevant Period, all board members have received training hosted by a law firm, which was about, inter alias, the GEM Listing Rules, Companies Ordinance and SFO:

Name of Director	Training on Director's responsibilities provided by the Company's legal consultant prior to the Listing
Executive Directors	
Mr. John Warren MCLENNAN	Attended
Ms. Tracy-Ann FITZPATRICK	Attended
Ms. MOK Lai Yin Fiona	Attended
Non-executive Director	
Mrs. Jennifer Carver MCLENNAN	Attended
Independent non-executive Directors	
Ms. Elaine June CHEUNG	Attended
Mr. Roderick Donald NICHOL	Attended
Ms. LI Yan Yan	Attended

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The posts of Chairman and Chief Executive Officer ("CEO") are separate and are not held by the same individual to ensure their independence, accountability and responsibility. The Chairman of the Board is Mr. MCLENNAN and the CEO is Ms. FITZPATRICK. The Chairman takes the lead to oversee the Board functions while the CEO, supported by her management team, is responsible for the day-to-day management of the business of the Company.

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD DIVERSITY POLICY

The Company has adopted a Board diversity policy in accordance with the requirement as set out in the CG Code, which is summarised as below:

The Board diversity policy of the Company specifies that in designing the composition of the Board, Board diversity shall be considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board members' appointment will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity of the Board.

The Company discloses the composition of the Board in corporate governance report every year and the Nomination Committee oversees the implementation of the Board diversity policy. The Nomination Committee will discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD COMMITTEES

Audit Committee

The Company established the Audit Committee with written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules and paragraph C3.3 of the CG Code pursuant to a resolution of the Directors passed on 19 June 2018. The primary duties of the Audit Committee are, among other things, to make recommendations to the Board on the appointment, reappointment and removal of external auditors, review the financial statements and provide advice in respect of financial reporting, oversee our financial reporting process, internal control, risk management systems and audit process, and perform other duties and responsibilities assigned by the Board.

The Audit Committee comprises Ms. CHEUNG, Mr. NICHOL and Ms. LI, all being independent non-executive Directors. Ms. CHEUNG is the chairperson of the Audit Committee.

The Audit Committee held three meetings during the Relevant Period for the purposes of, among other things, review the interim financial results for the six months ended 30 June 2018 and the 3rd quarterly financial results for the nine months ended 30 September 2018, respectively before submission to the Board. It also reviewed the activities of the Group's risk management and internal control functions. The details of the attendance are set out below:

Audit Committee Members	Attendance/Number of Meetings
Ms. Elaine June CHEUNG *(Chairperson)*	3/3
Mr. Roderick Donald NICHOL	3/3
Ms. LI Yan Yan	2/3

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with Rule 5.35 of the GEM Listing Rules and paragraph B1.2 of the CG Code pursuant to a resolution of the Directors passed on 19 June 2018. The primary duties the our Remuneration Committee are to review and approve the management's remuneration proposals, make recommendations to the Board on the remuneration package of the Directors and senior management and ensure none of the Directors determines his/her own remuneration.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Remuneration Committee comprises Mr. MCLENNAN, being an executive Director, and Ms. CHEUNG, Mr. NICHOL and Ms. LI of the independent non-executive Directors. Mr. NICHOL is the chairman of the Remuneration Committee.

The Remuneration Committee held three meetings during the Relevant Period for the purposes of, among other things, considering and approving the grant of share options under the Company's Share Option Scheme and reviewing the Company's organisation structure. The details of attendance are set out below:

Remuneration Committee Members	**Attendance/Number of Meetings**
Mr. Roderick Donald NICHOL *(Chairman)*	2/3
Ms. LI Yan Yan	3/3
Ms. Elaine June CHEUNG	3/3
Mr. John Warren MCLENNAN	3/3

Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with paragraph A5.2 of the Code on Corporate Governance Practices pursuant to a resolution of the Directors passed on 19 June 2018. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, and select or make recommendations on the selection of individuals nominated for directorships.

The Nomination Committee comprises Ms. FITZPATRICK, being an executive Director, and Ms. CHEUNG, Mr. NICHOL and Ms. LI of the independent non-executive Directors. Ms. LI is the chairperson of the Nomination Committee.

Pursuant to the terms of reference of the Nomination Committee, there is no mandatory requirement of the minimum number of meetings each year. The Committee members may call any meetings at any time when necessary or desirable. No meeting of the Nomination Committee had been held during the Relevant Period.

CORPORATE GOVERNANCE REPORT (CONTINUED)

ACCOUNTABILITY AND AUDIT

Directors' and Auditor's responsibilities for the Consolidated Financial Statements

All Directors acknowledge their responsibility to prepare the Group's consolidated financial statements which give a true and fair view of the state of affairs of the Company and the Group's results and cash flows and are properly prepared on a going concern basis in accordance with the applicable accounting standards, with disclosures required under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Company Ordinance"), and the GEM Listing Rules. The responsibility of the Company's auditor, Baker Tilly Hong Kong Limited is set out in the section headed "Independent Auditor's Report" of this annual report.

The Directors also confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Auditor's remuneration

The remuneration paid to the auditor of the Company, Baker Tilly Hong Kong Limited, for audit and non-audit services for the year ended 31 December 2018 were as follows:

Nature of services	Fees paid/payable *(HK$'000)*
Annual audit services	812
Other assurance services	895
Other non-audit and assurance services	386
Total	2,093

CORPORATE GOVERNANCE REPORT (CONTINUED)

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the establishment, maintenance and review of the Group's system of internal controls and risk assessment. The Group has established internal control systems including but not limited to corporate governance, operations management, human resources and finance.

Code Provision C.2.5 of the CG Code stipulates that the Group should have an internal audit function. However, taking into account the size, nature and complexity of the Company's operations, the Group considers that the current organisation structure and management could provide adequate risk management and internal control of the Group. Therefore the Group does not have an internal audit function during the Relevant Period. Instead, a review of internal controls systems of different operations was conducted by Corporate Governance Professionals Limited (formerly known as Baker Tilly Hong Kong Risk Assurance Limited), an independent external risk advisory firm to ensure the effectiveness and adequacy internal controls system.

The Board also conducted an annual review on the administration and the adequacy of the risk management and internal control systems and considered them adequate and effective during Relevant Period.

The Group has appointed Altus Capital Limited as our compliance adviser to provide advice and guidance to the Company in respect of compliance with the applicable laws and regulations to ensure compliance with the GEM Listing Rules and relevant regulatory requirements.

COMPANY SECRETARY

Mr. FU Chi Wing Jason has been appointed by the Board as the Company Secretary of the Company since 5 February 2018. The biographical details of Mr. FU is set out under the section headed "Directors and Senior Management" of this Annual Report.

The primary duties of the Company Secretary include, but are not limited to, the following: (i) to ensure the Board procedures are followed and that the activities of the Board are carried out efficiently and effectively; (ii) to assist the Chairman to prepare agendas and Board papers for meetings and disseminate such documents to the Directors and Board committees in a timely manner; (iii) to timely disseminate announcements and information relating to the Group; and (iv) to maintain formal minutes of the Board meetings and other Board committee meetings.

Mr. FU has been in full compliance with the requirements of Rule 5.15 of the Listing Rules during the year, with no less than 15 hours of relevant professional training.

CORPORATE GOVERNANCE REPORT (CONTINUED)

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting requisitioned by shareholders

Pursuant to Articles of Association of the Company, The Board may whenever it thinks fit call extraordinary general meetings. Extraordinary general meeting shall be convened on the requisition by one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward enquiries to the Board

Shareholders of the Company may put forward enquiries to the Board in writing to Units 1202–1204, Level 12, Cyberport 2, 100 Cyberport Road, Hong Kong for the attention of the Company Secretary, or contact the Hong Kong Share Registrar of the Company, Tricor Investor Services Limited for any enquiries about their shareholdings and entitlements to dividend.

Procedures for putting forward proposals at Shareholders' Meetings

There is no provision for shareholders to propose resolutions at a general meeting under the Cayman Islands Companies Law. However, shareholders can follow the above procedure and request to convene extraordinary general meeting.

INVESTOR RELATIONS

The Company has established various communication channels with its shareholders and the public. It includes annual general meeting, publishing annual, interim and quarterly reports, announcements and circulars on the websites of GEM and the Company.

There had been no significant changes to the Articles of Association of the Company for the Relevant Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SCOPE AND BOUNDARY

Pacific Legend Group Limited (the "Company", together with its subsidiaries, collectively as the "Group", "we" or "us") is pleased to present its first Environmental, Social and Governance ("ESG") Report. The ESG Report aims to provide an overview of our performance in respect of environmental protection, social involvement, engagement with stakeholders and sustainable development. Relevant figures are recorded and collected from our offices and retail shops in Hong Kong, United Arab Emirates (the "UAE") and Mainland China (the "PRC") from 1 January 2018 to 31 December 2018 (the "Reporting Period").

REPORTING STANDARDS

The ESG Report is prepared in compliance with the applicable disclosure requirements of Appendix 20 – the Environmental, Social and Governance Reporting Guide (the "Guide"), under of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules").

The information disclosed in this ESG Report represents the most relevant issues, as identified by our key stakeholders. We strive to incorporate materiality, quantitative, balance and consistency in the presentation of the information, as required by the Stock Exchange. In the long run, we are committed to enriching our ESG information disclosure in order to enhance the transparency of our sustainability performance.

ACCESS TO THIS ESG REPORT

This ESG Report is written in both English and Chinese, and in case of discrepancy between the two versions, the English version shall prevail.

FEEDBACK AND OPINIONS

We sincerely welcome your feedback on our ESG Report and our sustainability performance, please contact us by any of the following means to share your opinions with us:

Address:
Units 1202–1204, Level 12, Cyberport 2, 100 Cyberport Road
Cyberport, Hong Kong
Phone: (852) 2552 3500
Email: info@pacificlegendgroup.com

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

APPROACH

In order to manage ESG-related risks and opportunities, the Board of Directors (the "Board") takes the initiative to formulate the overall ESG strategy. Management is authorised by the Board to review and monitor the ESG policies and practices of the Group to ensure compliance with relevant legal and regulatory requirements, monitor and respond to emerging ESG issues, and make recommendations to the Board, where appropriate, to improve the ESG performance of the Group.

The Board is dedicated to improving and developing the ESG strategy which is functioning in the best interests of our stakeholders. Under the section "Stakeholders' Engagement", the mechanism and the logic of stakeholders' involvement in developing our ESG strategy are clearly stated.

We incorporate the concept of sustainability into our ESG strategy and day-to-day operations. We believe that prudent management of environmental and social issues is a key factor in long-term success in this rapidly changing world. With better understanding of the risks and opportunities regarding environmental protection, the Group endeavors to reduce wastage, preserve the planet for future generations, and respond to the regulatory authorities' expectations for environmental protection.

We believe that "***Live Beautifully***" is not only our business philosophy, but an ultimate goal for the mankind. With continuous improvement, we aim to go forward together with our stakeholders towards a more sustainable future and a good quality of life for both today's and future generations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

STAKEHOLDERS' ENGAGEMENT

We believe that communication with stakeholders plays an important role in sustaining our business success, so we actively seek to understand and interact with our stakeholders including but not limited to the suppliers, customers, employees, investors and government. Through continuous communication with our stakeholders, we come to understand the points of concern of each of them through different channels in order to develop mutually beneficial relationships and promote sustainability. We would like to align our ESG strategy with the stakeholders' expectations and concerns, and also balance the interests among the Group and our stakeholders. The topics that stakeholders may be concerned about and the ways we communicate and respond are listed below:

Stakeholders	Probable Points of Concern	Communication and Responses
Hong Kong Exchanges and Clearing Limited ("HKEX")	Compliance with Listing Rules, and timely and accurate announcements.	Meetings, training, workshops, programs, website updates, and announcements.
Government	Compliance with laws and regulations, preventing tax evasion, and social welfare.	Interaction and visits, and tax returns and other information.
Investors	Transparency, corporate governance, business strategies and performances, sustainable profitability, and investment returns.	Shareholders' meetings, issue of financial reports or operation reports for investors, and timely disclosure.
Media & Public	Corporate governance, environmental protection, and human rights.	Issue of newsletters on the Company's website.
Suppliers	Payment schedule, and stable demand.	Regular meetings, supplier conferences, phone calls and interviews.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Stakeholders	Probable Points of Concern	Communication and Responses
Customers	Service quality, reasonable prices, commercial credibility, product safety, and personal data protection.	After-sales services, clients' enquiries handling mechanism, rapid website updates.
Employees	Rights and benefits of employees, compensations, training and development, and working environment.	Conducting union activities, training, interviews with employees, and employee suggestion boxes.
Community	Community environment, employment opportunities, community development, and social welfare.	Participation in community activities, employee voluntary activities, and community welfare subsidies.

OUR BUSINESS

With more than 30 years of dedication, development and expansion, we have been trading under our current brand "Indigo" since 2004. In addition to the Hong Kong market, we have established subsidiaries in the PRC and the UAE for conducting business in the respective regions. We primarily operate 3 business lines to suit the needs of both our retail and corporate clients, namely, (1) sale of home furniture and accessories, (2) rental of home furniture and accessories, and (3) project and hospitality services.

Under the sale of home furniture and accessories, we have a special line of products especially for kids to capture a niche market position.

A. ENVIRONMENTAL

Environmental Compliance

We comply with all relevant laws and regulations that relate to environmental protection in Hong Kong, the PRC and the UAE which have a significant impact on us, including but not limited to, "Air Pollution Control Ordinance" in Hong Kong, Environmental Protection Law of the People's Republic of China ("中華人民共和國環境保護法"), Atmospheric Pollution Prevention and Control Law of the People's Republic of China ("中華人民共和國大氣污染防治法") and "Federal Law 24 of 1999 for the Protection and Development of the Environment" (the "Environmental Law") in the UAE. During the Reporting Period, no confirmed non-compliance incidents or grievances were noted by us in relation to environmental issues.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Air Emissions

We are principally engaged in the sale of home furniture and accessories, rental of home furniture and accessories, and provision of interior design services with furniture facilities as well as hospitality services. We have a fleet of vehicles for serving our management team members and transportation of goods from warehouse to customers' designated locations. As such, our major air pollutants are generated from the operation of vehicles. All vehicles are under regular maintenance check to facilitate fuel consumption efficiency, ensure road safety and keep air emissions at its minimum. The major air pollutants emitted from vehicles include nitrogen oxides, sulphur oxides and respiratory suspended particles.

The air pollutants emission during the Reporting Period is as follows:

Year ended 31 December 2018

Air Pollutants	Unit	Total
Nitrogen oxides	g	424,432.77
Sulphur dioxide	g	380.23
Particulate matter	g	35,174.44

Greenhouse Gas Emissions

We recognise that greenhouse gas ("GHG") emission would lead to climate change which imposes threat to the society and our business operations. As such, we are committed to monitoring and mitigating its effects. Greenhouse gas emission is mainly resulted from either direct emission from sources that are owned or controlled by us, such as gas exhaust from vehicle fuel combustion; or indirect emissions from the purchased electricity consumed.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The GHG emission[1] during the Reporting Period is as follows:

Scope of Greenhouse Gas Emission	Emission Sources	Emission (in tonnes of CO_2e)	Emission (in tonnes of CO_2e) per locations[2]	Emission (in tonnes of CO_2e) per staff
Scope 1 Direct Emission	Vehicle Fuel Combustion	66.50	3.91	0.32
Scope 2 Indirect Emission[3]	Purchased Electricity	609.20	35.84	2.90
Total Greenhouse Gas Emission		675.70	39.75	3.22

In order to reduce the generation of greenhouse gases, we educate our employees about the concept of energy efficiency. For the details of energy efficient practices, please refer to the section headed "Electricity and Energy Efficiency".

Waste Management

We comply with all relevant laws and regulations in relation to waste management that have a significant impact on us, including but not limited to, "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste" ("中華人民共和國固體廢物污染環境防治法"). No confirmed material non-compliance incidents or grievances in relation to waste management were noted by us.

As our core business is the sale of home furniture and accessories, there is no significant hazardous waste generated during the ordinary course of business operations, and therefore, no data with regard to hazardous waste was recorded during the Reporting Period.

1 GHG emission includes emission of carbon dioxide (CO_2) and CO_2 equivalent (CO_2e) emissions of other GHG emitted such as methane and nitrous oxide.

2 Locations include retail shops, offices and warehouses which give rise to 17 locations in total.

3 We currently account for Scope 2 carbon emission (indirect emission from consumption of purchased electricity) only. According to the Sustainability Reports published by HK Electric and CLP, the carbon footprint per kWh of electricity sold in 2017 was 0.79 kg and 0.51 kg respectively. According to the 2017 Emission Factors for purchased electricity within Mainland China, published by National Development and Reform Commission, the emission factor for Eastern China Regional Grid is 0.8046 *t-CO_2/MWh*. The carbon dioxide emissions factor applied in the UAE was 0.7kg CO_2/kWh for DEWA supplied electricity.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

On the other hand, the major non-hazardous waste produced by us results from our disposed furniture and paper consumption for administrative work. To minimise the generation of disposed furniture, furniture with minor scratch is sold at discount instead of wasting the materials and dumping it into landfill. We also try to approach some non-governmental organisations and donate furniture to them if they need it.

The wastes generated during the Reporting Period are as follows:

Year ended 31 December 2018

Non-hazardous wastes	Unit	Total
Disposed furniture	tonnes	87.00
Copier paper	tonnes	2.16

We are committed to reducing the use of copier paper for internal administrative work. The following measures are adopted in our daily operations:

- Double-sided printing is set as the default settings on computers, and single-sided printing has to be manually selected;
- For any paper that has been used for single-sided printing, it should be reused when there is no confidential information on the printed side of the paper; and
- Staff members are encouraged to circulate documents through electronic means such as email or encrypted universal serial bus.

Use of Resources

In order to uphold sustainability in our daily operations, we are committed to upholding a high environmental standard by incorporating relevant requirements under applicable laws and regulations into our daily practices.

We closely monitor the uses of resources, develop measures to reduce electricity consumption and promote environmental sustainability among employees, to ensure that all employees understand clearly the importance of conserving energy and making full use of the available resources in our operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Energy Efficiency

Electricity is mainly consumed for the air-conditioning system, lighting system and electronic office equipment for all of our offices, warehouses and retail shops in Hong Kong, the PRC and the UAE.

Year ended 31 December 2018

	Unit	Total
Electricity consumption	kWh	820,455.00
Intensity	kWh/locations[2]	48,262.06

We also advocate energy efficiency among our employees, together with us, to raise their awareness of energy saving and preserve the environment., Moreover, we educate our staff members to shut down electronic devices before leaving office. In the case of job demand, staff members need to register with the IT team if they need to keep the electronic devices with power-on after office hours. The IT team monitors the on/off status of each of the electronic devices from backend to ensure that all electronic devices have been switched off properly.

Our staff have developed energy efficient practices. The last staff member who leaves the office or the retail shop is responsible for ensuring that air conditioning system and electronic devices in the office and the retail shop are switched off.

In choosing electronic devices, energy efficiency is one of the evaluation criteria, and therefore, we check the energy labels for energy saving electronic equipment. Energy efficient products not only consume less energy, but they also help protect the environment and save money in the long run.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Water Usage

Water resources are mainly used in offices and retail shops in Hong Kong, the PRC and the UAE. We do not have any issues in sourcing water, and the existing supply of water meets our daily operational needs. Water consumption by the Group is minimal, mainly for the purpose of basic cleaning and sanitation. In order to reduce water wastage, we actively promote water conservation awareness among our employees. For instance, staff are reminded to turn off the faucets tightly after use. As the water charges of some locations are included in the management fees, we are unable to collect and disclose relevant water usage records.

Packaging

Packaging materials such as stretch films and corrugated boards are used by the Group. Consumption of these materials during the Reporting Period is summarised as below:

Year ended 31 December 2018

Packaging materials	Unit	Total
Stretch films	tonnes	3.96
Corrugated boards	tonnes	1.57

Environment and Natural Resources

As a furniture retailer, there is no significant consumption of natural resources. Yet we concern about the natural resources consumed along the supply chain by selecting vendors that are environmentally and socially conscious. Details of vendor selection criteria are set out in the section “Supply chain management”.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

B. SOCIAL

Employment and labour practices

We comply with all relevant laws and regulations in relation to employment in Hong Kong, the PRC and the UAE which have a significant impact on us, including but not limited to, the "Employment Ordinance", the "Minimum Wage Ordinance" and the "Employees' Compensation Ordinance" in Hong Kong, the "Labour Contract Law of the People's Republic of China (中華人民共和國勞動合同法)" and the "Labour Law of the People's Republic of China (中華人民共和國勞動法)" in the PRC, and the "The Federal Law No. 8 of 1980 (as amended by Federal Laws No. 24 of 1981, No. 15 of 1985, No. 12 of 1986 and No. 8 of 2007 and Ministerial Decree 764, 765 and 766 of 2015) (the "UAE Labour Law") in the UAE. As at 31 December 2018, the Group had approximately 210 employees.

We have set up human resources policies and procedures in attracting and retaining talents, as well as nurturing an amiable working environment for our staff. We reward and promote individuals based on their performance and development potential. As a non-discriminating employer, we promise to provide equal opportunities for all applicants and employees without consideration of their race, religion, skin colour, nationality, marital status, age, sex, disability, political preference or philosophical belief.

In order to attract and retain high quality staff and to enable smooth operations, we offer various in-house training courses and competitive remuneration packages to our employees with reference to market conditions and individual employees' qualifications and experience. Details of employees' compensation packages and other welfare are stipulated in our staff manual, which is reviewed on a regular basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Total workforce	210
Breakdowns by gender	
Female	100
Male	110
Breakdowns by age	
< 25	11
25–29	36
30–39	80
40–49	57
> 50	26
Breakdowns by employment type	
Full time	207
Part time	3
Breakdowns by geographical location	
Hong Kong	141
The PRC	23
The UAE	46

Health and Safety

We comply with all relevant laws and regulations in relation to occupational health and safety that have a significant impact on us, including but not limited to, "Occupational Safety and Health Ordinance" in Hong Kong and "Occupational Health and Safety Policies" as set by the Ministry of Human Resources and Emiratisation in the UAE. During the Reporting Period, there is no case of work-related fatalities nor loss of work days due to work injury.

As some of our staff members are working in warehouse with the job requirements of handling bulky furniture, we have set up an occupational safety & health committee to promote occupational safety. The occupational safety & health committee has established the following policies and guidelines to demonstrate the philosophy of "***Live Beautifully***" among our employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Warehouse Work Safety Guideline	Safety Guideline for using Movable Ladder	Health &Safety Culture 360
• Staff must wear the provided safety shoes which comply with the EU safety standard (EN 20345:2004 S1P) • Staff must wear protective gloves during work to reduce physical harm and provide protection against injury	• Place and return ladders at a fixed location • Check the ladder against any stain and/or sharp edge or corner • Evaluate if the working location is suitable for placing the ladder	• To promote health and safety among 3 workplaces: warehouse, retail shops and offices. • To improve and strengthen 6S strategy • To pursue zero tolerance to any industrial accidents

During the Reporting Period, no case of fatality and work injury case in the workplace, and no lost work day due to work injury was reported.

Development and Training

Training and development are crucial to the personal growth of our staff members and the overall development of the Group. We focus on communicating with employees and listening to their feedback. Through establishing various internal communication channels, including formal performance appraisal and regular meetings between management and employees, we could better understand the needs of our employees. In response to their needs and career aspirations, we provide support to facilitate career development of our staff to equip them with the skills that help pursuing their career goals.

In practice, we encourage our staff members to upgrade their skills and knowledge through various forms of training or further education. In this respect, we subsidy our staff with tuition fees for them to pursue external job-related courses.

Staff are given opportunities to acquire new skills and take up different tasks and responsibilities to build up the necessary experience and skill-sets for future promotion and development purposes. Cross-function training and job rotation are available for staff that have the potentials and passion in exploring new challenges.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Labour Standards

We comply with all relevant laws and regulations that have a significant impact on us relating to forced and child labour, including but not limited to, "Employment Ordinance" in Hong Kong, "Provisions on the Prohibition of Using Child Labour (禁止使用童工規定)" and "Labour Law of the People's Republic of China (中華人民共和國勞動法)" in the PRC, and the UAE Labour Law.

To avoid forced and child labour, Human Resources and Administration Department performs detailed interview screening procedures on each candidate. A thorough background check is conducted to verify personal data stated on the application forms by examining the applicants' original identity card and making detailed inquiries to ensure that we do not employ child labour.

If management discovered any child labour, we would immediately terminate the contract and investigate into the incident. Forced labour is strictly prohibited by the Group with zero tolerance. We are serious about child labour and shall take disciplinary actions against any staff members who are accountable for the causes of the incident.

Supply Chain Management

As mentioned, we select vendors that are also environmental and socially conscious. In order to understand the daily operations of the suppliers, our team visits their factory regularly, and conduct suppliers' evaluation. During the course of suppliers' evaluation, our quality control team, buying and merchandising team, and design team evaluate the performance of the suppliers from different perspectives. Particularly, the quality control team evaluates the facilities of the suppliers as to whether their equipment and operation method can fulfill the generally acceptable environmental standard.

Customer Protection

We comply with all relevant laws and regulations that have a significant impact on us relating to customers' protection, including but not limited to, the "Federal Law No. 24 of 2006 regarding Consumer Protection and the executive regulation as set out in "Cabinet Resolution No. 10 of 2007" (the "Consumer Protection Laws") in the UAE, the "Consumer Goods Safety Ordinance" in Hong Kong, and "The Law on Protection of Consumers Rights and Interests" (中華人民共和國消費者權益保護法) in the PRC.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

In October 2010, we launched a dedicated brand devoted to children's furniture and bedroom accessories, the "Indigo Living Kids". Safety and fun are the key elements in the design and sourcing of this line of products. We are committed to complying with "Toys and Children's Products Safety (Additional Safety Standards or Requirements) Regulations" in Hong Kong.

Typically, items custom-designed for kids come with chunky handles and avoid sharp corners or edges, and are colourful. Our kids' furniture collection also meets safety standards in UK and/or Europe, as we request our suppliers to provide documentary proof of meeting the safety standards of UK and/or Europe.

Advertising and Labelling

We comply with all relevant laws and regulations that have a significant impact on us relating to the message of our products, including but not limited to, "Trade Descriptions Ordinance" in Hong Kong. We pay attention to our trade description which includes the quantity, the method of manufacture, processing and/or reconditioning, composition, fitness for purpose and place of origin, etc. During the process of our product inspection checking, we particularly check the carton labels to make sure that the label is accurate and not misleading.

Complaint Handling

We treasure opinions and feedback from our customers on the quality and services we provide. Therefore, we have established "Standard Operation Procedures on Complaint Handling" to ensure that all customers' concerns regarding our products or services are handled and resolved promptly and efficiently. Relevant investigation is taken and improvement measure is implemented to improve our product and service quality as well as customer experience.

During the Reporting Period, no products sold or shipped are subjected to recalls for safety and health reasons.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Quality Assurance

We have established "Standard Operation Procedures on Quality Control Inspection" to maintain product quality in order to satisfy the expectation of our customers. Suppliers are required to fill in the "Inspection Request Form" to facilitate the inspection check afterwards.

Our quality control team conducts pre-shipment inspection for ensuring that incoming goods are manufactured to an acceptable product quality level, making sure that the goods can comply with our internal policy and procedures before our goods acceptance. The inspections are carried out according to MIL-STD-105 standard with level II adopted as our inspection level. We also adopt a rigorous quality acceptance standard to reduce the chance of receiving defective goods which may be dangerous for consumers or result in a hazardous or unsafe condition for the environment. Normally, checking points can range from product safety, product appearance, product basic function to shipping marks.

To ensure product quality in the long run, damaged goods reports are prepared to record any cases of damaged goods and return items. Monthly meeting is held by merchandising and sales team to review those cases, and then the team follows up with suppliers with the defect rates above industry's average level.

Data Protection and Privacy

We are committed to protecting data privacy. We act in accordance with applicable data privacy laws that have a significant impact on us when collecting and using personal information provided to us, including but not limited to, "Personal Data (Privacy) Ordinance" in Hong Kong.

Our privacy policy is uploaded to our website which sets out the policies and practices in the collection, use, sharing and protection of customers' personal information. Any updates or changes in the policy will be uploaded on the website promptly.

We take reasonable precautions to ensure that personal information of our customers remains confidential and we have reasonable security procedures regarding the storage and disclosure of personal information of our customers.

We have adequate measures to protect customers' personal information from accidental loss or destruction. We also require our service providers to use personal information of our customers on a confidential basis during the process of providing the specified services to us, and to comply with this privacy policy and applicable legislation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Intellectual Property Rights

We have registered our trademarks which are important to our business. We regularly monitor the control measures to ascertain whether our trademarks are being infringed. We are committed to protecting intellectual property rights which we handle with great care during our daily operations.

Anti-corruption

We comply with all relevant laws and regulations with regard to anti-corruption in Hong Kong and the PRC which have significant impacts on us, including but not limited to, the "Prevention of Bribery Ordinance" in Hong Kong, the "Criminal Law of the People's Republic of China (中華人民共和國刑法)", the "Anti-Money Laundering Law of the People's Republic of China (中華人民共和國反洗錢法)" in the PRC, and the "Articles 234–239 of Federal Law No. 3/1987" ("Penal Code") in the UAE.

We regard honesty, integrity and fair play as our core values that must be upheld by all Directors and staff at all times. Our "Code of Conduct" (the "Code") lays out the basic standard of conduct expected of all Directors and staff, and the policy on acceptance of advantage and handling of conflict of interests when dealing with our business. Moreover, we prohibit all forms of bribery and corruption. All Directors and staff are prohibited from soliciting, accepting or offering any bribe in conducting the business affairs, whether in Hong Kong or elsewhere.

Any Director or staff member in breach of the Code will be subject to disciplinary action, including termination of appointment. Any enquiries about the Code or reports of possible breaches of the Code should be made to the Head of Human Resources. In case of suspected corruption or other criminal offences, a report shall be made by the Group to the appropriate authority.

The above guidelines have been communicated to all staff, and the company culture composing of openness, accountability and integrity among all Directors and employees has been developed. During the Reporting Period, no concluded legal cases regarding corrupt practices were brought against the Group or our employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Community Investment

With dedication and commitment, we have the responsibility to make the community a better place for everyone which will also provide long-lasting benefits to our stakeholders. Beyond the operating realms, we are willing to outreach to our community by supporting local charitable organisations. During the Reporting Period, we donated approximately HK$16,500 to mainly support non-governmental organisations as mentioned below.

Preserving Planet

We have sponsored a charitable organisation which has organised cleanup events participated by over 350,000 volunteers to clean up over 70 million pieces of trash in Hong Kong. The charitable organisation has set up a scheme to manage waste in Asia Pacific area, enabling waste reduction through the sale of carbon credits.

Supporting Homeless

We concern about the pressing problem of the homeless in Hong Kong. Therefore, we aim to offer kindness, friendship and connection with the society. In this respect, we have sponsored a registered non-governmental organisation to help the homeless by handing out food and daily necessities.

Awards List

Awards	Organisers
Home Decor Store of the Year 2018	that's Shanghai magazine
Award for Outstanding Hospitality Design	that's Shanghai magazine
Gold – Favourite Interior Designer or Home Stylist	Expat Living Hong Kong
Gold – Favourite Home Accessories	Expat Living Hong Kong
Gold – Favourite Living Room Furniture	Expat Living Hong Kong
Gold – Favourite Bedroom Furniture	Expat Living Hong Kong
Gold – Favourite Kids' Furniture Store	Expat Living Hong Kong
Gold – Best Store for Lighting	Expat Living Hong Kong
Bronze – Favourite Carpet and Rugs	Expat Living Hong Kong
Quality Tourism Services (QTS) Scheme-accredited Shops	Hong Kong Tourism Board

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

HKEX Environmental, Social and Governance Guide Content Index

Aspect	Description	Chapter
A. Environmental		
A1 Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	*Environmental Compliance*
KPI A1.1	The types of emissions and respective emissions data.	*Air Emissions*
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	*Greenhouse Gas Emissions*
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	*(Not applicable)*[4]
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	*Waste Management*
KPI A1.5	Description of measures to mitigate emissions and results achieved.	*Energy Efficiency*[5]
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	*Waste Management*

4 Hazardous waste produced is minimal in our businesses.

5 As it is our first ESG Report with KPI on emissions; thus, no data is available regarding the results achieved by implementing measures to mitigate emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect	Description	Chapter
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	*Use of Resources, Energy Efficiency, Water Usage*
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	*Energy Efficiency*
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	*(Not material)*[6]
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	*Energy Efficiency*[7]
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	*Water Usage*
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	*Packaging*
A3 The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	*Environment and Natural Resources*
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	

6 Our operation does not involve consumption of water in significant quantities. Therefore, we are not disclosing on this figure.

7 As it is our first ESG Report with KPI on electricity consumption; thus, no data is available regarding the results achieved by implementing energy use efficiency initiatives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect	Description	Chapter
B. Social		
B1 Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	*Employment and labour practices*
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	*Employment and labour practices*
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	–
B2 Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	*Health and Safety*
KPI B2.1	Number and rate of work-related fatalities.	*Health and Safety*
KPI B2.2	Lost days due to work injury.	*Health and Safety*
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	*Health and Safety*
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	*Development and Training*
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	–
KPI B3.2	The average training hours completed per employee by gender and employee category.	–

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect	Description	Chapter
B4 Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	*Labour Standards*
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	*Labour Standards*
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	*Labour Standards*
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	*Supply Chain Management*
KPI B5.1	Number of suppliers by geographical region.	–
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	–
B6 Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	*Quality Assurance, Advertising and Labelling, Data Protection and Privacy, Customer Protection*
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	*Complaint Handling*
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	–
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	*Intellectual Property Right*
KPI B6.4	Description of quality assurance process and recall procedures.	*Quality Assurance*
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	*Data Protection and Privacy*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect	Description	Chapter
B7 Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	*Anti-corruption*
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	*Anti-corruption*
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	*Anti-corruption*
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	*Community Investment*
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	*Community Investment*
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	*Community Investment*

INDEPENDENT AUDITOR'S REPORT

bakertilly
天職國際

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PACIFIC LEGEND GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Pacific Legend Group Limited and its subsidiaries (together the "Group") set out on pages 83 to 165, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Key Audit Matter	How the matter was addressed in our audit
Inventory provision ***Refer to note 12 to the audited consolidated financial statements***	
At 31 December 2018, the Group had inventories of HK\$44,570,000 (2017: HK\$43,212,000) against which a provision of HK\$3,078,000 (2017: HK\$2,523,000) was made. Inventory provision requires management to make significant accounting estimates and judgements. These include identification of damaged, slow moving and obsolete inventories and assessing the level of allowance required by estimating the net realisable value of inventories, which is the actual or estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. We focused on this area because of the magnitude of inventories and the estimation of the net realisable value of inventories involved a high level of management judgement. These estimations are also subject to uncertainty as a result of change of competitor actions and market condition.	Our audit procedures in this area included: • assessing the reasonableness of the basis used by management in identifying damaged, slow moving and obsolete inventories; • attending the year end inventory counts to observe the physical conditions of inventories and identify damaged or obsolete inventories; • testing the accuracy of the inventory ageing report, on a sample basis, by checking to the purchase source documents; • testing the net realisable value of inventory items, on a sample basis, to the actual selling price subsequent to the year end; and • evaluating the appropriateness of management's assessment on the estimated future utilisation of inventory items having no subsequent sales with reference to their ageing.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

The Key Audit Matter	How the matter was addressed in our audit
Impairment of trade receivables ***Refer to note 15 to the audited consolidated financial statements***	
At 31 December 2018, the Group's trade receivables amounted to HK$23,172,000 (2017: HK$12,981,000) with an allowance for doubtful debts of HK$450,000 (2017: HK$829,000). Loss allowances for trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. We focused on this area because of assessment of the recoverability of trade receivables and recognition of loss allowance are inherently subjective and requires significant management judgement.	Our audit procedures in this area included: • assessing, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant sales invoices; • considering the appropriateness of the loss allowance recorded against trade receivables and the appropriateness of the Group's loss allowance, with reference to the ageing of trade receivable balances, economic conditions, concentration of counterparty risk and the past history of debt recovery; and • reviewing subsequent settlement records and challenging management regarding their reasons for not considering a provision against any unsettled past-due balances.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

The Key Audit Matter | **How the matter was addressed in our audit**

Recognition of revenue from project contracts

Refer to notes 2(p)(ii) and 13 to the audited consolidated financial statements

Revenue from project contracts is recognised progressively over time using the output method, based on direct measurement of the value of the project contract work performed, provided that the value of project contract work performed can be measured reliably.

We identified recognition of revenue from project contracts as a key audit matter because the stage of project completion is measured by reference to the value of work carried out to date to the total project contract value including variations in project contract work which involve management's best estimates and judgement.

Our audit procedures in this area included:

- comparing, on a sample basis, revenue transactions recorded during the year with the underlying contracts and variation orders (if any), progress reports, photographs of completed projects, invoices and bank-in slips for settled balances and assessing the business substance of the underlying transactions and whether the related revenue had been recognised in accordance with the Group's revenue recognition policies;

- obtaining confirmations, on a sample basis, from major customers of the Group to confirm revenue recognised during the year and, for unreturned confirmations, performing alternative procedures by comparing details with project contracts, bank-in slips and other underlying project related documentation;

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

The Key Audit Matter	How the matter was addressed in our audit
Recognition of revenue from project contracts ***Refer to notes 2(p)(ii) and 13 to the audited consolidated financial statements***	
	• conducting site visits, on sample basis, to projects in progress as at the year end, physically inspecting the stage of completion and discussing with the Group management and project managers the physical status of the projects in progress; and • checking calculation of stage of completion, on a sampling basis, and performing comparisons between the percentage of completion and the percentage of progress billing on project contracts to identify and investigate any significant differences.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of directors and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditor's report is Chan Kwan Ho, Edmond.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 11 March 2019
Chan Kwan Ho, Edmond
Practising certificate number P02092

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Hong Kong dollars)

	Note	**2018**	2017
		HK$'000	*HK$'000*
Revenue	4	**278,103**	278,628
Cost of sales		**(112,775)**	(116,733)
Gross profit		**165,328**	161,895
Other income and gains	5	**3,071**	899
Selling and distribution costs		**(58,263)**	(53,331)
Administrative and other operating expenses		**(114,974)**	(97,947)
Listing expenses		**(12,105)**	(6,556)
(Loss)/profit from operations		**(16,943)**	4,960
Finance costs	6(a)	**(128)**	–
(Loss)/profit before taxation	6	**(17,071)**	4,960
Income tax expense	7	**(297)**	(1,837)
(Loss)/profit for the year attributable to equity shareholders of the Company		**(17,368)**	3,123
Other comprehensive 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		**27**	720
Total comprehensive (loss)/income for the year attributable to equity shareholders of the Company		**(17,341)**	3,843
		HK cents	HK cents
(Loss)/earnings per share			
Basic and diluted	9	**(2.01)**	0.42

The notes on pages 89 to 165 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

(Expressed in Hong Kong dollars)

	Note	**2018**	2017
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment	10	**11,250**	8,568
Finance lease receivables	11	**681**	764
		11,931	9,332
Current assets			
Inventories	12	**44,570**	43,212
Contract assets	13	**9,872**	–
Amounts due from customers for contract work	14	**–**	4,455
Trade and other receivables	15	**59,933**	44,126
Current portion of finance lease receivables	11	**2,385**	2,673
Amount due from a director	16	**–**	1,603
Pledged bank deposits		**3,000**	5,164
Cash and cash equivalents		**70,214**	45,882
Tax recoverable		**275**	–
		190,249	147,115
Current liabilities			
Trade and other payables	17	**27,999**	40,656
Contract liabilities	13	**23,260**	–
Amounts due to customers for contract work	14	**–**	3,647
Amount due to a related company	18	**250**	213
Short term bank loans	19	**5,030**	–
Tax payable		**–**	2,127
		56,539	46,643
Net current assets		**133,710**	100,472
Total assets less current liabilities		**145,641**	109,804

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2018

(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Provisions	20	**8,045**	6,987
NET ASSETS		**137,596**	102,817
Capital and reserves			
Share capital	22	**10,000**	779
Reserves		**127,596**	102,038
TOTAL EQUITY		**137,596**	102,817

Approved and authorised for issue by the board of directors on 11 March 2019

John Warren McLennan
Director

Tracy-Ann Fitzpatrick
Director

The notes on pages 89 to 165 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Hong Kong dollars)

	Share capital *HK$'000*	Share premium *HK$'000* *(note 22 (c)(i))*	Share option reserve *HK$'000* *(note 22 (c)(ii))*	Exchange reserve *HK$'000* *(note 22 (c)(iii))*	Other reserve *HK$'000* *(note 22 (c)(iv))*	Accumulated profits *HK$'000*	Total *HK$'000*
Balance at 1 January 2017	789	–	–	(592)	–	98,777	98,974
Profit for the year	–	–	–	–	–	3,123	3,123
Other comprehensive income	–	–	–	720	–	–	720
Total comprehensive income for the year	–	–	–	720	–	3,123	3,843
Effect of reorganisation	(10)	–	–	–	10	–	–
Balance at 31 December 2017	779	–	–	128	10	101,900	102,817
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(17,368)**	**(17,368)**
Other comprehensive income	**–**	**–**	**–**	**27**	**–**	**–**	**27**
Total comprehensive loss for the year	**–**	**–**	**–**	**27**	**–**	**(17,368)**	**(17,341)**
Interim dividends paid *(note 22(b))*	**–**	**–**	**–**	**–**	**–**	**(26,250)**	**(26,250)**
Effect of reorganisation	**(779)**	**–**	**–**	**–**	**779**	**–**	**–**
Issue of new shares	**2,500**	**82,500**	**–**	**–**	**–**	**–**	**85,000**
Capitalisation issue *(note 22(a))*	**7,500**	**(7,500)**	**–**	**–**	**–**	**–**	**–**
Expenses attributable to issue of new shares	**–**	**(7,864)**	**–**	**–**	**–**	**–**	**(7,864)**
Equity settled share-based payments transaction	**–**	**–**	**1,234**	**–**	**–**	**–**	**1,234**
Balance at 31 December 2018	**10,000**	**67,136**	**1,234**	**155**	**789**	**58,282**	**137,596**

The notes on pages 89 to 165 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Hong Kong dollars)

	Note	**2018**	2017
		HK$'000	*HK$'000*
Operating activities			
(Loss)/profit before taxation		**(17,071)**	4,960
Adjustments for:			
– Bank interest income	5	**(41)**	(15)
– Finance costs	6(a)	**128**	–
– Allowance for doubtful debts	6(c)	**109**	679
– Bad debts written off	6(c)	**144**	64
– Depreciation	6(c)	**7,089**	7,810
– Gain on disposals of property, plant and equipment	5	**–**	(141)
– Provision for inventories		**1,877**	1,419
– Share-based payments		**1,234**	–
– Exchange realignment		**(117)**	484
Operating (loss)/profit before changes in working capital		**(6,648)**	15,260
Decrease in finance lease receivables		**371**	748
Increase in inventories		**(3,235)**	(2,742)
Increase in trade and other receivables		**(16,060)**	(2,924)
Increase in contract assets		**(5,417)**	–
Decrease in amounts due from customers for contract work		**–**	4,759
Decrease/(increase) in amount due from a director		**1,603**	(1,167)
Decrease in trade and other payables		**(12,657)**	(6,983)
Increase in contract liabilities		**19,613**	–
Increase in amounts due to customers for contract work		**–**	3,543
Increase in amount due to a related company		**37**	14
Increase in provisions		**1,058**	289
Cash (used in)/generated from operations		**(21,335)**	10,797

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

(Expressed in Hong Kong dollars)

	Note	2018 *HK$'000*	2017 *HK$'000*
Income tax paid		**(2,644)**	(817)
Net cash (used in)/generated from operating activities		**(23,979)**	9,980
Investing activities			
Purchase of property, plant and equipment		**(9,813)**	(5,925)
Proceeds from disposals of property, plant and equipment		**–**	151
Bank interest received		**41**	15
Decrease/(increase) in pledged bank deposits		**2,164**	(2,066)
Net cash used in investing activities		**(7,608)**	(7,825)
Financing activities			
Proceeds from new bank loans	23	**8,875**	–
Repayments of bank loans	23	**(3,845)**	–
Interim dividends paid		**(26,250)**	–
Finance costs		**(128)**	–
Proceeds from issue of new shares		**85,000**	–
Transaction costs attributable to issue of new shares		**(7,864)**	–
Net cash generated from financing activities		**55,788**	–
Net increase in cash and cash equivalents		**24,201**	2,155
Cash and cash equivalents at 1 January		**45,882**	43,607
Effect of foreign exchange rate changes		**131**	120
Cash and cash equivalents at 31 December		**70,214**	45,882

The notes on pages 89 to 165 form part of these consolidated financial statements.

NOTES TO THE 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") on 18 July 2018.

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.

Pursuant to a reorganisation of the Group (the "Reorganisation") which was completed in May 2018 to rationalise the corporate structure in preparation for the listing of the Company's shares on GEM of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 29 June 2018.

The above-mentioned principal activities of the Group were carried out by Pacific Legend Development Limited ("Pacific Legend Development") and Deep Blue Living Limited ("Deep Blue") and their subsidiaries. The companies now comprising the Group were under the common control of Mr. John Warren McLennan ("Mr. McLennan"), Ms. Alison Siobhan Bailey, Mr. James Seymour Dickson Leach, Mr. John Martin Rinderknecht and Ms. Tracy-Ann Fitzpatrick ("Ms. Fitzpatrick") as the Controlling Shareholders before and after the Reorganisation. As the control is not transitory and, consequently, there was a continuation of risks and benefits to the Controlling Shareholders, the Reorganisation is considered to be a restructuring of entities under common control. The financial information before the completion of the Reorganisation has been prepared using the merger basis of accounting as if the Group has always been in existence.

The consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group include the results of operations of the Company and its subsidiaries for 2017 as if the Reorganisation was completed at 1 January 2017. The consolidated statement of financial position of the Group as at 31 December 2017 has been prepared to present the financial position of the Company and its subsidiaries as if the companies now comprising the Group had been consolidated as at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL (CONTINUED)

At 31 December 2018, the directors consider the immediate and ultimate holding company to be Double Lions Limited ("Double Lions"), which is incorporated in the British Virgin Islands (the "BVI").

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of consolidated financial statements

The measurement basis used in the preparation of the consolidated financial statements is the historical cost.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's consolidated financial statements:

- HKFRS 9 "Financial Instruments"
- HKFRS 15 "Revenue from Contracts with Customers"

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. Therefore, comparative information continues to the reported under HKAS 39.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. The Group has assessed that its financial assets measured at amortised cost at 31 December 2017 continue with their classification and measurement upon the adoption of HKFRS 9 on 1 January 2018.

The classification and measurement requirements for the financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at fair value through profit or loss that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group does not have any financial liabilities designated at fair value through profit or loss and therefore this new requirement has no impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

HKFRS 9 "Financial Instruments" (Continued)

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (the "ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" model in HKAS 39. Further details on the Group's accounting policy for accounting for credit losses are set out in note 2(f)(i).

The Group has assessed that the application of the ECL to the financial assets existed at 1 January 2018 has had no significant impact on the Group's financial position as at 1 January 2018 and its financial results for the year then ended.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 "Revenue" which covered revenue arising from sale of goods and rendering of services, and HKAS 11 "Construction Contracts" which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method to recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information continues to be reported under HKASs 11 and 18. As followed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018. The adoption of HKFRS 15 has no material impact on the opening balance of equity at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from project contracts was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised goods or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised goods or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; and

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that goods or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from project contracts and sale of goods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

HKFRS 15 "Revenue from Contracts with Customers" (Continued)

(ii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2(p)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 2(h)).

Previously, contract balances relating to project contracts in progress were presented in the consolidated statement of financial position under "Amounts due from customers for contract work" or "Amounts due to customers for contract work" respectively.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

– "Amounts due from customers for contract work" (note 14) amounting to HK$4,455,000, is now included under contract assets (note 13(a)); and

– "Amounts due to customers for contract work" (note 14) and "Deposits received" under "Trade and other payables" (note 17) amounting to HK$3,647,000 and HK$13,109,000, respectively, are now included under contract liabilities (note 13(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

In the Company's statement of financial position, an investment in a subsidiary is stated as cost less impairment losses (see note 2(f)(ii)).

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(f)(ii)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Decoration and fittings	Over the shorter of the unexpired term of lease or 20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%
Furniture for rental	100%

Both the useful life of an asset and its residual value, if any, are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (Continued)

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(f) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (the "ECLs") on the following items:

– financial assets measured at amortised cost (including pledged bank deposits, cash and cash equivalents, trade and other receivables);

– finance lease receivables; and

– contract assets as defined in HKFRS 15 (see note 2(h)).

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the original effective interest rate where the effect of discounting is material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

Loss allowances for trade receivables, finance lease receivables and contract assets are always measured at an amount equal to lifetime ECLs which result from possible default events over the expected lives of these financial assets. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the end of the reporting period.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs. The 12-month ECLs are losses that are expected to result from possible default events within 12 months after the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the end of the reporting period with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

ECLs are remeasured at the end of each reporting period to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Interest income recognised in accordance with note 2(p)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At the end of each reporting period, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on current and non-current receivables that are stated at cost or amortised cost (such as finance lease and trade receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

If any such evidence existed, an impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

– *Reversal of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior year. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(h) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(p)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in note 2(f)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(i)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Contract assets and contract liabilities (Continued)

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(p)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(i)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(p)).

Policy prior to 1 January 2018

In the comparative period, contract balances were recorded for project contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented as the "Amounts due from customers for contract work" (as an asset) or the "Amounts due to customers for contract work" (as a liability), as applicable, respectively on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "Trade and other receivables". Amounts received before the related work was performed were presented as "Deposits received" under "Trade and other payables". These balances have been reclassified on 1 January 2018 as shown in note 17 (see note 2(c)(ii)).

(i) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(h)).

Receivables are stated at amortised cost using the effective interest method, less allowance for credit losses (see note 2(f)(i)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the accounting policy set out in note 2(f)(i).

(k) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting could be immaterial, in which case they are stated at cost.

(l) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(t)).

(m) Share-based payments

The Company operates a share option scheme under which the Group receives services or goods from its directors, employees and other eligible persons as consideration for share options of the Company granted to them. The fair value of the services or goods received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share options, which is measured at grant date using the binomial tree model, taking into account the terms and conditions upon which the share options were granted. Where the grantees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the share options will vest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Share-based payments (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the share option is exercised (when it is transferred to the share premium account) or the share option expires (when it is released directly to accumulated profits).

(n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous year.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reserve in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax (Continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

– the same taxable entity; or

– different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economics benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other revenue recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sale of goods was recognised when the goods were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue and other income (Continued)

(ii) Project contract

When the outcome of a project contract can be reasonably measured, revenue from the contract is recognised progressively over time using the output method, based on direct measurement of the value of project contract work performed, provided that the value of project contract work performed can be measured reliably. The value of project contract work performed is measured according to the completion of specific detailed components as set out in the project contract. Variations in project contract work are recognised as project contract revenue to the extent that the modification has been approved by the parties to the project contracts and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the project contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

Revenue from project contracts was recognised on a similar basis in the comparative period under HKAS 11.

(iii) Rental income from operating leases

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

(iv) Income from franchising

Franchise income is recognised over time in accordance with the terms of franchise agreements. Income from provision of services to franchisees is recognised at a point in time when services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue and other income (Continued)

(v) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the financial asset (see note 2(f)(i)).

(q) Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in finance leases. Finance leases income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfils certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their services. The long service payment liabilities are the present values of long service payment obligations less the entitlements accrued under the Group's defined contribution retirement benefit plans that is attributable to contributions made by the Group. Increase in provision for or reversal of provision for long service payment is charged or credited to profit or loss in the period in which it arises.

Payments to the state-managed retirement benefit schemes for staff in The People's Republic of China (excluding Hong Kong and Macao, the "PRC") and to the Mandatory Provident Fund Scheme for staff in Hong Kong are defined contribution retirement benefit payments and are recognised as expense when employee have rendered services entitling them to contribution.

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity (see note 2(m)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollar at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollar at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control of the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies: (Continued)

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are set out below.

(a) Revenue recognition on project contracts

As explained in policy note 2(p)(ii), revenue from project contracts is recognised over time. The revenue and profit recognition on uncompleted projects are dependent on estimating the total outcome of the project contract, as well as the work done to date. Based on the Group's recent experience and the nature of the activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the project contract can be reasonably measured. Until this point is reached the related contract assets disclosed in note 13 do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date. In prior years, revenue from project contracts was subject to such estimation uncertainty.

(b) Useful lives of property, plant and equipment and depreciation

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment, after taking into account the estimated residual value, if any. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(c) Impairments

In considering the impairment loss that may be required for certain property, plant and equipment, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of its fair value less costs of disposal and the value in use. It is difficult to precisely estimate its fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs.

The Group's management determines the provision for impairment of financial assets (including finance lease receivables, trade and other receivables and bank balances) on a forward-looking basis. Lifetime ECLs are recognised on finance lease receivables and trade receivables using a provision matrix, which is determined based on the Group's credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the end of each reporting period. Other financial assets are considered 12-month ECLs. In making the judgement, management considers available reasonable and supportive forwarding-looking information such as actual or expected significant changes in the operating results of debtors, actual or expected significant adverse changes in business and debtors' financial position. At the end of each reporting period the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

An increase or decrease in the above impairment loss would affect profit or loss in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(d) Inventory provision

The Group performs regular review of the carrying amounts of inventories with reference to ageing analyses of the Group's inventories, projections of expected future saleability of goods based on management experience and judgement. Based on this review, write down of inventories is made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in technological, market and economic environment and customers' preference, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(e) Income taxes

The Group is subject to income taxes in Hong Kong and various jurisdictions. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on its estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the taxation expense and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future profit will be available against which the deductible temporary differences can be utilised, management's judgement is required to assess the probability of future taxable profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(f) Provisions for long service payments and employees' end-of-service benefits

As explained in notes 20(a) and 20(b), the Group makes provisions for long service payments and employees' end-of-service benefits in accordance with the requirements of the Hong Kong Employment Ordinance and labour laws of the United Arab Emirates ("UAE") respectively. The Group has based the estimation on its recent employee statistics and adopted certain assumptions in assessing the provisions for long service payments and employees' end-of-service benefits. It is possible that these assumptions adopted by the Group in assessing the provisions for long service payments and employees' end-of-service benefits may not be indicative of the future situation. Any increase or decrease in the provisions would affect profit or loss in future years.

(g) Provisions for reinstatement costs for rented premises

As explained in note 20(c), the Group makes provision for reinstatement costs based on the best estimate of the expected costs to be incurred upon expiry of the relevant rental agreements, which are subject to uncertainty and might differ from the actual costs incurred. Any increase or decrease in the provision would affect profit or loss in future years.

(h) Subsidiary

As set out in note 28(i), the Group is the legal owner of 49% of the issued share capital of Indigo Living L.L.C. ("Indigo Dubai") and has control over it. The Group is entitled to share 80% of Indigo Dubai's profit or loss under the notarised memorandum of association of Indigo Dubai, and the remaining 20% under the contractual arrangements. However, due to the foreign ownership restriction under the UAE law, the relevant contractual arrangements could be unilaterally challenged before a UAE court. So far, the Group has not encountered any interference or encumbrance from any governing bodies in the UAE because of those contractual arrangements. Based upon the view of the Group's UAE legal adviser, the directors believe that the relevant contractual arrangements are enforceable under the relevant laws and regulations in the UAE. Accordingly, Indigo Dubai has been accounted for as a wholly-owned subsidiary of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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. The Group's most senior executive management does not evaluate operating segment using assets and labilities 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.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2018

	Sale of home furniture and accessories *HK$'000*	Rental of home furniture and accessories *HK$'000*	Project and hospitality services *HK$'000*	Total *HK$'000*
Segment revenue – external customers	191,335	23,145	63,623	278,103
Segment results	118,024	18,575	28,729	165,328
Other income and gains				3,071
Selling and distribution costs				(58,263)
Administrative and other operating expenses				(114,974)
Listing expenses				(12,105)
Finance costs				(128)
Loss before taxation				(17,071)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2017

	Sale of home furniture and accessories *HK$'000*	Rental of home furniture and accessories *HK$'000*	Project and hospitality services *HK$'000*	Total *HK$'000*
Segment revenue – external customers	190,497	28,280	59,851	278,628
Segment results	118,364	22,503	21,028	161,895
Other income and gains				899
Selling and distribution costs				(53,331)
Administrative and other operating expenses				(97,947)
Listing expenses				(6,556)
Profit before taxation				4,960

There was no inter-segment revenue for years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information

Revenue from external customers

	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**194,375**	182,695
UAE	**46,888**	58,230
PRC	**36,840**	37,703
	278,103	278,628

The above revenue information is based on the locations of the customers.

Non-current assets

	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**8,209**	6,526
UAE	**3,091**	1,579
PRC	**631**	1,227
	11,931	9,332

The above non-current asset information is based on the locations of the assets.

Information about major customers

One single customer contributed 10% or more of the Group's revenue for the year ended 31 December 2018. Revenue from sale of home furniture and accessories, rental of home furniture and accessories and project and hospitality services for this customer amounted to HK$42,906,000.

There was no single customer contributed 10% or more of the Group's revenue for the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Revenue expected to be recognised in the future arising from project contracts with customers in existence at the end of the reporting period

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its project contracts such that the Group does not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the project contracts as all project contract works have an original expected duration of one year or less.

5. OTHER INCOME AND GAINS

	2018	2017
	HK$'000	*HK$'000*
Bank interest income	**41**	15
Gain on disposals of property, plant and equipment	**–**	141
Interest income from finance leases	**242**	249
Net exchange gains	**20**	–
Income from franchising	**1,060**	195
Reversal of allowance for doubtful debts	**351**	–
Reversal of long outstanding trade payables	**884**	–
Sundry income	**473**	299
	3,071	899

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation has been arrived at after charging:

		2018 *HK$'000*	2017 *HK$'000*
(a)	Finance costs:		
	Interest on short-term bank loans	**128**	–
(b)	Staff costs:		
	Salaries, allowances and commissions	**73,219**	65,761
	Share-based payment expenses	**1,234**	–
	Retirement benefits scheme contributions	**3,345**	2,310
		77,798	68,071
(c)	Other items:		
	Auditors' remuneration	**1,019**	614
	Allowance for doubtful debts	**109**	679
	Bad debts written off	**144**	64
	Cost of inventories recognised as expense	**109,481**	112,426
	Depreciation	**7,089**	7,810
	Net exchange loss	**–**	166
	Operating lease rentals in respect of rented premises		
	– Minimum lease payments	**35,959**	32,505
	– Contingent rent	**214**	283

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAX EXPENSE

(a) Taxation in consolidated statement of profit or loss and other comprehensive income

	2018	2017
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
– current year provision	354	1,837
– over-provision in respect of prior year	(70)	–
PRC Enterprise Income Tax	13	–
	297	1,837

The Group is not subject to any income tax in the Cayman Islands, the BVI and UAE pursuant to the rules and regulations in those jurisdictions.

The provision for Hong Kong Profits Tax for 2018 is calculated at 8.25% (2017: 16.5%) of the first HK$2,000,000 and 16.5% (2017: 16.5%) of the remaining estimated assessable profit for the year.

PRC Enterprise Income Tax is calculated at 25% (2017: 25%) of the estimated assessable profits in accordance with relevant rules and regulations in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAX EXPENSE (CONTINUED)

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates

	2018	2017
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(17,071)**	4,960
Notional tax at applicable tax rates at respective jurisdictions	**(2,025)**	298
Tax effect of non-taxable income	**(17)**	(24)
Tax effect of non-deductible expenses	**2,392**	1,127
Tax effect of temporary differences not recognised	**100**	246
Tax effect on unused tax losses not recognised	**23**	694
Tax effect of utilisation of previously unrecognised tax loss	**(106)**	(504)
Over-provision in respect of prior year	**(70)**	–
Actual tax expense	**297**	1,837

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAX EXPENSE (CONTINUED)

(c) Deferred taxation

No provision for deferred tax liabilities has been made as there were no material temporary differences as at 31 December 2018 (2017: Nil).

Under the PRC tax law, withholding tax is imposed on dividends declared in respect of the profits earned by the PRC subsidiaries. At 31 December 2018, no deferred tax liabilities have been provided for in respect of the temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$1,432,000 (2017: HK$1,429,000) as the Group is in a position to control the dividend policies of the PRC subsidiaries and no distribution of such profit is expected to be declared from the PRC subsidiaries in the foreseeable future.

At 31 December 2018, the Group has unused tax losses arising in Hong Kong of approximately HK$606,000 (2017: HK$467,000), that are available indefinitely for offsetting against future taxable profits of the group company in which the losses arose. The Group also has tax losses arising in the PRC of approximately HK$7,492,000 (2017: HK$7,908,000), that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to section 383 of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2018

	Fees	Salaries and other allowances	Discretionary bonus	Retirement benefit scheme contributions	Share-based payments expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Mr. McLennan	–	1,864	555	18	–	2,437
Ms. Fitzpatrick	–	2,104	1,010	18	–	3,132
Ms. Mok Lai Yin, Fiona (Ms. Mok)	–	1,773	560	18	272	2,623
Non- executive director						
Mrs. Jennifer Carver McLennan	32	–	–	–	–	32
Independent Non-executive directors						
Ms. Elaine June Cheung	32	–	–	–	–	32
Mr. Roderick Donald Nichol	32	–	–	–	–	32
Ms. Li Yan Yan	32	–	–	–	–	32
Total	128	5,741	2,125	54	272	8,320

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

Year ended 31 December 2017

	Fees	Salaries and other allowances	Discretionary bonus	Retirement benefit scheme contributions	Share-based payments expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Mr. McLennan	–	1,777	443	18	–	2,238
Ms. Fitzpatrick	–	2,024	388	18	–	2,430
Ms. Mok	–	1,415	744	18	–	2,177
Total	–	5,216	1,575	54	–	6,845

During the years ended 31 December 2018 and 2017, no remuneration was paid by the Group to the directors or any of the highest paid individuals, as set out in (b) below, as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during the year ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees' emoluments

The five highest paid individuals included Mr. McLennan, Ms. Fitzpatrick and Ms. Mok for the years ended 31 December 2018 and 2017 whose emoluments are included in the disclosures in (a). The emoluments of the remaining two individuals for the years ended 31 December 2018 and 2017 were as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Salaries and other allowances	**2,904**	2,752
Discretionary bonus	**181**	163
Share-based payment expenses	**215**	–
Retirement benefit scheme contributions	**222**	36
Total emoluments	**3,522**	2,951

Their emoluments were within the following bands:

	2018 **Number of employees**	2017 Number of employees
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**2**	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the loss for the year attributable to equity shareholders of the Company of HK$17,368,000 (2017: profit of HK$3,123,000) and the weighted average of 865,068,493 (2017: 750,000,000) ordinary shares in issue.

The weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share has been determined on the assumption that the Reorganisation (see note 1) and the Capitalisation issue (see note 22(a)) had been effective on 1 January 2017.

No diluted (loss)/earnings per share for the years ended 31 December 2018 and 2017 was presented as there were no dilutive potential ordinary shares in issue during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. PROPERTY, PLANT AND EQUIPMENT

	Decoration and fittings	Furniture and fixtures	Office equipment	Motor vehicles	Furniture for rental	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost:						
At 1 January 2017	23,112	2,094	12,697	1,837	20,686	60,426
Additions	707	329	580	916	3,393	5,925
Disposals	–	–	–	(412)	–	(412)
Write-off	–	–	(1)	–	(3,189)	(3,190)
Exchange realignment	276	13	41	9	68	407
At 31 December 2017 and 1 January 2018	**24,095**	**2,436**	**13,317**	**2,350**	**20,958**	**63,156**
Additions	**4,978**	**341**	**1,171**	**–**	**3,323**	**9,813**
Disposals	**–**	**–**	**–**	**(355)**	**–**	**(355)**
Write-off	**–**	**–**	**–**	**–**	**(4,490)**	**(4,490)**
Exchange realignment	**(174)**	**(7)**	**(22)**	**3**	**(7)**	**(207)**
At 31 December 2018	**28,899**	**2,770**	**14,466**	**1,998**	**19,784**	**67,917**
Accumulated depreciation and impairment loss:						
At 1 January 2017	19,496	1,673	8,975	1,645	18,289	50,078
Charge for the year	1,959	192	1,176	176	4,307	7,810
Written back on disposals	–	–	–	(402)	–	(402)
Written back on write-off	–	–	(1)	–	(3,189)	(3,190)
Exchange realignment	188	8	26	8	62	292
At 31 December 2017 and 1 January 2018	**21,643**	**1,873**	**10,176**	**1,427**	**19,469**	**54,588**
Charge for the year	**2,047**	**229**	**1,251**	**268**	**3,294**	**7,089**
Written back on disposals	**–**	**–**	**–**	**(355)**	**–**	**(355)**
Written back on write-off	**–**	**–**	**–**	**–**	**(4,490)**	**(4,490)**
Exchange realignment	**(144)**	**(2)**	**(14)**	**2**	**(7)**	**(165)**
At 31 December 2018	**23,546**	**2,100**	**11,413**	**1,342**	**18,266**	**56,667**
Carrying amount:						
At 31 December 2018	**5,353**	**670**	**3,053**	**656**	**1,518**	**11,250**
At 31 December 2017	2,452	563	3,141	923	1,489	8,568

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Items of furniture held for rental are leased out under operating leases. The leases typically run for an initial period of 2 years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The Group's total future minimum lease payments receivable under non-cancellable operating leases is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**3,965**	4,238
After one year but within five years	**598**	261
	4,563	4,499

11. FINANCE LEASE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Current finance lease receivables	**2,385**	2,673
Non-current finance lease receivables	**681**	764
	3,066	3,437

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. FINANCE LEASE RECEIVABLES (CONTINUED)

The total minimum lease payments receivables under finance leases and their present values are as follows:

	Minimum lease payments receivable		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**2,528**	2,861	**2,385**	2,673
Later than one year and not later than five years	**729**	877	**681**	764
	3,257	3,738	**3,066**	3,437
Unearned interest income	**(191)**	(301)	**–**	–
Present value of minimum lease payments receivable	**3,066**	3,437	**3,066**	3,437

Certain items of furniture are leased out under finance leases. The terms of finance leases range from 12 months to 36 months. The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rates are 5% and 10.25% per annum.

Finance lease receivables are secured over the furniture leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee. The finance lease receivables as at 31 December 2018 and 2017 are neither past due nor impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Merchandise goods	**44,570**	43,212

The analysis of the amount of inventories recognised as an expense is as follows:

	2018	2017
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**107,604**	111,007
Provision for write-down of inventories	**1,877**	1,419
	109,481	112,426

13. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	31 December 2018	1 January 2018	31 December 2017
	HK$'000	*HK$'000*	*HK$'000*
		(note (i))	*(note (i))*
Arising from performance under project contracts, *(note (ii))*	**9,872**	4,455	–

Notes:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance as at 1 January 2018.

(ii) Upon the adoption of IFRS 15 on 1 January 2018, the Group has reclassified the amounts due from customers for contract work as contract assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(a) Contract assets (Continued)

Typical payment terms which impact on the amount of contract assets recognised in respect of project contracts are as follows:

The Group's project contract work includes payment schedules which require stage payments over the project contract period once certain milestones are reached. These payment schedules prevent the build-up of significant contract assets. A deposit is typically payable up front and this has resulted in a contract liability at early stage of the project.

(b) Contract liabilities

	31 December 2018	1 January 2018	31 December 2017
	HK$'000	*HK$'000* *(note (i))*	*HK$'000* *(note (i))*
Billings in advance of performance from project contracts (notes (ii) and (iii))	**23,260**	16,756	–

Notes:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of HKFRS 15 on 1 January 2018, the Group has reclassified the amounts due to customers for contract work as contract liabilities.

(iii) Upon the adoption of HKFRS 15 on 1 January 2018, some of the deposits received under trade and other repayable were reclassified to contract liabilities (see note 2(c)).

Typical payment terms which impact on the amount of contract liabilities recognised in respect of project contract work are as follows:

When the Group receives a deposit before the project contract work commences this will give rise to contract liabilities at the start of a project contract, until the revenue recognised on the project exceeds the amount of the deposit. It is common practice on the Group's project contracts to require a deposit before work commences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(b) Contract liabilities (Continued)

Movements in contract liabilities:

	2018 *HK$'000*
Balance at 1 January 2018	16,756
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(16,756)
Increase in contract liabilities as a result of billing in advance of project contract work	23,260
Balance at 31 December 2018	23,260

14. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	2018 *HK$'000*	2017 *HK$'000*
Amounts due from customers for contract work		
Contract costs incurred plus recognised profits less recognised losses	–	47,055
Less: progress billings	–	(42,600)
	–	4,455
Amounts due to customers for contract work		
Contract costs incurred plus recognised profits less recognised losses	–	5,471
Less: progress billings	–	(9,118)
	–	(3,647)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK (CONTINUED)

Upon the adoption of HKFRS 15 on 1 January 2018, "Amounts due from customers for contract work" and "Amounts due to customers for contract work" is included in "Contract assets" and "Contract liabilities", respectively (see in note 13 and note 2(c)).

15. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**23,172**	12,981
Less: allowances for doubtful debts	**(450)**	(829)
	22,722	12,152
Other receivables	**3,395**	3,287
Deposits and prepayments	**33,816**	28,687
	59,933	44,126

At 31 December 2018, apart from certain deposits totalling HK$11,083,000 (2017: HK$8,563,000), all trade and other receivables are expected to be recovered or recognised as expenses within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

The ageing analysis of trade receivables, based on invoice date and net of allowance for doubtful debts, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**13,787**	5,260
More than 1 month but less than 3 months	**5,043**	4,813
More than 3 months but less than 12 months	**2,787**	2,076
More than 12 months	**1,105**	3
	22,722	12,152

Trade receivables are due within 30 days from the date of billing. Further details on the Group's credit policy are set out in note 24(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**10,261**	990
Within 1 month	**3,939**	4,582
More than 1 month but less than 3 months	**4,687**	4,510
More than 3 months but less than 12 months	**2,756**	2,067
More than 12 months	**1,079**	3
Amounts past due	**12,461**	11,162
	22,722	12,152

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. AMOUNT DUE FROM A DIRECTOR

The amount due from Mr. McLennan comprises:

	2018	2017
	HK$'000	*HK$'000*
Advances	**–**	1,375
Trade balances	**–**	228
	–	1,603

All balances were unsecured, interest free and repayable on demand. The maximum amount outstanding during the year ended 31 December 2018 was HK$1,603,000.

The amount due from Mr. McLennan was fully settled in February 2018.

17. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**2,826**	2,120
Deposits received	**3,861**	18,711
Other payables and accruals	**21,312**	19,825
	27,999	40,656

Upon the adoption of HKFRS 15 on 1 January 2018, some of the deposits received were reclassified to contract liabilities (see note 2(c)).

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. TRADE AND OTHER PAYABLES (CONTINUED)

The following is an ageing analysis of trade payables presented based on the invoice date:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**1,817**	355
More than 1 month but less than 3 months	**211**	267
More than 3 months	**798**	1,498
	2,826	2,120

18. AMOUNT DUE TO A RELATED COMPANY

The amount due to Winford Inc. Limited is trade related, unsecured, interest-free and repayable on demand.

A director, Mr. McLennan, has a 50% equity interest in Winford Inc. Limited.

19. SHORT TERM BANK LOANS

At 31 December 2018, the short term bank loans were secured by pledged bank deposits of HK$3,000,000 and a corporate guarantee from the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. PROVISIONS

	Long service payments HK$'000	Employees' end-of-service benefits HK$'000	Reinstatement costs for rented premises HK$'000	Total HK$'000
At 1 January 2017	869	3,569	2,260	6,698
Provision made	150	701	–	851
Provision reversed	(88)	(503)	–	(591)
Provision utilised	–	29	–	29
At 31 December 2017 and 1 January 2018	**931**	**3,796**	**2,260**	**6,987**
Provision made	**53**	**942**	**458**	**1,453**
Provision reversed	**(171)**	**–**	**–**	**(171)**
Provision utilised	**–**	**(234)**	**–**	**(234)**
Exchange realignment	**–**	**10**	**–**	**10**
At 31 December 2018	**813**	**4,514**	**2,718**	**8,045**

(a) Provision for long service payments

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfils certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their services.

The amount payable is dependent upon the employee's final salary and period of service, and is reduced by entitlements accrued under the Group's retirement plan that are attributable to contributions made by the Group.

(b) Provision for employees' end-of-service benefits

Provision for the employees' end-of-service benefits is made in accordance with the labour laws of the UAE, and is based on current remuneration and cumulative periods of service at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. PROVISIONS (CONTINUED)

(c) Provision for reinstatement costs for rented premises

Under the terms of the rental agreements signed with landlords, the Group shall remove and re-instate the rented premises at the Group's cost upon expiry of the relevant rental agreements. Provision is therefore made for the best estimate of the expected reinstatement costs to be incurred.

21. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(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 the Share Option Scheme and any other share option schemes of the Company must not exceed 100,000,000 shares in the Company, being the scheme mandate limit. The board of directors may seek approval by the shareholders of the Company in 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) Share option scheme adopted by the Company (Continued)

The total number of Share 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 adoption of the Share Option Scheme which is 19 June 2018.

(b) The terms and conditions of the grants that existed during the year ended 31 December 2018

There were no share options outstanding at 1 January 2018.

On 30 August 2018, a total of 45,000,000 share options were granted as follows:

	Number of share options granted on 30 August 2018 and balances at 31 December 2018	Exercise price HK$
Options granted to Ms. Mok, a director, with exercise period:		
– 18 July 2019 to 17 July 2022	3,293,400	0.22
– 18 July 2020 to 17 July 2022	3,293,400	0.22
– 18 July 2021 to 17 July 2022	3,393,200	0.22
Options granted to employees and consultants, with exercise period:		
– 18 July 2019 to 17 July 2022	11,556,600	0.22
– 18 July 2020 to 17 July 2022	11,556,600	0.22
– 18 July 2021 to 17 July 2022	11,906,800	0.22
	45,000,000	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(b) The terms and conditions of the grants that existed during the year ended 31 December 2018 (Continued)

During the period from the date of grants on 30 August 2018 to 31 December 2018, no share options were cancelled or lapsed. The number of share options outstanding as at 31 December 2018 was 45,000,000, including as stated above, all these share options have exercise periods commencing after 31 December 2018.

(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 (excessed 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. SHARE CAPITAL, DIVIDENDS AND RESERVES

(a) Share capital

The issued share capital as at 31 December 2017 represented the combined share capital of the Company and Deep Blue.

The issued share capital as at 31 December 2018 represented the share capital of the Company.

Details of the share capital of the Company are disclosed as follows:

	Note	**Number of shares**	**Amount** *HK$'000*
Ordinary shares of HK$0.01 each			
Authorised:			
On incorporation and as at 31 December 2017		38,000,000	380
Increase	(i)	9,962,000,000	99,620
At 31 December 2018		10,000,000,000	100,000
Issued and fully paid:			
On incorporation		1	–
Issue of new shares on 28 December 2017	(ii)	499	–*
At 31 December 2017		500	–*
Issue of new shares on 11 January 2018	(iii)	346	–*
Issue of new shares on 12 January 2018	(iv)	154	–*
Issue of new shares on 17 July 2018	(v)	250,000,000	2,500
Capitalisation issue	(vi)	749,999,000	7,500
At 31 December 2018		1,000,000,000	10,000

* The balance represented an amount less than HK$1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. SHARE CAPITAL, DIVIDENDS AND RESERVES (CONTINUED)

(a) Share capital (Continued)

Notes:

(i) Pursuant to written resolutions of the shareholders of 19 June 2018, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of a further 9,962,000,000 ordinary shares.

(ii) On 28 December 2017, the entire issued share capital in Pacific Legend Development held by the Controlling Shareholders was transferred to the Group in consideration of the Company (i) allotting and issuing 499 ordinary shares, credit as fully paid, to Double Lions; and (ii) credit as fully paid the subscriber share issued upon the incorporation of the Company and subsequently held by Double Lions.

(iii) On 11 January 2018, the entire issued capital in Deep Blue held by the Controlling Shareholders was transferred to the Group in consideration of the Company allotting and issuing 346 ordinary shares, credit as fully paid, to Double Lions.

(iv) On 12 January 2018, 154 ordinary shares were issued to 2 investors for a total cash consideration of HK$10,000,000.

(v) 250,000,000 ordinary shares of the Company were issued on 17 July 2018 at a share offer price of HK$0.30 per share. The shares of the Company have been listed on GEM of the Stock Exchange on 18 July 2018.

(vi) On 18 July 2018, 749,999,000 ordinary shares of the Company were issued through capitalisation of approximately HK$7,500,000 standing to the credit of share premium account of the Company.

(b) Dividends

	2018	2017
	HK$'000	*HK$'000*
Interim dividends	**26,250**	–

These dividends represented dividends declared and paid by the Company prior to the Reorganisation. The rate of dividend per share is not presented as it does not indicate the rate which future dividend will be declared.

The directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. SHARE CAPITAL, DIVIDENDS AND RESERVES (CONTINUED)

(c) Nature and purposes of reserves

(i) Share premium

The share premium account is governed by the Companies Law of the Cayman Islands and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in paying distributions or dividends to equity shareholders. No distribution or dividend may be paid to the equity shareholders out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(ii) Share option reserve

The share option reserve comprise the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy as set out in note 2(m). The account will either be transferred to the share premium account where the related options are exercised, or be transferred to accumulated profits where the related options expired or are forfeited.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of an entity with functional currency other than Hong Kong dollars. The reserve is dealt with in accordance with the accounting policies set out in note 2(s).

(iv) Other reserve

The other reserve represented the difference between the nominal value of the share capital of the subsidiaries acquired as a result of the Reorganisation and the nominal value of the share capital of the Company issued in exchange thereof.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. SHARE CAPITAL, DIVIDENDS AND RESERVES (CONTINUED)

(d) Capital risk management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group's capital structure is regularly reviewed and managed with due regard to the capital management practices of the Group. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group or the requirements of the Hong Kong Companies Ordinance.

The Group is not subject to externally imposed capital requirements.

23. CASH FLOW INFORMATION

Reconciliation of liabilities arising from financing activities

	2018 Short term bank loans *HK$'000*
At 1 January	–
Proceeds from new bank loans	8,875
Repayment of bank loans	(3,845)
At 31 December	5,030

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financing loss to the Group. The Group's credit risk is primarily attributable to finance lease receivables, trade receivables and contract assets. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit risk on cash and cash equivalents is limited as they are placed with financial institutions with sound credit ratings.

The Group's retail sales are usually paid in cash or via major credit/debit cards. In respect of the Group's corporate and project customers where credit periods are granted, individual credit evaluations are performed. In addition, finance lease receivables, trade receivables and contract assets are monitored on an on-going basis to ensure that follow-up actions are taken and adequate loss allowances are made for the amounts considered to be irrecoverable.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2018, 35% (2017: 10%) and 64% (2017: 36%) of the total trade receivables and contract assets was due from the Group's largest customer and the five largest customers respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(a) Credit risk (Continued)

The Group measures loss allowances for finance lease receivables, trade receivables and contract assets at an amount equal to lifetime ECLs, using a provision matrix, which is determined based on the Group's credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the end of each reporting period. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

At 31 December 2018, loss allowance of HK$450,000 was recognised in accordance with HKFRS 9.

Expected loss rates are based on actual loss experience over the past five years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2(f)(i)(B) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of HK$829,000 were determined to be impaired.

Movements in the loss allowance in respect of trade receivables during the year are as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**829**	148
Impairment loss recognised	**109**	679
Uncollectible amounts written off	**(489)**	–
Exchange realignment	**1**	2
At 31 December	**450**	829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following table details the remaining contractual maturities for the Group's financial liabilities, which are based on the undiscounted cash flows and the earliest date the Group can be required to pay.

	Carrying amount *HK$'000*	Total contractual undiscounted cash flows *HK$'000*	Repayment on demand or within 1 year *HK$'000*
At 31 December 2018			
Trade and other payables	**27,999**	**27,999**	**27,999**
Amount due to a related company	**250**	**250**	**250**
Short term bank loans	**5,030**	**5,030**	**5,030**
	33,279	**33,279**	**33,279**
At 31 December 2017			
Trade and other payables	40,656	40,656	40,656
Amount due to a related company	213	213	213
	40,869	40,869	40,869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from finance lease receivables, bank deposits and short term bank loans, which are at fixed rates and expose the Group to fair value interest rate risk.

At 31 December 2018, if interest rates on finance lease receivables, bank deposits and short term bank loans had been 100 basis points higher/lower, with all other risk variables held constant, the Group's loss for the year would have been HK$69,000 lower/higher (2017: the Group's profit after tax for the year would have been HK$57,000 higher/lower).

(d) Foreign currency risk

The Group's sales and direct costs were primarily denominated in the functional currency of the operations to which the transactions are related. Accordingly, the management considers that the Group's exposure to foreign currency risk is minimal.

(e) Fair values measurement

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. OPERATING LEASE COMMITMENTS

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**31,245**	23,813
In the second to fifth year inclusive	**26,426**	22,717
	57,671	46,530

The Group is the lessee in respect of certain properties under operating leases. The leases typically run for an initial period of 1 to 8 years, at the end of which period all terms are renegotiated. The operating lease rentals are based on the higher of a minimum guarantee rental or a sales level based rental. The minimum guaranteed rental has been used to arrive at the above commitments.

26. CONTINGENT LIABILITIES

At 31 December 2018, the Group had no material contingent liabilities.

At 31 December 2017, the Group had contingent liabilities in respect of a performance guarantee of HK$2,164,000 issued by a bank in favour of a customer in respect of the projects undertaken by the Group. This performance guarantee was secured by a pledged bank deposit of HK$2,164,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel

Remuneration for key management of the Group, including amounts paid to the directors and certain of the highest paid employees as disclosed in notes 8(a) and 8(b) respectively, during the year ended 31 December 2018 was as follows:

	2018	2017
	HK$'000	*HK$'000*
Salaries, allowances and bonus	**15,980**	14,126
Share-based payments	**1,004**	–
Mandatory provident fund contribution	**255**	162
Provision for long service payments	**225**	218
	17,464	14,506

Their compensation was within the following bands:

	2018	2017
	Number of employees	*Number of employees*
Nil to HK$1,000,000	**1**	4
HK$1,000,001 to HK$1,500,000	**3**	2
HK$1,500,001 to HK$2,000,000	**3**	1
HK$2,000,001 to HK$2,500,000	**1**	3
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**1**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transactions

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year ended 31 December 2018:

	2018	2017
	HK$'000	*HK$'000*
Winford Inc. Limited		
– Delivery charge and manpower support expenses	**3,317**	3,115
Mr. McLennan		
– Sales of furniture and home accessories	**13**	14
Mrs. Jennifer Carver McLennan		
– Consultancy fee expense	**184**	384

In addition, during the year ended 31 December 2017 and up to date of listing of the Company's shares on GEM of the Stock Exchange on 18 July 2018, Mr. McLennan provided a personal guarantee of HK$8,000,000 as security for general banking facilities granted to Group. This guarantee was released on 18 July 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. PARTICULARS OF SUBSIDIARIES

Details of subsidiaries as at 31 December 2018 and 2017:

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up capital	Equity interest attributable to the Company 2018	2017	Principal activities
Directly held					
Raeford Holdings Limited	BVI	US$1	**100%**	100%	Investment holding
Indirectly held					
Pacific Legend Development	Hong Kong	HK$10,000	**100%**	100%	Investment holding
Indigo Living Limited	Hong Kong	HK$22,900,000	**100%**	100%	Sale and leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings
Indigo Dubai *(i)*	Dubai, UAE	AED300,000	**100%**	100%	Sale and leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings
Deep Ocean SPV Limited *(ii)*	Abu Dhabi, UAE	US$1,000	**100%**	–	Investment holding
Deep Blue	Hong Kong	HK$779,246	**100%**	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up capital	Equity interest attributable to the Company 2018	2017	Principal activities
因邸高家居商貿(上海)有限公司 Indigo China Home Furniture Trading (Shanghai) Limited*	PRC	RMB5,843,218	**100%**	100%	Sale and leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings
上海因邸閣裝潢設計工程有限公司 Shanghai Indigo Decoration and Design Works Limited* *(iii)*	PRC	–	**100%**	100%	Provision of design consultancy services for fitting out interiors with furnishings
Ocean Blue Living Limited	Hong Kong	HK$1,000	**100%**	100%	Franchising
Indigo Living (S) Pte. Ltd. *(iv)*	Singapore	SGD300,000	**–**	100%	Inactive

* *For identification purpose only*

Notes:

(i) Pacific Legend Development is the legal owner of 49% of the issued share capital of Indigo Dubai. The notarised memorandum of association of Indigo Dubai provides that Pacific Legend Development has the sole right to control, manage and direct the financial and operating policies of Indigo Dubai and is entitled to 80% of Indigo Dubai's profits. Through the contractual arrangements, Pacific Legend Development is also entitled to the remaining 20% of Indigo Dubai's profits. Accordingly, Indigo Dubai has been accounted for as a wholly owned subsidiary of the Group.

(ii) All the issued share capital of Deep Ocean SPV Limited is held by a corporate services provider in the UAE. Pacific Legend Development, through contractual arrangements with the corporate services provider, has 100% control and economic interest in Deep Ocean SPV Limited.

(iii) Indigo Shanghai has a registered capital of RMB30,000,000 and no capital has been paid up.

(iv) Indigo Singapore (S) Pte. Ltd. was dissolved by striking off in April 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018	2017
	HK$'000	*HK$'000*
Non-current assets		
Investment in a subsidiary	1	1
Current assets		
Amounts due from subsidiaries	16,455	–
Prepayments	150	–
Cash and cash equivalents	41,630	–
	58,235	–
Current liabilities		
Other payables	675	–
Amounts due to subsidiaries	–	6,557
	675	6,557
Net current assets/(liabilities)	57,560	(6,557)
Total assets less current liabilities	57,561	(6,556)
NET ASSETS/(LIABILITIES)	57,561	(6,556)
Capital and reserve		
Share capital	10,000	–
Reserves	47,561	(6,556)
TOTAL EQUITY/(DEFICIT)	57,561	(6,556)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movements in the Company's reserves

	Share premium *HK$'000*	Share option reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
Balance at 1 January 2017	–	–	–	–
Loss and total comprehensive loss for the year	–	–	(6,556)	(6,556)
At 31 December 2017 and 1 January 2018	**–**	**–**	**(6,556)**	**(6,556)**
Profit and total comprehensive income for the year	**–**	**–**	**11,997**	**11,997**
Interim dividends paid *(note 22(b))*	**–**	**–**	**(26,250)**	**(26,250)**
Issue of new shares	**82,500**	**–**	**–**	**82,500**
Capitalisation issue *(note 22(a))*	**(7,500)**	**–**	**–**	**(7,500)**
Expenses incurred in relation to the issue of shares	**(7,864)**	**–**	**–**	**(7,864)**
Equity settled share-based payment transaction	**–**	**1,234**	**–**	**1,234**
Balance at 31 December 2018	**67,136**	**1,234**	**(20,809)**	**47,561**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

HKFRS 16	Leases
HK(IFRIC)S 23	Uncertainty over Income Tax Treatments
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

These amendments, new standard and interpretation will be effective for annual periods beginning on or after 1 January 2019.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below.

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 lease 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

HKFRS 16 "Leases" (Continued)

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.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As set out in note 25, operating lease commitments of the Group in respect of leased premises as at 31 December 2018 amounted to HK$57,671,000. The Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's financial performance, but expects that the above operating lease arrangements will meet the definition of a lease under HKFRS 16, hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all those leases.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years, extracted from the audited consolidated financial statements in this annual report and the Prospectus of the Company dated 29 June 2018, is as follows:

	Year ended 31 December		
	2018	2017	2016
	HK$'000	*HK$'000*	*HK$'000*
RESULTS			
Revenue	**278,103**	278,628	244,441
(Loss)/profit before taxation	**(17,071)**	4,960	7,581
Income tax expense	**(297)**	(1,837)	(2,161)
(Loss)/profit for the year attributable to the equity shareholders of the Company	**(17,368)**	3,123	5,420

	As at 31 December		
	2018	2017	2016
	HK$'000	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES			
Total assets	**202,180**	156,447	154,817
Total liabilities	**(64,584)**	(53,630)	(55,843)
Total equity	**137,596**	102,817	98,974