STEVE LEUNG DESIGN GROUP LIMITED
梁志天設計集團有限公司

ANNUAL REPORT 2018

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2262

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
SIU Man Hei (Chief Executive Officer)
YIP Kwok Hung Kevin (Chief Financial Officer)
DING Chunya
KAU Wai Fun

Non-Executive Directors
XU Xingli
XIE Jianyu (Resigned on 23rd January 2019)
HUANG Jianhong (Appointed on 23rd January 2019)

Independent Non-Executive Directors
LIU Yi
SUN Yansheng
TSANG Ho Ka Eugene

AUDIT COMMITTEE

TSANG Ho Ka Eugene (Chairman)
LIU Yi
SUN Yansheng

REMUNERATION COMMITTEE

SUN Yansheng (Chairman)
XU Xingli
TSANG Ho Ka Eugene

NOMINATION COMMITTEE

XU Xingli (Chairman)
SUN Yansheng
TSANG Ho Ka Eugene

RISK MANAGEMENT COMMITTEE

TSANG Ho Ka Eugene (Chairman)
YIP Kwok Hung Kevin (Chief Financial Officer)
CHEUNG Henry

COMPANY SECRETARY

CHEUNG Henry

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

30/F Manhattan Place
23 Wang Tai Road
Kowloon Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Island

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUTHORISED REPRESENTATIVES

YIP Kwok Hung Kevin (Chief Financial Officer)
CHEUNG Henry

INDEPENDENT EXTERNAL AUDITOR

Deloitte Touche Tohmatsu

CORPORATE INFORMATION (CONTINUED)

INTERNAL AUDITOR

Corporate Governance Professionals Limited

COMPLIANCE ADVISOR

Dongxing Securities (Hong Kong) Company Limited

LEGAL ADVISOR

Pinsent Masons

PRINCIPAL BANKERS

Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Dah Sing Bank
Hang Seng Bank (China) Limited (Beijing Branch)

STOCK CODE

2262

COMPANY'S WEBSITE

www.sldgroup.com

INVESTOR RELATIONS CONTACT

Strategic Financial Relations Limited
SLD@sprg.com.hk

CHAIRMAN AND FOUNDER'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of STEVE LEUNG DESIGN GROUP LIMITED (the "Company", together with its subsidiaries, the "Group"), I am delighted to present to you our annual report for the year ended 31 December 2018 (the "Year").

The year 2018 has been a pivotal year for the Company. The listing on the Main Board of The Stock Exchange of Hong Kong Limited ("the "Stock Exchange") on 5 July 2018 has marked a key milestone for the Group. This crowning achievement is a recognition of our hard work exerted and accomplishments made in the past 21 years.

Despite the weak and volatile global economic environment recently, the Group managed to sustain its performance and maintain profit margin. The Group has also accelerated its reorganisation and initiated expansion plans as presented in the prospectus of the Company dated 22 June 2018 (the "Prospectus"). We integrated our resources in line with our long-term development strategy, so as to better confront the operating risks and business challenges arising from economic uncertainties in the short term. We completed the expansion and relocation of our Beijing and Shanghai offices and closed down our Chengdu office to more effectively allocate the Group's resources. Furthermore, Steve Leung Casa (SLC) has been actively promoted and expanded in order to further enhance our interior design services business in the private residence sector.

CHAIRMAN'S STATEMENT (CONTINUED)

The year 2018 has been a difficult year for the global economy. The negative atmosphere brought by the Sino-US Trade War has not yet dissipated but continues to shroud the global economy in uncertainty. Investment risk remains high as market sentiment continues to be conservative and cautious, which may adversely affect the Group's future development. At the same time, regulations on property purchases market remain tight in the People's Republic of China ("PRC"). Property transactions throughout the country have declined and new residential development maintained at a low level. Property developers in the Mainland China face challenges in securing capital, therefore resources earmarked for interior design services and interior decorating and furnishing services have been retained and their related utilisation of capital procedures subsequently changed to facilitate more conservative operations. Although the Group recorded growth in its revenue, the quantity of newly-awarded contracts has significantly decreased to a below expectation level. The Group's performance in attracting new business has reflected the overall weak market conditions during the Year.

Looking ahead, we remain conservative and cautious about the macroeconomic and industry prospects. The PRC Government has reiterated its insistence on controlling the real estate market through regulatory measures. Thus, the property market in the PRC is expected to maintain its cautious approach. Yet, the Group is prepared to cope with the upcoming challenges presented by the weak market sentiment.

Leveraging our strengths, including our team's professional design capabilities and experience, and the solid foundation and reputation that the Group has built over the past 21 years, we will continue to offer high efficiency and quality design solutions and services to our clients to strengthen our competence in the interior design business, while further expanding our interior decorating and furnishing business. With a far-sighted vision and a spirit of determination and innovation, we will formulate strategies to identify and seize new opportunities, including developing wellness and elderly-care design segment. In the coming future, the Group will remain prudent in implementing our expansion plan as stated in the Prospectus and may consider to adjust our strategy if necessary.

The designers and professional teams of the Group will strive their utmost, utilise their expertise and make collaborative effort in the coming year. The newly established marketing team will also undertake a proactive role to introduce and promote our brands as well as our diversified and specialised design services to the international and Greater China markets through a variety of channels, so as to reinforce the Group's industry-leading position and advance forward professionally.

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, clients, business partners and professional parties for their full support.

XU Xingli
Chairman
11 March 2019

FOUNDER'S STATEMENT

Dear Shareholders and Colleagues,

Established in 1997, STEVE LEUNG DESIGN GROUP LIMITED has built a solid foundation, earned creditable reputation and gained worldwide recognition in the industry with our devoted and professional design and extensive experience, while garnering international awards and honours over the years. We would like to express our gratitude and appreciation for the tremendous trust and support from our shareholders, clients and business partners, as well as the dedication and efforts of our staff. The Year has marked another breakthrough for the Group as we have been successfully listed on the Main Board of the Stock Exchange becoming the very first listed interior design services company without offering any fitting-out services.

This Year, while profit of the Group lagged behind expectations due to the volatile macroeconomic environment, we nonetheless remain confident to our prospects. We believe the impact of the volatile economy would be relatively modest on us among our peers, as we leverage our development on the reputation, foundation and competitiveness established over 21 years that remain strong.

FOUNDER'S STATEMENT (CONTINUED)

Design is a combination of aesthetics and functionality, with a mission to improve lives, the environment and society, and, so as to enhance the quality of life. Our human-centric designs demonstrate the foundation and its precious value. Besides, our global vision, valuable network and professional talents shall bestow the Group's international and diversified development and expansion. This way, our philosophy of "Design without Limits" will be achieved across a broader scope of life. In addition to dedicating on residential and commercial projects, the Group further expands its businesses to cover a variety of design aspects including private residence, hospitality and interior decorating and furnishing services, etc.

With progress of the time and society, we see a rapidly aging population and a rising health and wellness trend. Design is no doubt an effective solution to cope with social challenges and needs. The Group will diversify and specialise our design business in wellness and elderly-care designs, thus to drive more business opportunities and create better lives for the society.

Throughout our design journey in the past 21 years, we have weathered challenges and realised opportunities. I would like to express my heartfelt thanks to all our designers and staff for their unfalling enthusiasm and dedication to the Group, as well as for the companionship and faith from our shareholders, clients, business partners and friends. All of your support has spurred our progress in achieving one after another milestones. As we advance forward, we will uphold our belief of "Design without Limits", with the endeavour to enhance the quality of life for people and the society through our design profession, and to create greater value for our shareholders.

Steve Leung
Founder
11 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During this challenging Year, the Group had expanded its core interior design business as well as interior decorating and furnishing business and product design business. As an internationally-renowned and award-winning interior design services and interior decorating and furnishing services provider, the Group aims to customise distinctive interior design, interior decorating and furnishing and product design for its clients with professional approach and creative ideas. Despite the volatile market right after the Company's listing, the Group still managed to achieve satisfactory results for the Year.

OVERALL PERFORMANCE

The Group has recorded revenue of approximately HK$503.9 million during the Year (the year ended 31 December 2017 ("Previous Year"): HK$434.8 million), with a gross profit of approximately HK$226.5 million (Previous Year: HK$213.1 million) and gross profit margin of approximately 44.9% (Previous Year: 49.0%).

The following table sets forth a breakdown of revenue by types of services and projects.

	2018					2017				
	Revenue from Interior Design Services HK$ million	Revenue from Interior Decorating and Furnishing Services HK$ million	Revenue from Product Design Services HK$ million	Total HK$ million	% of total revenue	Revenue from Interior Design Services HK$ million	Revenue from Interior Decorating and Furnishing Services HK$ million	Revenue from Product Design Services HK$ million	Total HK$ million	% of total revenue
Residential project	**220.7**	**106.2**	**–**	**326.9**	**64.9**	245.1	63.5	–	308.6	71.0
Private residence project	**53.3**	**1.4**	**–**	**54.7**	**10.9**	35.9	1.2	–	37.1	8.6
Hospitality	**51.3**	**9.6**	**–**	**60.9**	**12.1**	45.3	2.7	–	48.0	11.1
Commercial project	**31.5**	**0.6**	**–**	**32.1**	**6.3**	24.5	1.3	–	25.8	5.9
Others	**23.5**	**1.3**	**4.5**	**29.3**	**5.8**	9.7	2.0	3.6	15.3	3.4
Total	**380.3**	**119.1**	**4.5**	**503.9**	**100**	360.5	70.7	3.6	434.8	100

Net profit for the Year was approximately HK$58.0 million (Previous Year: HK$73.6 million). Basic earnings per share for the Year was approximately HK5.70 cents (Previous Year: HK8.45 cents). The Board recommended a final dividend of HK2.50 cents and a special dividend of HK2.50 cents per share for the Year.

As at 31 December 2018, the Group's total assets were valued at approximately HK$622.2 million (Previous Year: HK$375.1 million), of which current assets were approximately HK$570.7 million (Previous Year: HK$340.6 million), being 4.21 times (Previous Year: 2.03 times) of the current liabilities. Equity attributable to the owners of the Company was approximately HK$476.4 million (Previous Year: HK$199.2 million).

MARKET AND BUSINESS REVIEW

OVERVIEW

During the Year, trade friction between the PRC and US escalated, Brexit has continued to be a cliffhanger and regulatory control on the PRC property market persisted, all of these led to volatility in the global economy and tensions over the capital markets in the PRC. In addition, domestic investments in property market and development tended to be more conservative during the Year, thus the overall number of projects under tendering and property development projects decreased. Some of the on-going projects were even suspended or terminated due to the market atmosphere and financing difficulties.

In fact, project completion and the overall areas available for sale in the PRC property market have considerably deviated from the norm. As a participant of the property development industry, the Group's business, which heavily relied on the PRC property market, was compressed during the Year.

However, the Group has strived to overcome the downturn in the business environment by implementing its expansion plans as promised right after the Company's listing in July 2018. The Group has enhanced its interior design services and developed specialised design services, further expanded its interior decorating and furnishing services, as well as proactively widened its revenue sources to diminish the impact from the current volatile PRC property market and limit the possible downside risk. Particularly and noteworthily, the Group has moved its Beijing and Shanghai offices to enlarged new premises, expanded its professional teams with newly joined talented designers and cooperated with external professionals to further equip its internal research and design teams with specialised design capabilities. This included forging work relationships with International WELL Building Institute (IWBI) to enrich the wellness design knowledge of our design teams, as well as emphasising the Group's obligation on social responsibility in environmentally-friendly design and operation in order to create healthy and sustainable living standards. A marketing department has also been established to enhance brand diversification and develop corresponding marketing strategies. Moreover, the Group has extended its projects to hospitality, elderly and wellness designs etc. It has also exerted additional effort on promotion in the international market to consolidate its leading position in the interior design industry, preparing well to seize potential future opportunities.

Despite the unfavourable investment sentiment and volatile external environment, with the management's faith in "taking measures to repair the house before it rains", the Group's revenue during the Year was satisfactory, amounting to approximately HK$503.9 million, representing a 15.9% growth as compared to the Previous Year.

However, accounting for several expenses incurred for listing, recruiting additional staff and expanding offices, etc., the revenue growth of the Group had lagged behind its expectations, and the overall profit for the Year was approximately HK$58.0 million (Previous Year: HK$73.6 million), representing a 21.2% decrease in profit for the Year. We believe all of the dedicated efforts can pave the way for the Group's long-term sustainable development, and will be paid off in the near future.

INTERIOR DESIGN SERVICES

Interior design services segment is the core and primary business of the Group, which encompasses the provision of service for interior design concept generation, detailed interior design and the provision of rendering.

The Group has over 20 design teams engaged in interior design services for residential, private residence, hospitality projects, etc. Through in-depth communications with our clients and necessary site visits, and guided by a professional approach and "people-oriented" principles, our designers and their teams would customise concept design proposals which consider aesthetics, comfort and functionality, and formulate an impressive interior design proposal after understanding and considering clients' views and comments.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the Year, the interior design segment continues to be the core business and main source of revenue of the Group, achieving revenue of approximately HK$380.3 million (Previous Year: HK$360.5 million), accounting for approximately 75.5% (Previous Year: 82.9%) of the total revenue.

Due to the volatile environment of the PRC and property market, the newly awarded contract sum decreased by 17.0% to HK$370.4 million during the Year (Previous Year: HK$446.3 million). While this amount has decreased, the Group's efforts still were viewed favourably by a number of major developers as it was awarded a number of large-scaled projects, e.g. a large-scale hotel project located at Cotai Macau, Mont Rouge, Beacon Hill, Kowloon, Sanlorenzo Yacht SX88, Zengcheng Development of New World China Land Limited, Guangzhou (新世界增城綜合發展項目), Guangzhou Jianhua Center Project (廣州建華中心項目), China Resources Residential Project along Huangpu River, Shanghai (上海華潤黃浦江沿岸住宅項目), Beijing Senior Living (北京大愛書院養老公館項目), Chongqing Financial Street Lijia Residential Project (重慶金融街禮嘉住宅項目), etc.. The Group has also successfully built solid long-term cooperation relationships with clients through entering into strategic partnerships, which further enhance these relationships. Up to this report date, approximately 74.5% (Previous Year: 57.3%) newly awarded contracts are from our recurring clients.

As a major player in the interior design segment, the Group has maintained a healthy growth in interior design for the residential sector even though the percentage contribution within the Group has decreasing by 6.1% to 64.9% during the Year (Previous Year: 71.0%). In order to mitigate the risk from the regulatory control on the property market and aligning with the progress of urbanisation in the PRC, the Group is embarking on diversification shifting from the market of first-tier cities to second- and third-tier cities in the PRC during the Year. The ratio of newly awarded contract sum from the (i) first-, (ii) second- and (iii) third- to fourth-tier cities changed approximately from 39%, 51% and 10% respectively in 2017 to 38%, 37% and 25% respectively in 2018, enabling the Group to cultivate a wider geographic market.

The Group has also enhanced its business diversification strategy through expanding its scale of service and revenue sources to other sectors of the interior design service segment to reduce the reliance on residential sector. The Group extended the participation to the interior design services to hospitality and private residence projects, which occupied the second and third largest business sectors within the segment. For the purpose of further enhancing its participation and corporate identity in the private residence and hospitality sector, the Group has established individual design brands Steve Leung Casa "SL C" and Steve Leung Hospitality "SL H", aiming to provide a more focused and customised services for our clients.

Even though there has recently been a downturn in the property market in Hong Kong and the PRC, the Group is still focusing on the high-end interior design market. Limited supply of high-end and luxury properties has spurred a steady demand of such properties. It is believed that the high-end market is relative risk adverse and will not be seriously affected by the general property market environment. Besides, buyers of high-end and luxury properties also have a stronger desire for quality and stylish interior design and are willing to pay for a comfortable and prestige living environment. In light of the above, the Group believes that, there is potential in this private residence sector and has already spun off a team of designers, specialising in this particular sector. The revenue contribution to the Group from this sector was approximately 10.9% (Previous Year: 8.6%) of the total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Regarding the interior design for hospitality sector, there is a great number of high-end gourmet restaurants in Hong Kong, as more gourmet groups are willing to invest in interior design in order to create a better dining experience and promote branding and grading. In the PRC, in the wake of increasing disposable income and consuming, the demand for high-end dining is escalating and the Group believes this sector will become a focus of the Group's future expansion.

With extensive experience and an outstanding professional reputation, the Group's hospitality design projects won several design awards during the Year. Japanese Cuisine "Ta-ke" received several international interior design awards during the Year, including the Winner of Fine Dining Category at Interior Design US Best of Year Awards and Winner of Food Space at Asia Pacific Interior Design Awards (APIDA). Modern Chinese cuisine restaurant "HEXA" was also an award winner of Restaurants, Lounges & Bars from IIDA Best of Asia Pacific Design Awards. These accolades have enhanced the Group's reputation and position in the hospitality design sector. The Group has also engaged in a large-scale hotel project in Sanya, mainly responsible for designing the lobby, public areas and hotel rooms.

As part of the diversification strategy, the Group realises, the potential in the elderly and wellness design sector is also considerable. According to "Development of Chinese Old-age Care Industry White Paper" (《中國養老產業發展白皮書》) produced by the Chinese Academy of Social Sciences (中國社科院) in 2016, the elderly care industry scale was expected to reach RMB13 trillion in 2030, reflecting the huge potential of the market. Conforming to the trends of providing the elderly with a sense of security and pursuit of a healthy lifestyle, the Group has been proactively exploring elderly and wellness facilities projects in recent year. During the Year, the Group cooperated with China Merchants Group (招商局), China Taiping (中國太平), etc. for elderly property interior design projects. The Group was also invited to join a sizable health and medical and health integrated project in Beijing, responsible for the interior design and interior decoration and furnishing of its medical center, elderly apartment, community hall and clubhouse, etc. Although the elderly facilities design sector is new to the Group, it has accumulated experience in this specialised design sector. Its elderly facilities project undertaken in collaboration with China Merchants Group in Hangzhou was selected as the finalist in the "Best Elderly Fit Interior Design" at the Asia Pacific Eldercare Innovation Awards.

INTERIOR DECORATING AND FURNISHING SERVICES

For the purpose of creating and expressing the optimal effect and being an important part of the Group's interior designs, the use of furniture, fixtures and accessories (FF&A) in furnishing the functional space are essential elements. The design, procurement and decorating services of these elements comprise the interior decorating and furnishing service of the Group.

In fact, the interior decorating and furnishing services of the Group were first started as a value-added service offered as part of its interior design services. As the market demand for this service is growing rapidly, the Group has set up a new brand, Steve Leung Lifestyle "SLL" and teams for this segment since 2016, this segment has tremendous potential demonstrated by its revenue contribution to the Group during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Urbanisation is the major driver for economic growth in the PRC in recent years, and the consumption capabilities of Chinese citizens has accelerated along with the progress of urbanisation. According to National Bureau of Statistics of China (國家統計局), in 2018, average disposable income was RMB28,228, while for citizen living in urban areas it reached RMB39,251. Both figures rose nearly 8% from a year earlier, indicating the acceleration of citizens' consumption capability. Urbanisation in second- and third-tier cities is rising rapidly and the huge and growing population in these cities had an increasing demand in quality life. In accordance with "2018 Chinese Residential Decoration and Design Trend White Paper" (《2018年中國家居整裝設計趨勢白皮書》) introduced by Tencent Living (騰訊家居), 39.6% respondents chose "fully-furnished and ready-to-live" as their reference for their home furnishing and design, indicating almost 40% of Chinese citizens tended to have their new homes fully-furnished from design and selection of materials to construction before moving in. Also, most of the regions had high standards for aesthetics with the introduction of the "soft city" concept in the PRC. This is ushering in an era pursuing quality of life and decorative aestheticism, thus interior decorating and furnishing business is a rising market. Chuancai Securities Institute (川財研究所) forecasted the scale of residential interior design and furnishing market would reach RMB1.48 trillion in 2020, among which the scale of newly-built, second-hand and renovative residential markets would be approximately RMB864 billion, RMB474.4 billion and RMB144.5 billion respectively. Hence, interior decorating and furnishing services market is not just huge but also expanding continuously.

This segment has demonstrated perfectly the Group's overall services by complementing its interior design services and realising synergies, and serve our client with one-stop services and assuring quality of design service. Interior decorating and furnishing service segment has performed well and recorded a remarkable result during the Year. The revenue from this segment increased from HK$70.7 million to HK$119.1 million, representing a growth of 68.5%.

The market demand for interior decorating and furnishing services is expected to increase continuously. Such demand will effectively promote the long-term growth in interior decorating and furnishing service which is becoming one of the key businesses and operations of the Group. The Group will expand the interior decorating and furnishing business towards international fully-furnished residential properties, private residences and hospitality projects, aiming at cultivating this segment to be the one of the major source of revenue.

For the purpose of further sustaining its development on interior decorating and furnishing services segment, apart from recruiting design talent and raising its design efficiency, the Group is enhancing its information technology system, and has complied a specified FF&A catalogue and devised a procurement system. These efforts accelerated the working cycle and streamlined the operating flow.

PRODUCT DESIGN SERVICES

The appearance, material and texture of products and furniture act as an essential elements in elevating the overall interior design and interior decorating and furnishing layout. The Group is currently engaged in product design services and has participated in the design of furniture, sanitary products and kitchen cabinets as well as collaboration with international renowned brands. Although the product design segment is not the main source of revenue of the Group, it is nonetheless an important channel for the Company's branding and marketing strategies.

Furniture designed by the Group are has a well-earned reputation and have generated design awards during the Year, including the Gold Award of Living Room Category from the China Furniture Product Innovation Awards 2018, Winner of Product Design at the Iconic Awards: Innovative Architecture, and Silver A' Design Award in the Building Materials, Construction Components, Structures & Systems Design Category from the A' Design Award & Competition. During the Year, the product design services segment continued to perform steadily, boosting its popularity and building up the brand image of the Group.

AWARDS AND ACCREDITATIONS FOR YEAR 2018

Apart from those awards mentioned above, the Group won numerous prestigious awards over the years. Our interior design projects, product design projects and the corporate performance has continuously delivered award-winning quality.

CORPORATE HONOURS:

Dragon Design Foundation Award
China Interior Design Industry Promotion Award

Robb Report Best of the Best Award
Designer of the Year

China National Interior Decoration Association
China Top 10 Interior Design Organizations
China Interior Design Industry Outstanding Contribution Award

Interior Design Magazine "2018 Top 100 Giants Research"
Top 1 position in "Residential Category"
Top 21 position in overall global rankings

Quality Building Award 2018
Merit Award in "Hong Kong Residential (Multiple Buildings) Category"
– The Tanner Hill, Hong Kong

Guangzhou Design Week – 2018 Chinese Design Celebrity
Chinese Design Celebrity of the Year

INTERIOR DESIGN AWARDS:

IIDA Best of Asia Pacific Design Awards
Winner – Restaurants, Lounges & Bars – HEXA

Interior Design Best of Year Awards
Winner – Fine Dining Category – Ta-ke

Asia Pacific Interior Design Awards
Gold – Food Space – HEXA
Silver – Food Space – Ta-ke

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

a&d Trophy Awards
Best of Category – Best Bar & Restaurant – Ta-ke
Certificate of Excellence – Best Bar & Restaurant – HEXA
Certificate of Excellence – Best Public Space – Steve Leung's Prototype Room at Easyhome Top Design Centre, Tianjin

Gold Key Awards for Excellence in Hospitality Design
Finalist – Best Restaurant Fine Dining – Ta-ke

Iconic Awards: Innovative Architecture
Best of Best – Interior Design – Ta-ke
Winner – Interior Design – Steve Leung's Prototype Room at Easyhome Top Design Centre, Tianjin

Asia Pacific Eldercare Innovation Awards
Finalist – Best Silver Interior Design (Project size above 20,000 sqm) – Senior Apartment at Banshan Tianyuan, Hangzhou

PRODUCT DESIGN AWARDS

China Furniture Product Innovation Awards 2018
Gold Award – Living Room Category – HC28 Cosmopolitan UOVO

Iconic Awards: Innovative Architecture
Winner – Product Design – Fusital H377 Serie SL Duemilasedici

A' Design Award & Competition
Silver A' Design Award – Building Materials, Construction Components, Structures & Systems Design Category – Fusital H377 Serie SL Duemilasedici

FINANCIAL REVIEW

REVENUE AND GROSS PROFIT

During the Year, the Group's revenue increased by HK$69.1 million or 15.9% to HK$503.9 million (Previous Year: HK$434.8 million). The increase is attributed to the prompt conversion of projects on hand to revenue, which follows the expansion of the Group's interior design team. The revenue from interior decorating and furnishing services segment increased from HK$70.7 million during the Previous Year to HK$119.1 million during the Year, representing 16.3% and 23.6% of the total revenue respectively. While the revenue from our interior design services segment slightly increase from HK$360.5 million to HK$380.3 million, representing 82.9% and 75.5% of the total revenue respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

GROSS PROFIT BY SEGMENT

	2018			2017		
	Revenue HK$ million	Gross profit HK$ million	Gross profit margin %	Revenue HK$ million	Gross profit HK$ million	Gross profit margin %
Interior Design Services	**380.3**	**191.9**	**50.5**	360.5	198.9	55.2
Interior Decorating and Furnishing Services	**119.1**	**34.2**	**28.7**	70.7	12.3	17.4
Product Design Services	**4.5**	**0.4**	**8.9**	3.6	1.9	52.8
Overall	**503.9**	**226.5**	**44.9**	434.8	213.1	49.0

The Group's gross profit slightly increased by HK$13.4 million or 6.3% to HK$226.5 million (Previous Year: HK$213.1 million), while gross profit margin slightly decreased to 44.9% (Previous Year: 49.0%). The decline was primarily due to an increase in average salaries and continuing rise in contributions from the interior decorating and furnishing services segment.

The interior decorating and furnishing services segment consist of the provision of interior design services and trading of interior decorative products, both of which are currently under development. The gross profit margin of trading of interior decorative products is, however, usually lower than that of service income. Therefore, the change in revenue mix during the Year further contributed to the decline in gross profit margin.

REMAINING CONTRACT SUM MOVEMENT:

	Interior Design Services HK$ million	Interior Decorating and Furnishing Services HK$ million	Total HK$ million
Remaining contract sum carry as at 1 January 2017	**363.1**	**44.4**	**407.5**
Add: New contract sum awarded during the Year	446.3	77.2	523.5
Less: Revenue recognised during the Year	(360.5)	(70.7)	(431.2)
Less: Purchase made	–	(8.7)	(8.7)
(Less)/Add: Variation order	(83.8)	9.2	(74.6)
Add: Exchange realignment	3.5	2.6	6.1
Remaining contract sum as at 31 December 2017	**368.6**	**54.0**	**422.6**
Add: New contract sum awarded during the Year	370.4	138.8	509.2
Less: Revenue recognised during the Year	(380.3)	(119.1)	(499.4)
Less: Purchase made	–	(2.0)	(2.0)
(Less)/Add: Variation order	(63.4)	11.1	(52.3)
Add/(Less): Exchange realignment	11.4	(3.4)	8.0
Remaining contract sum as at 31 December 2018	**306.7**	**79.4**	**386.1**

Due to the prompt conversion of contract sum to revenue subsequent to our expansion plan and the newly awarded contract sum during the Year was reduced, the remaining contract sum for the interior design services reduced from HK$368.6 million as at 31 December 2017 to HK$306.7 million as at the current year end, while the remaining contract sum from the interior decorating and furnishing services increased from HK$54.0 million as at 31 December 2017 to HK$79.4 million as at the current year end.

OTHER GAINS AND LOSSES

The Group recorded other gains of HK$4.7 million for the Year (Previous Year: HK$3.2 million), which were primarily derived from an exchange gain resulting from the realisation of exchange difference from settlement of Renminbi transactions during the Year.

OTHER INCOME

The other income represents the interest income from bank deposit and note receivables and government grant. The increase from HK$1.9 million to HK$2.5 million during the Year was mainly contributed from the increase in PRC government grant and the interest from bank deposit and note receivables during the Year.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased from HK$102.8 million to HK$129.8 million representing an increase of 26.3% during the Year. Other than the increase in the average salaries of the Group, as a result of our expansion strategy, the increase in administrative expenses were also due to the increase in rental expenses, average headcount and marketing expenses during the Year.

FINANCE COSTS

The finance costs are arising from the bank borrowings for financing our equity capital raising expenses. The increase in finance costs was due to the increase in average bank borrowings during the Year. The bank borrowings for financing our equity capital raising expenses were fully repaid in January 2019.

PROFIT FOR THE YEAR

The Group's profit for the year amounted to HK$58.0 million (Previous Year: HK$73.6 million), representing a decrease of HK$15.6 million or 21.2%, and was the result of an increase in revenue, decrease in gross profit margin and increase in several expenses as abovementioned.

BASIC EARNINGS PER SHARE

The Company's basic earnings per share for the Year was HK5.70 cents (Previous Year: HK8.45 cents), decreased by HK2.75 cents or 32.5% and was in line with the decrease in profit for the Year. In addition, the basic earnings per share for the Year was calculated based on the weighted average number of 995,547,945 shares in issue during the Year, whilst basic earnings per share for the Previous Year was calculated based on the weighted average number of 855,000,000 shares then in issue. As such, the basic earnings per share for the Year was relatively lower than those for the Previous Year. Details of earnings per share are set out in note 15 to the Consolidated Financial statements of this Report.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DIVIDEND

The Board proposed a final dividend of HK2.50 cents per share and a special dividend of HK2.50 cents per share for the Year subject to the approval of the shareholders at the annual general meeting ("AGM"). The total dividend for the Year is HK5.0 cents per share, equivalent to approximately 100.5% of the profit attributable to the owners of the Company for the Year, which is higher than the total dividend for the year ended 31 December 2017.

OUTLOOK AND PROSPECT

Despite the Group delivers creditable results for 2018, it remains cautiously optimistic about the medium-to-long-term prospects for its expansion plan and the overall interior design market. The Group will consider diversification of business in the industry and possible merger and acquisition in the future.

Looking ahead, the global economy is expected to be volatile and market sentiment continues to be conservative. The Group will closely monitor global political development including the Sino-US trade war and Brexit. The management are confident in rising to the challenge through the Group's diversification strategy.

The Group will continue to strengthen its core business, especially striving for further penetration of the PRC market. Despite the indifferent response in Chinese property and investment markets during the Year, the Group firmly believes that regulations laid on property market are intended to fight against property speculation and maintain healthy growth in the property market. Determination of the Chinese Government to support urbanisation and building advanced modern cities has apparently remained unchanged from the previous policies, and demand for property is expected to rise in the long run. In addition, "Greater Bay Area" and "Belt and Road" are major strategic initiatives strongly promoted by the PRC which the Group can take advantage of and thereby further expand its business, seizing a greater market share. The PRC market remains enormous and the Group is confident that through the future development of the economy, its business there can have a prosperous future.

In the coming year, the Group will adopt strategies of diversification, specialisation, globalisation to enhance its capacity as well as value. The Group will keep promoting our design brands (Steve Leung Designers "SL D", Steve Leung Lifestyle "SL L", Steve Leung Casa "SL C", Steve Leung Hospitality "SL H", Steve Leung Wellness "SL W", Steve Leung Architects "SL A", Steve Leung Education "SL E", Steve Leung & Yoo "SL Y", Steve Leung Exchange "SL X", Everyday Living " " and Gangyuan Design "GY D") and aimed to provide one-stop and comprehensive services to our clients. It will also enhance the synergies among these brands to provide superior professional and quality services.

The Group will further promote the specialisation of interior design and interior decorating and furnishing services, especially in the elderly and wellness interior design sector, striving to stand out in the industry and further consolidate and upgrade our brand value. In terms of globalisation, there is no doubt that the international market is another key focus that the Group will place emphasis on. Up to the date of this report, the Group has completed a number of internationally-renowned projects, including award-winning projects Yuan, Atlantis the Palm in Dubai, The Eight, Grand Lisboa Hotel in Macau, The Mandarin Palace in Shanghai, Nanjing Mandarin Palace, Lake Geneve in Suzhou, Mangrove Bay Residence in Shenzhen, etc. We believe the Group can enhance our brand recognition and participate in quality projects, bringing considerable contributions to its revenue and create value to our shareholders.

Furthermore, the Group's newly-established marketing department will take a proactive role in conducting outreach to potential clients, widening our domestic and international service territory and seizing market shares. The Group will also promote our competitive advantages, including: strength of our brand, creating value, convergence of talents, efficient executive, forming a one-stop diversified business platform and people-orientation in our design in order to consolidate our branding and leading position.

While enhancing promotion and marketing, the Group will strengthen our internal resources, including the "SLD+", an experience center in our Shanghai office. SLD+ aimed to provide our clients and visitor with an experience of the atmosphere and concept of our interior design, interior decorating and furnishing and product design in a comprehensive manner. SLD+ is expected to have its grand opening in third quarter of 2019.

With strong, experienced and professional teams, quality of services, reputation and leading position, the Group is confident in seizing opportunities, bringing satisfactory and sustainable returns and creating value to shareholders. The Group will continue to leverage the strong experience of its management and designers in the next fiscal year to further expand and maintain the strong growth as in the past so that to deliver sustainable yields and reasonable capital gains for shareholders.

CORPORATE FINANCE AND RISK MANAGEMENT

LIQUIDITY AND FINANCIAL RESOURCES

The management and control of the Group's financial, capital management and external financing functions are centralised at the headquarters in Hong Kong. The Group has been adhering to prudent financial management in order to minimise financial and operational risks. The Group mainly relies upon internally generated funds, bank borrowings and the net proceeds from the issue of shares by way of global offering on 5 July 2018 (the "Global Offering") to finance its operations and expansion.

As at 31 December 2018, the Group's total debt (representing total interest-bearing borrowings) to total asset ratio was approximately 3.4% (Previous Year: 2.1%). The gearing ratio (net debt to equity attributable to owners of the Company) was approximately 4.4% (Previous Year: approximately 4.0%) as the Group has net cash (bank balances and cash less total debt) of approximately HK$263.2 million as at 31 December 2018 (Previous Year: net cash of approximately HK$146.9 million).

The bank borrowings of the Group were mainly contributed by the bank borrowings for financing our equity capital raising expenses. The borrowings of HK$20 million was guaranteed by the Company, with one-year term from draw down date and repayable in January 2019. Further costs for operations and expansion will be partially financed by our unutilised bank facilities. Up to this report date, the bank borrowings for financing our equity capital raising expenses were fully repaid by the net proceed from Global Offering as stated in the Prospectus and operating cash with no new bank borrowing drawdown.

The liquidity of the Group maintained strong and healthy. The current ratio (i.e. current assets/current liabilities) of the Group as at the end of the Year was 4.2 (Previous Year: 2.0). The Group also has sufficient committed and unutilised loan and working capital facility and guarantee facilities to meet the needs of the Group's business development. The Group will cautiously seek for development opportunities with a view to balancing the risk and opportunity in maximising shareholder's value.

As at 31 December 2018, the share capital and equity attributable to owners of the Company amounted to approximately HK$11.4 million and approximately HK$476.4 million, respectively (Previous Year: approximately HK$10 and approximately HK$199.2 million, respectively).

PLEDGE OF ASSETS

As at 31 December 2018, the Group's bank borrowings was guaranteed by the Company.

As at the end of Previous Year, The Group's bank borrowings were secured by floating charge over all receivables of certain subsidiaries and pledged bank deposits of approximately HK$1,004,000.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The Group did not have any significant contingent liabilities as at 31 December 2018 and 31 December 2017. For capital commitments, please refer to note 35 to the consolidated financial statements.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND INTEREST RATES AND CORRESPONDING HEDGING ARRANGEMENT

The Group's bank borrowings have been made at floating rates. The Group operates in various regions with different foreign currencies including Renminbi and United States Dollars. The exchange rates for the foresaid currencies are relatively stable. The Group reviews the exchange risk regularly and closely monitors the fluctuation of foreign currencies and will make proper adjustments if necessary. The Group currently has no hedging arrangements for foreign currencies or interest rates.

CREDIT RISK EXPOSURE

The Group has adopted prudent credit policies to deal with credit exposure. In connection with projects in progress (no matter in Hong Kong, the PRC or overseas), the major customers are institutional organisations and reputable property developers. Therefore, the Group is not exposed to significant credit risk.

Even though there is no significant credit risk exposure and there are no overdue trade receivables written-off during the Year, the Group's management reviews from time to time the recoverability of trade receivables and closely monitors the financial position of the customers in order to keep a very low credit risk exposure of the Group.

RISK MANAGEMENT AND INTERNAL CONTROL

The Group has a risk management procedure and an internal control system that are characteristics of a clear governance structure, policy procedure and reporting mechanism, to help the Group manage its risks in all business segments.

The Group has established an organisational structure for risk management, composed of the Board, the Audit Committee, the Risk Management Committee, and the business departments, management and staff of the Group. The Board assesses and determines the nature and extent of risks that the Group is willing to accept in achieving its strategic objectives, and ensures that it establishes and maintains proper and effective risk management and develops a suitable corporate risk culture. The Board also monitors the coordination among the staff, corporate strategy, risk, internal control and compliance.

The Group has also developed and adopted a management system for corporate risks, which provides effective solutions to risk identification, assessment and handling. For at least once a year, the Risk Management Committee identifies the risk factors affecting the Group in realising its business objectives, works out ratings and rankings for such risks based on their possibility and impact, formulates solutions and strategies to major risks, and designates the people in charge of addressing such risks.

In addition, the Group has engaged an independent professional advisor to assist the Board and the Audit Committee in on-going monitoring of the internal control systems of the Group by identifying deficiencies in the design and implementation of internal controls and proposing recommendations for improvement.

Risk management report and internal control report are submitted to the Audit Committee and the Board at least once a year. The Board had performed annual review on the effectiveness of the Group's risk management and internal control systems for the Year, including but not limited to the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board considers the Group's risk management and internal control systems are effective and adequate.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In order to widen the revenue foundation of the Group, the Group is actively looking for opportunities in different project nature. The Group will evaluate the market conditions and adjust its strategy in a timely manner and make decisions so as to ensure the effective implementation of the Group's expansion and operation plan. The Group will continue to strengthen the internal control system and risk control system by regularly reviewing the market risk, legal risk, contract risk and credit risk of clients of the domestic and overseas markets.

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group complies with the requirements of the SFO and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensuring that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

EVENTS AFTER THE REPORTING PERIOD

There are no significant events subsequent to 31 December 2018 which may materially affect the Group's operating and financial performance as at the date of the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had approximately 587 (Previous Year: 520) full-time employees. The total remuneration for employees (including the directors' remuneration) were approximately HK$204.0 million for the Year (Previous Year: HK$169.7 million). The increase in total remuneration of the employees was mainly due to the increase in number of employees and average salary of our staffs. The Group offers attractive remuneration policy, discretionary bonus and share options will also be granted to eligible staff based on individual performance in recognition of their contribution and hard work. The Group also provides external training programmes which are complementary to certain job functions.

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSALS

For the purpose of obtaining a better interest rate on surplus funds, the Group subscribed two short-term notes with six months maturity during the Year which to be matured on 21 April 2019 and 17 June 2019 with a fixed interest rate of 6.0% per annum at a consideration of HK$30.0 million each amounting to a total consideration of HK$60.0 million.

The Group is subject to the market risks associated with its investments. The management of the Group will closely monitor the performance of the Group's investments from time to time and will consider taking risk management actions should the need arise.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have other plans for material investments and capital assets as at 31 December 2018.

USE OF PROCEED FROM THE GLOBAL OFFERING

The shares of the Company have been listed and traded on the Main Board of the Stock Exchange since 5 July 2018. The net proceeds from the Global Offering amounted to HK$195.0 million (after deducting underwriting fees and commissions and all related expenses). Such net proceeds are intended to be applied in accordance with the proposed application as disclosed in the Prospectus. As at 31 December 2018, the net proceeds received were applied as follows:

	Net proceeds (HK$ million)		
	Available	Utilised	Unutilised
Strengthening our Interior Design Services and developing specialisation	67.0	13.3	53.7
Further developing our Interior Decorating & Furnishing Services	31.1	8.2	22.9
Pursuing growth through selective mergers and acquisitions	28.4	–	28.4
Improving our information technology systems	22.1	8.7	13.4
Repaying existing bank borrowings	19.0	–	19.0
Enhancing our brand recognition	11.0	2.4	8.6
Further developing our Product Design Services	3.1	0.8	2.3
Working capital and other general corporate purposes	13.3	5.3	8.0
Total	195.0	38.7	156.3

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Siu Man Hei (蕭文熙先生), aged 63, is an executive Director and the Chief Executive Officer of the Company. Mr. Siu joined the Group in February 2007 and is mainly responsible for the business development, operation and management. He also holds other directorships in the Group's subsidiaries.

Mr. Siu has over 27 years of experience in the architecture and interior design and decorating services and building industries. In July 1991, he established IE, SIU & CHUNG ARCHITECTS LIMITED, a private company in Hong Kong with limited liability which was principally engaged in architecture and design services with other partners. From July 1999 to February 2006, he was the assistant general manager of property division of Emperor Investment (Management) Limited, an investment management company, and was principally responsible for the overall management of the development projects.

Mr. Siu graduated from the University of Hong Kong with a Bachelor of Arts degree in architectural studies in 1978 and a Bachelor of Architecture degree in 1980. He became a member of the Hong Kong Institute of Architects and a member of the Royal Institute of British Architects both in 1983, and an Authorised Person (List of Architects) registered with the Building Authority in 2010. He also became a registered architect of the Architects Registration Board in Hong Kong under the Architects Registration Ordinance (Chapter 408 of the Laws of Hong Kong) in 1991.

Mr. Yip Kwok Hung Kevin (葉玨鴻先生), aged 40, is an executive Director and the Chief Financial Officer of the Company. He is also a member of the risk management committee of the Board. Mr. Yip joined the Group in January 2014 and is mainly responsible for overseeing the financing, accounting and internal control, human resource and administrative management. He is also currently a director of Eagle Vision Development Limited, a controlling shareholder of the Company and each of our subsidiaries.

Prior to joining our Group, Mr. Yip joined Deloitte Touche Tohmatsu as a staff accountant in December 2002 and last served as a senior accountant of the audit department until June 2009, and was responsible for audit matters. From June 2009 to December 2013, he last served as an assistant financial controller of Rykadan Management Services Limited, a subsidiary of Rykadan Capital Limited (a company listed on the Main Board of the Stock Exchange (stock code: 2288) which operates and invests in real estate development, real estate investment and distribution of building materials), and was responsible for financial management and operational affairs.

Mr. Yip obtained a Bachelor of Science degree from the University of Hong Kong in 2000 and a Master of Commerce degree in fund management from the University of New South Wales, Australia in 2003.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Ding Chunya (丁春亞先生), aged 36, is an executive Director of the Company. He is mainly responsible for overseeing the operation of Gangyuan Design and the business in the PRC. Mr. Ding joined Gangyuan Design in September 2010, which became a subsidiary of the Company since September 2016. From April 2013 to December 2014, he was appointed as the general manager of the Xiamen branch of Gangyuan Decoration, the then sole shareholder of Gangyuan Design and a company principally engaged in the business of decoration engineering, and was responsible for the marketing, manufacture and operation of such branch. Mr. Ding is also the principal of Gangyuan Design.

Mr. Ding graduated from the North China University of Technology (北方工業大學), the PRC with a Bachelor in Engineering in 2005. He was accredited as a senior interior architect (高級室內設計師) by the China Building Decoration Association (中國建築裝飾協會) in 2009. He became a deputy officer of the design committee of the China Building Decoration Association (中國建築裝飾協會) in 2015.

Ms. Kau Wai Fun (裘慧芬女士), aged 58, is an executive Director of the Company and the Director of Administration of the Group. Ms. Kau joined the Group as Administrative Manager of Steve Leung Architects Limited ("SLA") in November 2005. She is mainly responsible for the management of administration and human resources.

Prior to joining our Group, Ms. Kau served as a finance and administration manager from August 1997 to February 2005 at PERCY THOMAS PARTNERSHIP (HK) LIMITED, a company incorporated in Hong Kong with limited liability which was principally engaged in architecture planning and design, where she was mainly responsible for office administration, finance and human resources management.

Ms. Kau obtained a diploma in human resource management from the University of Hong Kong School of Professional and Continuing Education, Hong Kong in 1998 and a Master of Science degree in training and human resource management from the University of Leicester, United Kingdom in 2004 through long distance learning. She became an ordinary member and subsequently a professional member of the Hong Kong Institute of Human Resource Management in 2008 and 2010 respectively.

NON-EXECUTIVE DIRECTORS

Mr. Xu Xingli (許興利先生), aged 48, is a non-executive Director and the chairman of the Board. Mr. Xu joined the group in February 2014 and is mainly responsible for the overall strategy, investment planning and human resource strategy of the Group and serving as a member of the remuneration committee and the chairman of the nomination committee of the Board. He is a director of each of our subsidiaries (other than SLD Group Holdings and Gangyuan Design). He joined Jangho Group Co., Ltd. and its subsidiaries ("Jangho group") in December 2006 and is currently the chief executive officer and the general manager of Jangho Co., Ltd. one of the Company's Controlling Shareholders and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 601886), responsible for the overall strategy, investment planning, management and operations of Jangho Group.

Prior to joining our Group, Mr. Xu served as the head of the finance department and the deputy officer of Inspur Group Limited (浪潮集團有限公司) from July 1994 to June 2001, primarily responsible for the financial matters of the branch office and the group companies of Inspur Group Limited. From March 2005 to December 2006, Mr. Xu served as the chief financial officer of Shandong Inspur Qilu Software Industry Company Limited (山東浪潮齊魯軟件產業股份有限公司), the A shares of which are listed on the Shanghai Stock Exchange (stock code: 600756), and was principally responsible for the financial management. Shandong Inspur Qilu Software Industry Company Limited (山東浪潮齊魯軟件產業股份有限公司) is principally engaged in the tobacco and electronic governance business.

Mr. Xu graduated from the Shanghai University of Finance and Economics (上海財經大學), the PRC with a Bachelor in Accounting in 1994. He became a non-practising member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in 2009 and a senior accountant approved by the Beijing Senior Specialized Technique Qualification Evaluation Committee (北京市高級專業技術資格評審委員會) in May 2013.

Mr. Huang Jianhong (黃劍虹先生), aged 43, was appointed as a non-executive Director of the Company on 23 January 2019.

Mr. Huang has over 20 years of experience in the PRC capital market. Mr. Huang currently serves as assistant director of Dongxing Securities (Hong Kong) Financial Holdings Limited, member firm of China Orient Asset Management Co., Ltd.. Since August 1994, Mr. Huang worked as a clerk in Minfa Securities Co.,Ltd (閩發證券有限責任公司). and left in 2006. He subsequently worked in New Times Securities Co.,Ltd., Orient Securities Co., Ltd. and Northeast Securities Co. Ltd respectively in 2006, 2007 and 2008. In January 2010, Mr. Huang joined Dongxing Securities Co., Ltd. as a senior regional manager of Fuzhou Jiangyan Road Sales Department (福州江厝路營業部). He subsequently worked as the regional representative of asset management department (資產管理部) from April 2010 to May 2013, deputy general manager and general manager of Fuzhou Wuyi Middle Road Sales Department (福州五一中路營業部) of Dongxing Securities Co., Ltd. from May 2013 to November 2017.

Mr. Huang graduated from the distant-learning college of the faculty of finance (網路學院金融學專業網絡教育) of Hunan University, the PRC in July 2005, majoring in finance.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Xie Jianyu (謝健瑜先生), aged 39, was a non-executive director of the Company and resigned on 23 January 2019. Mr. Xie joined our Group in February 2014 and is mainly responsible for the overall strategy, investment planning and human resource strategy of our Group. He also holds directorship in Jangho Group. Since 2012, Mr. Xie has been a chief financial officer and an executive director of Sundart Holdings, a company listed on the Main Board of the Stock Exchange (stock code: 1568), the principal business activities of which include providing fitting-out work for residential property and hotel projects in Hong Kong and Macau, and is responsible for overseeing the financing, accounting and internal control, human resources and administrative management of Sundart Holdings and its subsidiaries.

Prior to joining our Group, from March 2006 to December 2008, Mr. Xie was a cost control manager of the finance department of ATLANTIS Holding Norway AS, the principal business activities of which include the exploration and development of oil and gas, where he was responsible for cost control management. From January 2009 to March 2010, he was a chief accountant of Workz Middle East FZE, the principal business activities of which include telecommunications and logistics, where he was responsible for financial management. From April 2010 to June 2012, he was a financial director of the Middle East & North Africa group of J&H Emirates LLC, the principal business activities of which include curtain wall installation, where he was responsible for financial, human and administrative affairs.

Mr. Xie obtained a bachelor degree in economics from Xiamen University (廈門大學), the PRC in 2001 and a master degree of business administration from the University of Hong Kong in 2015. Mr. Xie became a certified management accountant of the Institute of Management Accountant and a member of the Association of Chartered Certified Accountants in February 2008 and September 2014, respectively.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Yi (劉珝先生), aged 70, is an independent non-executive Director of the Company. Mr. Liu is also a member of the audit committee of the Board and responsible for advising on corporate governance of the Group.

From June 1992 to May 1995, Mr. Liu was an associate chief secretary of the interior decoration industry's management office of the Department of Light Industry of the PRC (中國輕工業部). From June 1995 to August 2018, he had served as secretary general of the second council, vice president and secretary general of the third council, executive vice president of the fourth council and president of the fifth council of the China Interior Decoration Association (中國室內裝飾協會), which is principally engaged in the management of the interior decoration industry. Mr. Liu is the honorary president and chairman of the industry development strategy committee of the China Interior Decoration Association currently.

Mr. Liu obtained a Bachelor degree in Commercial Economics form the Renmin University of China (中國人民大學), the PRC in 1983. He became an economist of the ministry of light industry of the PRC in 1988 and a grade A project manager in the State Light Industry Bureau (國家輕工業局) in 2000.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Sun Yansheng (孫延生先生), aged 55, is an independent non-executive Director of the Company. Mr. Sun also serves as the chairman of the remuneration committee and a member of each of the audit and nomination committees of the Board. He is responsible for advising on corporate governance of the Group.

Mr. Sun qualified as a PRC Lawyer in June 1994 and founded Beijing Tian Yin Law Firm (北京市天銀律師事務所) in December 2002. From February 2013 to April 2016, he was a member of the planning committee of the China Securities Regulatory Commission, which was principally engaged in the carrying out of forward-looking research on and to propose solutions to capital market-related laws and policies, where he was mainly responsible for advising on regulatory reform as well as carrying out research on capital market supervision, registration reform and information disclosure. Since April 2016, he has been the founding partner of Beijing Duncheng Investment Management Consultation Centre (Limited Partnership) (北京敦誠投資管理諮詢中心(有限合夥)), which is principally engaged in the provision of investment advice on industries and government guidance and the management of industry funds, where he is mainly responsible for participating in the formation of industry funds, guiding the formation of local government industrial funds and serving as a listed company and government financing and strategic adviser.

Mr. Sun obtained a Bachelor of Law degree from the Inner Mongolia University (內蒙古大學), the PRC in 1986 and a Master of Law degree from the Renmin University of China (中國人民大學), the PRC in 2003. He also received a certificate of completion for a postgraduate course in political economics from the Harbin Institute of Technology (哈爾濱工業大學), the PRC in 1999.

Mr. Tsang Ho Ka Eugene (曾浩嘉先生), aged 37, is an independent non-executive Director of the Company. Mr. Tsang also serves as chairman of each of the audit committee and the risk management committee and a member of the remuneration and nomination committee of the Board. He is responsible for advising on corporate governance of the Group.

Mr. Tsang has been a founder of Gattaca Company Limited (a company principally engaged in the business of corporate restructuring, financial reengineering, business advisory and consulting) since May 2011, a consultant of GenNex Financial Media Limited (a company principally engaged in the business of the provision of financial printing services for the financial sector in Hong Kong) since January 2012, and the managing director of New Horizon Capital (Group) Limited (a company principally engaged in the business of which include private equity in Hong Kong, the PRC and overseas and the money lending business in Hong Kong) since March 2015. Mr. Tsang was an independent non-executive director of Winto Group (Holdings) Limited, a company listed on the GEM of the Stock Exchange (stock code: 8238) and was principally engaged in the business of outdoor advertising and print media from January 2015 to 2 March 2018. Mr. Tsang was appointed as an Honorary Financial Advisor of the Smart Education Charitable Foundation Limited (the "Foundation") in June 2017, a leading provider of high quality and innovative e-learning solutions which organises and sponsors various charitable events and programmes to the students in Hong Kong, Macau and the PRC.The Foundation is a charitable institution and is exempt from tax under section 88 of the Inland Revenue Ordinance.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

In December 2002, Mr. Tsang joined Deloitte Touche Tohmatsu as a staff accountant and last served as a semi-senior accountant of the audit department until February 2006. From September 2006 to March 2007, he was the company secretary and a qualified accountant of Maxitech International Holdings Limited, which was previously listed on the GEM of the Stock Exchange (stock code: 8136) and is currently known as Winfull Group Holdings Limited which is listed on the Main Board of the Stock Exchange (stock code: 183). From April 2007 to February 2015, his last position was non-executive director of MP Logistics International Holdings Limited, currently known as Capital Finance Holdings Limited, a company listed on the GEM of the Stock Exchange (stock code: 8239). From April 2012 to February 2015, his last position was joint company secretary of Newtree Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1323). From May 2013 to July 2014, his last position was non-executive director of China Neng Xiao Technology (Group) Limited, currently known as China Ocean Fishing Holdings Limited, a company listed on the GEM of the Stock Exchange (stock code: 8047). From July 2014 to October 2015, he was an independent non-executive director of Mitsumaru East Kit (Holdings) Limited, currently known as Jiu Rong Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2358).

Mr. Tsang completed an accounting extension course in Australian Taxation Law and an accounting extension course in Australian Corporations Law in the Centre for Continuing Education of the University of Sydney, Australia in 2002 and subsequently obtained a Bachelor of Commerce degree in accounting and finance from the University of New South Wales, Australia in 2003. Mr. Tsang became a certified practicing accountant and a fellow of CPA Australia in 2006 and 2018 and a member and a fellow of the Hong Kong Institute of Certified Public Accountants in 2006 and 2014, respectively. He also became an associate member of the Institute of Certified Management Accountants, Australia in 2007, a member and a fellow of the Hong Kong Institute of Directors in 2008 and 2018, respectively, an associate, a certified tax adviser and a fellow of the Taxation Institute of Hong Kong in 2008, January 2014 and July 2014 respectively, and an international associate of the American Institute of Certified Public Accountants in 2013.

SENIOR MANAGEMENT

Mr. Leung Chi Tien Steve (梁志天先生), aged 61, is the founder of the Company. He also holds other directorships in the Group's subsidiaries. Mr. Leung is mainly responsible for the brand building, market development and strategic planning of the Group, as well as creative design of our key projects. Mr. Leung does not hold any directorship or senior management position in the Company.

Mr. Leung is a leading interior and product designer in Hong Kong with over 30 years of experience in the interior design and decorating services and architecture industries. Mr. Leung is also a renowned architect. Prior to establishing our Group in 1997, Mr. Leung served as an assistant architect of the design department of Wong & Ouyang & Associates from September 1981 to October 1983, and was responsible for office/commercial and residential projects. He worked as a building surveyor of the Building Development Department of Hong Kong from November 1983 to April 1986 and the Buildings and Lands Department of Hong Kong from April 1986 to June 1986. Mr. Leung was a director of ARCHITECTS AND DESIGNERS CO. LIMITED (later known as C D U ARCHITECTS, PLANNERS LIMITED) which was incorporated in April 1987 in Hong Kong (which was struck off and dissolved on 21 January 1994 due to cessation of business), an architectural and urban planning consultancy, from September 1987 to October 1990, responsible for architecture and interior design advisory. He also established LKI DEVELOPMENT LIMITED (later known as LEUNG & CHOW ARCHITECTS PLANNERS LIMITED) in Hong Kong (which was deregistered on 2 December 2005 due to cessation of business) which was incorporated in February 1990, an architectural and urban planning consultancy, where he was a director, responsible for architecture and interior design advisory.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Leung obtained a Bachelor of Arts degree in architectural studies, a Bachelor of Architecture degree and a Master of Science degree in urban planning from the University of Hong Kong in 1978, 1981 and 1986 respectively. He became a member of the Hong Kong Institute of Architects and a corporate member of the Royal Institute of British Architects in 1983, an associate of the Royal Australian Institute of Architects in 1984, an Authorised Person (List of Architects) registered with the Building Authority in 1994, and a member of the Hong Kong Institute of Planners in 1992. Mr. Leung is a registered architect of the Architects Registration Board in Hong Kong. He is also a fellow member of the Hong Kong Interior Design Association and a member of the Hong Kong Designers Association. In December 2013, Mr. Leung was appointed as an executive officer of the design professional committee of China National Interior Decoration Association (中國室內裝飾協會設計專業委員會). In March 2016, he was informed by the International Federation of Interior Architects/Designers (the "IFI") that he was elected as the President-elect on the IFI Executive Board from 2015 to 2017 and President from 2017 to 2019 of the IFI. In December 2016, he was appointed as the chairman of the board of C Foundation.

Mr. Leung also assumes several social positions including the adjunct professor of The University of Hong Kong School of Professional and Continuing Education and a member of the board of directors of Hong Kong Design Centre. Mr. Leung was also recognised as an honorary fellow of Vocational Training Council in December 2016.

Mr. Chong Chiu Fung (莊超峰先生), aged 46, the Chief Creative Officer of the Group. Mr. Chong first joined us in November 2003. In February 2008, Mr. Chong left our Group and re-joined us in May 2011 as Design Director. He is mainly responsible for the design quality control and development of the new design style of the Group.

In addition to his experience with us, from October 1992 to September 2003, Mr. Chong worked for a number of interior design companies as an interior designer, mainly responsible for providing design concept, presentations, working drawings, site coordination etc. From February 2009 to May 2011, Mr. Chong served as an associate of Ronald Lu and Partners (Hong Kong) Limited, a company principally engaged in interior design works and was mainly responsible for leading the design teams, providing design directions and presentations and the communication with clients throughout duration of the relevant projects.

Mr. Chong obtained a diploma in furniture and spatial design from the Hong Kong Institute of Vocational Education Sha Tin Campus, Hong Kong in 1992.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Prof. Stephen Tang, BBS (鄧文彬教授), aged 62, is the Principal Consultant of the Group. He joined us in 2017 and assists the Group in Wellness Design covering various approaches including in-depth investigation, training, design review and project assessment, in a broad range of design projects and categories.

Prof. Tang is the former Deputy Director of Architectural Services and has over 30 years of experience in architecture, urban planning and design. He is currently the Chairman of Prince of Wales Hospital Subcommittee on Capital Works, overseeing the redevelopment of a HKD 30B teaching hospital towards wellness design. He is the Advisor of Countryside Conservation Office of Hong Kong SAR Government, a non-official member of Urban Design Advisory Group of Planning Department of Hong Kong SAR Government. He is also the Advisory Committee member of the Jockey Club Design Institute for Social Innovation of the Hong Kong Polytechnic University, Adjunct Professor at both the University of Hong Kong and Chinese University of Hong Kong on Urban Planning and Urban Studies Programme respectively, and he was the President of Hong Kong Institute of Urban Design (2016 – 2018).

Mr. Ng Chung Kwan (吳仲君先生), aged 44, is the Director of Projects of the Group. Mr. Ng joined the Group in August 2002. He is mainly responsible for the management and implementation of our Interior Design Services projects undertaken by our design team in Hong Kong.

Prior to joining our Group, from October 2000 to September 2002, he was an architectural builder's work and finishes (ABWF) assistant architect at Kumagai Gumi Co., Ltd., a company principally engaged in the business of construction works.

Mr. Ng obtained a Bachelor of Arts degree in architectural studies and Master of Architecture degree from the University of Hong Kong in 1997 and 2000 respectively. He became a member of The Hong Kong Institute of Architects in June 2003, a registered architect of the Architects Registration Board in Hong Kong under the Architects Registration Ordinance (Chapter 408 of the Laws of Hong Kong) in July 2003, and an Authorised Person (List of Architects) registered with the Building Authority under section 3 of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong) in October 2007.

Mr. Pang Hoi Fung (彭凱峯先生), aged 45, is the Director of Projects of the Group. Mr. Pang joined the Group in June 2006. He is mainly responsible for the management and implementation of our Interior Design Services projects undertaken by our design teams in the PRC.

Prior to joining our Group, Mr. Pang was an interior designer at Seedtron Development Consultant Ltd., a company principally engaged in the business of interior design services, and is involved in design projects for hotel chains, developers, rental shops, from May 1995 to June 2006.

Mr. Pang obtained a diploma in interior design from the Hong Kong Institute of Vocational Training Council at the Lee Wai Lee Technical Institute, Hong Kong in 1993.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Chongchaiyo, Soraphong (張培成先生), aged 37, is the Director of Design of the Group. Mr. Chongchaiyo joined the Group in February 2016 as Design Director. He was promoted to Design of Director in April 2018. He is mainly responsible takes charge of hospitality and F&B projects in the PRC and overseas.

In addition to his experience with us, from April 2003 to June 2015, Mr. Chongchaiyo worked for a number of interior design companies as an interior designer, mainly responsible for providing design concept, presentations, working drawings, site coordination etc. From July 2015 to January 2017, Mr. Chongchaiyo served as Lead Design and Associate of EDG Interior Architecture + Design, Singapore, he was mainly responsible for leading the design teams, providing design directions and presentations and the communication with clients throughout duration of the relevant projects.

Mr. Chongchaiyo obtained a Bachelor of Architecture in Interior Architecture from Chulalongkorn University, Thailand 2003.

Mr. Hu Wei (胡偉先生), aged 36, is the Director of Design of the Group. Mr. Hu joined the Group in August 2007 as Interior Designer. He was subsequently promoted to Senior Interior Designer, Associate Design Director, Design Director and Director of Design in October 2009, April 2011, January 2014 and October 2018. He is mainly responsible takes charge of residential and commercial property development projects in the PRC.

In addition to his experience with us, from July 2006 to July 2007, Mr. Hu worked for Decoration Company as assistant designer, mainly responsible for providing design concept, presentations, working drawings, site coordination etc.

Mr. Hu obtained a Bachelor of Arts in Interior Design from Donghua University, the PRC 2006.

Ms. Chwe Shuk Fong (徐淑芳女士), aged 55, is the Director of Design of Steve Leung Lifestyle ("SLL"). Ms. Chwe joined the Group in January 2001. She is mainly responsible for the management and implementation of our Interior Decorating and Furnishing Services projects carried out in the PRC, Hong Kong and overseas.

Prior to joining our Group, from 1993 to 2000, Ms. Chwe was a freelance consultant for JP CONCEPT S.r.l., where she was responsible for the provision of consultancy services relating to product design for the PRC, Hong Kong and Italian markets.

Mr. Zhang Xiao (張曉女士), aged 31, is the Director of Projects of SLL. Ms. Zhang joined the Group in July 2017 as Operations Director. She was promoted to Project of Director of SLL in June 2018. She is mainly responsible for take charges of the daily operation management of FF&E.

In addition to her experience with us, from January 2006 to July 2017, Ms. Zhang worked for a brand furniture agent and decoration company as Design Director and Founder. She was mainly responsible for leading the teams, take charges of the daily operation management and the communication with clients throughout duration of the relevant projects.

Ms. Zhang obtained a Diploma of Interior Design from Domus Academy, Italy 2014.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Cheung Henry (張樂庭先生), aged 34, is the Chief Accountant of finance and accounting department and Company Secretary of the Company and Chief Accountant of the Group. He also serves as a member of the risk management committee of the Board. Mr. Cheung joined us in May 2016 and is mainly responsible for assisting the Chief Financial Officer in processing and reviewing financial affairs of the Group.

Mr. Cheung has over 12 years of experience in the financial and accounting sector. Prior to joining our Group, Mr. Cheung served as an associate, senior and manager of the audit department in Deloitte Touche Tohmatsu from September 2006 to June 2014, and was mainly responsible for the auditing matters. He worked for Geely Automobile Holdings Limited from June 2014 to May 2016 and his last position was internal audit manager. Geely Automobile Holdings Limited is a company listed on the Main Board of the Stock Exchange (stock code: 175) and principally engaged in the business of the production and sale of automobiles, automobile parts and related automobile components.

Mr. Cheung was graduated from Lingnan University, Hong Kong with a Bachelor of Business Administration in 2006. He is a member of the Hong Kong Institute of Certified Public Accountants in 2010.

Ms. Leung Wan Lee (梁韻莉女士), aged 31, is the Senior Finance and Accounting Manager of the Group. Ms. Leung joined our Group in August 2015. She is mainly responsible for the financial and accounting matters.

Prior to joining our Group, Ms. Leung joined Grant Thornton (which later merged with BDO Limited) as an accountant in November 2009, and last served as a senior associate of BDO Limited until August 2013, where she was mainly responsible for auditing matters. In August 2013, Ms. Leung joined Far East Holdings International Limited, a company listed on the Main Board of the Stock Exchange (stock code: 36) and is principally engaged in the business of the manufacture and sale of garment products, property investment and securities investment as an account manager and left in August 2015 as a deputy financial controller and was mainly responsible for supervising financial reporting, corporate finance, taxation and other financial-related matters.

Ms. Leung obtained a bachelor of business administration in professional accounting degree from the Hong Kong University of Science and Technology, Hong Kong in November 2009. Ms. Leung became a member of the Hong Kong Institute of Certified Public Accountants in March 2013.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining high standards of corporate governance. It also recognises that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of the Company and its ability to attract investment, protect the rights of shareholders and stakeholders, and create values for shareholders. The Group's corporate governance policy is designed to achieve these objectives and is maintained through a framework of processes, policies and guidelines.

The Company's corporate governance practices are based on the principles and the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Main Board Listing Rules which is released by The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has, based on the principles and the code provisions as set out in the CG Code, as well as the standards and experience of the Company, adopted its own Corporate Governance Manual (the "CG Manual") for reference by the Board and the management of the Company and its subsidiaries to meet the code provisions as set out in the CG Manual. A copy of the CG Manual is posted on the Company's website (www.sldgroup.com).

In the opinion of the Directors, the Company has complied, to the extent applicable and permissible with the code provisions as set out in the CG Code since the 5 July 2018 (the "Listing Date") up to the date of this report, except for the following deviations:

Paragraph A.6.7 of the CG Code specifies that the independent non-executive Directors and other non-executive Directors should attend general meetings of the Company and develop a balanced understanding of the views of the shareholders. Two independent non-executive Directors and two non-executive Directors were absent from the extraordinary general meeting of the Company held on 14 November 2018 due to other important business commitments.

The Company regularly reviews its corporate governance practices to ensure on-going compliance with the requirements of the Code, the Company Ordinance and Securities and Futures Ordinance ("SFO").

BOARD OF DIRECTORS

RESPONSIBILITIES AND ROLE OF THE BOARD

The Board is responsible for leadership and control of the Company and oversees the Company's businesses, strategic decisions and performance. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its shareholders at all times.

DELEGATION BY THE BOARD

The Group has an independent management team, which is led by a team of senior management with substantial experience and expertise in the Group's business.

The Board delegates day-to-day operations of the Group to executive Directors and management of the Group with department heads responsible for different aspects of the business/functions, while reserving certain key matters in making strategic decision for its approval. When the Board delegates aspects of its management and administration functions to management, it gives clear directions as to the powers of management, in particular, with respect to the circumstances where management needs to report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Board reserves for its decisions on all major matters of the Company, including: the formulation and monitoring of all policies and directions, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances as the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the chief executives and the senior management. The delegated functions and work tasks are reviewed periodically. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

COMPOSITION OF THE BOARD

As at 31 December 2018, the Board consisted of nine Directors comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. Mr. Xie Jianyu resigned as a non-executive Director and Mr. Huang Jianhong was appointed as a non-executive Director with both effective from 23 January 2019. The composition of the Board and its changes during the Year and up to date of this annual report are as follows:

Executive Directors
Mr. SIU Man Hei
(Chief Executive Officer)
Mr. YIP Kwok Hung Kevin
(Member of the Risk Management Committee, Chief Financial Officer)
Mr. DING Chunya
Ms. KAU Wai Fun

Non-Executive Directors
Mr. XU Xingli
(Chairman of the Board and the Nomination Committee, member of the Remuneration Committee)
Mr. HUANG Jianhong
(appointed on 23 January 2019)
Mr. XIE Jianyu
(resigned on 23 January 2019)

Independent Non-Executive Directors
Mr. LIU Yi
(Member of the Audit Committee)
Mr. SUN Yansheng
(Chairman of the Remuneration Committee, member of the Audit Committee and Nomination Committee)
Mr. TSANG Ho Ka Eugene
(Chairman of the Audit Committee and the Risk Management Committee, member of the Remuneration Committee and the Nomination Committee)

A brief description of the background of each Director is presented on page 26 to 35 of this annual report under the heading of "PROFILES OF DIRECTORS AND SENIOR MANAGEMENT".

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The non-executive directors and the independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

To the best knowledge of the Directors, there is no financial, business, family or other material or relevant relationships among the members of the Board during the Year. None of the members of the Board is related to one another.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the Year, the Board, at all times, have three independent non-executive Directors which complies with Rules 3.10(1) and 3.10(A) of the Listing Rules. At least one independent non-executive Director, Mr. TSANG Ho Ka Eugene, out of the three independent non-executive Directors possessing appropriate professional qualifications or accounting or related financial management expertise as required by the Rules 3.10(2) of the Listing Rules. The Board has maintained, throughout the Year, the proportion of the independent non-executive Directors to at least one-third of the Board.

The Company has received written annual confirmation from each independent non-executive Director of his independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company considers each of Mr. Liu Yi, Mr. Sun Yansheng and Mr. Tsang Ho Ka Eugene to be independent.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

According to Rule A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and the Chief Executive Officer should be clearly established and set out in writing.

Throughout the Year, Mr. Xu Xingli is the Chairman of the Board and Mr. Siu Man Hei is the Chief Executive Officer of the Company. There is a clear and effective division of accountability and responsibility between the Chairman and the Chief Executive Officer and each plays a distinctive role but complementing each other to ensure that there is a balance of power and authority and no individual has unfettered powers of decision and control. Therefore, Rule A.2.1 of the CG Code has been complied with during the Year.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association.

The process of evaluating the skills and composition of the Board is ongoing and is kept under regular review in order to ensure that appropriate plans for succession to the Board are in place for smooth Board refreshment, and that the Board retains its effectiveness at all times. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating procedures for nomination and appointment of Directors.

Each of the Directors of the Company is engaged on a service agreement (for executive director) or letter of appointment (for non-executive director and independent non-executive director) for a term of three years. The appointment may be terminated by giving three months' written notice in accordance with the terms of the service agreement or letter of appointment. Any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next annual general meeting, as the case may be, of the Company after his appointment and be subject to re-election at such meeting.

Pursuant to the Company's articles of association, all Directors of the Company are subject to retirement by rotation at annual general meeting at least once every three years. At each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number of nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Directors' responsibilities and obligations under the Listing Rules, common law and relevant statutory requirements.

The Company also continuously updates the Directors on the latest developments regarding the Listing Rules and applicable regulatory, as well as business and market changes, to ensure compliance, enhance their awareness of good corporate governance practices and facilitate the discharge of their responsibilities.

All Directors are encouraged to and had confirmed that they had complied with A.6.5 of the CG Code during the Year, that all Directors had participated in continuous professional development to develop and refresh their knowledge and skills.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

The Company has arranged for appropriate insurance covering the liabilities in respect of legal action against the Directors and officers that may arise out of its corporate activities. The insurance coverage is reviewed on an annual basis and no claim was made against the Directors and officers of the Company during the Year and up to this annual report date.

BOARD COMMITTEES

BOARD PRACTICES AND CONDUCT OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. Notices of regular Board meetings are served to all Directors at least 14 clear business days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least three business days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

Draft and final versions of minutes are normally circulated to Directors or the committee members for comment and record respectively within a reasonable time after each meeting. Minutes of Board meetings and committee meetings are kept by the company secretary or the duly appointed secretaries of the respective meetings (as the case may be) and are available for inspection by all Directors at all reasonable time.

According to the current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

COMMITTEES

The Board has established four committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Management Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are in line with the CG Code. These terms of reference are posted on the Company's website and are available to shareholders upon request. Board committees are provided with sufficient resources to discharge their duties and are required to report back to the Board on their decisions or recommendation.

AUDIT COMMITTEE

The Audit Committee comprises three members, namely, Mr. TSANG Ho Ka Eugene (the Chairman of the Audit Committee), Mr. LIU Yi, and Mr. SUN Yansheng, all of them are independent non-executive directors with the chairman of which possesses the appropriate professional qualifications and accounting expertise. None of the committee members is a former partner of the Company's external auditors.

Principal duties of the Audit Committee are to monitor integrity of the Company's financial statements and accounts and to review significant financial reporting judgments contained in them, and to review the Company's financial control, internal control and risk management systems. The Audit Committee annually assesses the appointment of the external auditors and review the interim and final results of the Group prior to recommending them to the Board for approval.

The Audit Committee is also responsible for developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements and make recommendations to the Board.

There was one Audit Committee meeting held during the Year. The Audit Committee has performed the following work during the Year and up to the date of this report:

– to discuss the financial reporting and compliance procedures with the external auditors;

– to review the audited annual results for the Year and unaudited interim results for the six-month period ended 30 June 2018;

– to review the Group's risk management, internal control systems, financial reporting systems, and financial and accounting policies and practices;

– to review the effectiveness of the internal audit function of the Company;

– to review findings in the internal control report;

– to review the continuing connected transactions of the Group;

– to review the use of proceeds from Global Offering; and

– to consider the re-appointment of auditors.

The Company's annual results for the Year have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, the majority of them are independent non-executive directors. The Remuneration Committee comprises two independent non-executive Directors, namely Mr. SUN Yansheng (the Chairman of Remuneration Committee) and Mr. TSANG Ho Ka Eugene and a non-executive Director, Mr. XU Xingli (the Chairman of the Board).

Principal duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing such policy. The Remuneration Committee is also responsible for reviewing and approving the management's remuneration proposal with reference to the corporate goals and objectives resolved by the Board from time to time.

There was one Remuneration Committee meeting held during the Year. The Remuneration Committee has performed the following work during the Year and up to this report date:

– to review the performance and remuneration policy of Directors and senior management of the Company; and

– to approve the proposed remuneration of executive Directors and senior management with effective from January 2019.

Details of remuneration of Directors are set out in note 12 of the Notes to the Consolidated Financial Statements.

NOMINATION COMMITTEE

The Nomination Committee comprises three members, the majority of them are independent non-executive directors. The Nomination Committee comprises two independent non-executive Directors, namely Mr. SUN Yansheng and Mr. TSANG Ho Ka Eugene and a non-executive Director, Mr. XU Xingli (the Chairman of the Board and Nomination Committee).

Principal duties of the Nomination Committee are to review the structure, size and composition (including skills, knowledge and experience) of the Board, to review the policy concerning the diversity of member of the Board, as appropriate, the measurable objectives that the Board has set for implementing such policy and the progress on achieving the objectives, and to determine the policy for the nomination of Directors in compliance with the requirements of the Listing Rules, the nomination procedures and the process and criteria to select and recommend candidates of the directorship of the Board.

The Nomination Committee is also responsible for identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, with due regard for the benefits of diversity on the Board, and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular, the chairman and the chief executive, taking into account the mix of skills, knowledge, experience and diversity need in the future.

There was one Nomination Committee meeting held during the Year. The Nomination Committee has performed the following work during the Year and up to this report date:

- to review the structure and composition of the Board and policy concerning the diversity of member of the Board;
- to review the policy concerning nomination of Directors; and
- to review the policy concerning selection and recommendation of senior management of the Company.

BOARD DIVERSITY POLICY

MEASURABLE OBJECTIVES AND MONITORING

The Company has adopted a board diversity policy as set out in the CG Manual with a view to achieving a sustainable and balanced development. The Board should have a balanced of skills, experience and diversity of perspective appropriate to the requirements of the business of the Company in designing its composition. Diversity of the Board has been considered from a number of aspects, including but not limited to gender, age, cultural and education background, professional experience, skills and knowledge. All Board appointment will be based on merit and considered against objective criteria and contribution that the selected candidates will bring to the Board.

The Nomination Committee has reviewed the policy concerning diversity of Board members, as appropriate, the measurable objectives that the Board has set for implementing such policy and the progress on achieving the objectives and disclosed the review results in the corporate governance report annually in accordance with the Listing Rule. The Nomination Committee is also responsible for making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular, the chairman and the chief executive, taking into account the mix of skills, knowledge, experience and diversity need in the future.

DIVERSITY OF THE BOARD

The existing members of the Board are well experienced in the interior design and interior decorating and furnishing and alteration and addition industry, investment and finance businesses. Some of them are professionals in project management, asset management, finance and accounting with extensive experience.

In view of the present size and complexities of the Group's operations and the nature of the risks and challenges it faces, the Nomination Committee considers the Company has struck a right balance of skills, experience, knowledge and diversity among the present members of the Board.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee comprises three members, one of them is independent non-executive director and all of them have the requisite experience and expertise to enhance the Company's existing internal risk management functions. The Risk Management Committee comprises one independent non-executive Directors, namely Mr. TSANG Ho Ka Eugene (the Chairman of the Risk Management Committee), one executive Director, Mr. YIP Kwok Hung Kevin (Chief Financial Officer) and the Company Secretary, Mr. CHEUNG Henry.

Principal duties of the Risk Management Committee are to monitor the Company's exposure to sanctions law risks and its implementation of the related internal control procedures, to review and approve all relevant business transaction documentation from customers or potential customers and the information relating to the counterparty to the contract along with the draft business transaction documentation. The Risk Management Committee is also responsible for periodically reviewing the Company's internal control policies and procedures with respect to operational risk, foreign currently risk, legal risk, etc, and setting out guidelines for the Company to enhance the Company's existing internal risk management functions.

There was one Risk Management Committee meeting held during the Year. The Risk Management Committee has performed the following work during the Year and up to this report date:

– to review the foreign currency risk measures of the Company;

– to review the credit risk measures of the Company;

– to review existing and potential risk of the Company and the Company's measures; and

– to review any market and operational risk.

DIRECTORS' ATTENDANCE RECORDS

The Directors can attend meetings in person or through other means of electronic communication including by telephone and video conference in accordance with the articles of association. All minutes of the Board meetings were recorded in sufficient details of the matters considered by the Board and the decisions reached.

Pursuant to Code provision A.1.1. of the CG Code, regular Board meetings should be held at least four times a year at approximately quarterly intervals. There were ten Board meetings held during the Year, two of which were regular meetings held for approving the final results for the year ended 31 December 2017 and the interim results for the six-month period ended 30 June 2018. The Company has not held the other two regular Board meetings as it is not required under the Listing Rules to publish quarterly results. The Board has also performed the following work during the Year and up to this report date:

– to propose Global Offering;

– to appoint independent non-executive directors;

– to adopt new memorandum and articles of association;

– to review and approve the provision of guarantee for banking facilities;

– to approved the subscription of short-term notes;

– to appoint independent financial adviser for continuous connected transactions;

– to review and approve continuous connected transactions;

CORPORATE GOVERNANCE REPORT (CONTINUED)

– to review financial performance and approve profit warning announcement;

– to approve the resignation of non-executive director, Mr. XIE Jianyu; and

– to review and approve the appointment of non-executive director, Mr. HUANG Jianhong.

Attendance records of each director at the Board meetings and Board committee meetings are as follow: -

Name of Directors	Board meeting Note 2	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee	Independent Board Committee Note 3	2018 Annual General Meeting	Extraordinary General Meeting
Executive Directors								
SIU Man Hei	10/10	N/A	N/A	N/A	N/A	N/A	1/1	1/1
YIP Kwok Hung Kevin	10/10	N/A	N/A	N/A	1/1	N/A	1/1	1/1
DING Chunya	5/10	N/A	N/A	N/A	N/A	N/A	1/1	0/1
KAU Wai Fun	6/10	N/A	N/A	N/A	N/A	N/A	1/1	0/1
Non-Executive Directors								
XU Xingli	5/9	N/A	1/1	1/1	N/A	N/A	0/1	0/1
HUANG Jianhong *(appointed on 23 January 2019)*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
XIE Jianyu *(resigned on 23 January 2019)*	4/9	N/A	N/A	N/A	N/A	N/A	0/1	0/1
Independent Non-Executive Directors								
LIU Yi Note 1	4/7	1/1	N/A	N/A	N/A	1/1	N/A	0/1
SUN Yansheng Note 1	4/7	1/1	1/1	1/1	N/A	1/1	N/A	0/1
TSANG Ho Ka Eugene Note 1	4/7	1/1	1/1	1/1	1/1	1/1	N/A	1/1

Notes:

1. Appointment effective from the Listing Date, i.e. 5 July 2018.
2. One of which was Executive Directors Meeting, held on 4 July 2018.
3. Independent Board Committee comprising the 3 independent non-executive Directors was set up on 30 October 2018 to advise the independent shareholders in relation to their voting on the Board's recommendation in entering continuing connected transactions.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by directors and employees (the "Security Code") with standards no less exacting than that of the Model Code set out in Appendix 10 of the Listing Rules.

Having made specific enquiries, all Directors and relevant employees of the Group confirmed that they have complied with the Securities Code and the Model Code throughout the Year.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements that give a true and fair view of the Company for the Year and to review 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 have assessed 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.

A statement by auditor about their reporting responsibilities on the consolidated financial statements is set out in the independent auditor's report. The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and 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.

The Board is responsible for presenting a balanced, clear and understandable assessment of the Company's performance, position and prospects in the annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided the Board with sufficient explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements which are put to the Board for approval.

EXTERNAL AUDITOR AND AUDITORS' REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities for the financial statements is set out in the Section headed "Independent Auditor's Report" on page 78 to 83 of this annual report.

The remuneration charged by the Company's auditors, Messrs. Deloitte Touche Tohmatsu, during the Year is set out below: -

Category of Services	Fee paid/Payable (HK$)
Audit Service	1,280,000
Non-audit Services	
– Service fee as the reporting accountant in relation to the IPO	2,030,000
– Tax services fee and disbursement	71,500
– Other services	330,000
TOTAL	3,711,500

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective and on-going communications with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to evaluate the performance of the Group. Therefore, the Company has the responsibility to maintain an on-going dialogue with the shareholders to provide them with the information necessary to evaluate the performance of the Company.

The general meetings of the Company provide a forum for constructive communication between the Board, senior management and the shareholders. The Chairman of the Board as well as chairman of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Management Committee or, in their absence, other members of the respective committees, shall be available to answer questions at shareholders' meetings.

The Company also communicates with the shareholders, investors and general public through the annual report, interim report and other corporate announcements.

To promote effective communication, the Company maintains a website at http://www.sldgroup.com, where up-to-date information and updates on the Company's structure, Board of Directors, business developments and operations, financial information, corporate governance practices, results of the Company (annual and interim), press releases and other information are posted.

There is no change in the Company's constitutional documents since the Listing Date. An up-to-date version of the Company's constitutional documents are also available on the Company's website and the Stock Exchange's website.

SHAREHOLDERS' RIGHTS

The Board and management shall ensure shareholders' rights and all share holders are treated equally and fairly. Pursuant to the articles of association, any shareholder entitled to attend and vote at a general meeting of the Company is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. Shareholders holding 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 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.

To safeguard the shareholder interests and rights, a separate resolution should be proposed for each substantially separate issue at shareholder meetings, including the election of individual Directors. All resolutions put forward at shareholders' meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholders' meeting.

Detailed procedures for the shareholders to convene an extraordinary general meeting, putting forward proposals at a general meeting and proposing a person for election as a Director are also available in the articles of association of the Company.

COMPANY SECRETARY

The Company Secretary reports to the chief executive officer and chief financial officer directly and is responsible to the Board for ensuring that the Board procedures, applicable laws, rules and regulations are followed as well as the Board activities are efficiently and effectively conducted. He is also responsible for ensuring that the Board is fully appraised of the relevant corporate governance developments relating to the Group and facilitating the induction and professional development of the Directors.

According to the Rule 3.29 of the Listing Rules, the Company Secretary has taken no less than 15 hours of relevant professional training for the Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

The Group is pleased to present its first Environmental, Social and Governance ("ESG") Report. The ESG Report helps the Group to keep a close eye on its current performance as well as the opportunities to improve its performance.

SCOPE OF THE REPORT

This report has been prepared in accordance with Appendix 27 of the Listing Rules, "Environmental, Social and Governance Reporting Guide". The report summarises the Group's ESG performance of its major operations in Hong Kong, Shanghai and Guangzhou, where these operations take up most of the Group's headcount during the Year, and covers its management policies, mechanisms and measures in place during the financial year 2018 with respect to environmental protection, emission reduction, safe workplace, personnel training and drills, supply chain management and community investment and engagement. Focuses are placed on certain aspects closely relevant to its shareholders and stakeholders, and its full commitment to sustainable development of the Group as a whole.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SECTION A: ENVIRONMENTAL

The Group strongly believes that a healthy environment is the basis of its sustainable development. Thus, the Group will strive hard to integrate environmental sustainability into our business operations through various measures so as to decrease the related carbon emission level and the relevant intensity.

For the Year, there was no material non-compliance issue with relevant laws and regulations related to the environment. The Group will continue to be alert to any non-compliance behaviour relating to critical environmental problems.

EMISSIONS

The Group is committed to promoting environmental health and human well-being through the provision of environmental-friendly architecture and construction, and healthcare and medical services. Environmental protection and emissions reduction are always the top priority at the Group. The emissions data has been measured for better understanding its environmental impacts and taking meaningful actions in the future.

AIR EMISSIONS

The Group's operations mainly focus on providing interior design services as well as interior decorating and furnishing business and product design services, and do not involve gaseous fuel consumption or vehicles usage. Therefore, no material emissions of air pollutants, which include nitrogen oxides ("NOx"), sulphur oxides ("SOx"), etc., were identified in the Year. Yet, the Group's consumption of electricity, production of paper waste, and employees' business air travel still contributed to the emissions of greenhouse gases.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

GREENHOUSE GAS EMISSIONS

In the light of reducing greenhouse gas emissions, the Group embraces in driving green practices in our day-to-day operations. The Group is also committed to environmental conservation, natural resource saving and waste reduction.

All newly equipped appliances and office equipment shall be certified energy efficient products. Moreover, natural lighting is recommended, and the lightings are switched off during lunchtime to save energy. The Group upholds the 3Rs principle, namely reduce, reuse and recycle. The Group promotes reduction of usage of paper, water resources, electricity and stationary. Double-sided printing is recommended, while single-side-printed paper is collected for reuse. The Group recycles the used toner and parts of copiers to reduce wastage.

In the Year, approximately 752,000 kilograms of total greenhouse gas emission were recorded.

The following table illustrates the main sources of greenhouse gas emission:

Source	Emissions (in kilogram)
Emissions from Electricity Consumption	473,608
Emissions from Disposal of Paper Waste	53,184
Emissions from Business Travel by Employees	225,229
Total	752,021

When considering the greenhouse gas emission intensity, which is calculated by dividing the total greenhouse gas emissions by the average number of employees during the Year, the Group recorded approximately 1,680 kg of greenhouse gas emissions per employee in the Year.

WASTE MANAGEMENT

The business operations of the Group produce no hazardous waste such as chemical wastes. On the other hand, the Group promotes reuse and recycles for reducing non-hazardous waste. With decreasing availability of suitable land for landfill and increasing environmental impacts of waste disposal, waste reduction has always been one of the objectives of the Group.

The only measurable output of our non-hazardous waste in the Year was mainly paper waste, which amounted to approximately 11,000 kilograms. With an average of 448 number of employees during the Year, the paper waste produced by each employee was approximately 25 kilograms during the Year. Double-sided printing was encouraged, and so, single-side-printed paper was collected for re-use. The Group recycled the used toner and parts of copiers to reduce wastage. With our waste reduction efforts. The Group is confident to reduce our waste produced starting from next year.

The total paper waste produced by the three geographical regions is shown in the below table.

Geographic Region	Paper Waste (in kilogram)
Hong Kong	3,982
Shanghai	3,063
Guangzhou	4,035
Total	11,080

For wastes other than paper waste, although the Group did not have available information to estimate the weight, it has been actively promoting sustainability, eliminating plastics at source as the most fundamental solution. Thus, reusable tableware is provided in the pantry, employees do not need plastic tableware when having lunch. Moreover, the Group insists on purchasing paper products with Forest Stewardship Council ("FSC") certified for all paper products, including printing paper, tissue and paper hand towel. FSC certification honours products made of wood pulp sourced from a well-managed forest. In general, FSC certified products are more expensive but the Group believes the costs are worth spending if it could take part in sustaining the forests.

USE OF RESOURCES

The Group is committed to becoming a resource-saving and environment-friendly enterprise to promote environmental protection. Reducing, which is one of the 3Rs principles, is promoted and communicated to the employees in the aspect of use of resources.

ENERGY CONSUMPTION

The total energy consumption during the Year was approximately 772,000 kWh. The electricity consumption intensity, which is calculated by dividing the electricity consumption by the average number of employees, was around 1,725 kWh for the Year. To promote reduction in electricity usage in the coming years, the Group has been purchasing appliances and office equipment with energy efficiency certified. Moreover, natural lighting is recommended, and the lightings are switched off during lunchtime to save energy.

Electricity Consumption by geographic region

Geographic Region	Consumption (in kWh)
Hong Kong	350,845
Shanghai	208,856
Guangzhou	212,197
Total	771,898

WATER CONSUMPTION

The business operations of the Group involve no material water consumption. Moreover, as the Group mainly operates in leased office premises for which both the water supply and discharge are solely controlled by the building management, it may not be feasible for the Group to obtain the water withdrawal and discharge data.

However, the Group has still set up policy to guide in any cases that sanitary ware is needed, certified water efficient devices should be purchased so that water consumption can be saved for at least 20% comparing to the conventional one.

PACKAGING MATERIAL

As the Group's business operations do not involve using packaging materials, there is no material record of disposal of packaging materials noted during the Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

THE ENVIRONMENT AND NATURAL RESOURCES

Apart from the environmental-friendly practice abovementioned, the Group has been promoting environmental-friendly interior design, integrating environmental sustainability into its design. For instance, there is a plant wall in the Group's Hong Kong office. Not only can the plant wall help filter pollutants and carbon dioxide in the air, but it can also build up an atmosphere of joy and relaxation, and promote both mental and physical well-being of employees. In the light of promoting the importance of sustainability and the beauty of nature, the Group will continue promoting green design.

Apart from those disclosed above, no other significant impacts of activities on the environment and natural resources and actions taken are noted.

SECTION B: SOCIAL – EMPLOYMENT AND LABOUR PRACTICES

EMPLOYMENT

The Group consisted of 486 members in Hong Kong, Shanghai and Guangzhou as at 31 December 2018:

Employment	Percentage
Employment type	
Full time	97%
Part time	1%
Temporary	2%
Gender	
Male	43%
Female	57%
Age Group	
18-25	25%
26-35	54%
36-45	16%
46-55	3%
56-65	2%
Years of serving the Group	
Under 1 year	41%
1-3 years	29%
3-5 years	12%
5-10 years	11%
Over 10 years	7%

The Group believes that the diverse and inclusive workforce enhances its business by enabling innovative ideas and better communication.

EMPLOYEE BENEFITS

A comprehensive employee benefits package is provided to our dedicated and talented staff. Year-end bonus may be awarded based on employees' and the Group's performance. Appraisal is conducted annually to assess the performance of employees for addressing the development needs of them and also the Group. With reference to the appraisal, promotion and salary increment are rewarded to contributing staff. The Group also offers marriage coupons and birth coupons to employees who get married or give birth to babies.

The Group provides employees with various insurance coverage in respect to their working locations. For staff working in Hong Kong, contributions to Mandatory Provident Fund and employees' compensation insurance are made according to the Employment Ordinance of Hong Kong. Meanwhile for staff working in Mainland, Social Insurance and Housing Provident Fund regarding to the local ordinance are provided.

In order to provide a better and healthy working environment to the employees, healthy beverages, snacks, fruits and non-fried vegetables are supplied and refilled daily. Highly-processed ingredients and food are therefore avoided in the office.

HARMONIOUS WORKSPACE

A harmonious and inclusive working environment, free from any harassment and discrimination is promoted in the Group. We hire people regardless of their race, colour, religion, age, gender, sexual orientation, national origin, citizenship, disability, marital status or any other characteristics protected by law. As at 31 December 2018, there were 15 foreign staff working in our Group. We would help to arrange working visa for successful foreign recruitment applicants if applicable.

Procedure of grievances has been set up in the Group. Problems or complaints related to work or the Group are welcome to discuss with directors of the Group. If further help is needed, employees can submit their complaints in written to the Chief Executive Officer. All complaints are considered impartially and efficiently and all information received will be kept confidential.

WORK-LIFE BALANCE OF EMPLOYEES

The Group encourages work-life balance. Employees are entitled for 9 to 24 days annual leave per year and enjoy one day of birthday leave in the month of birth. Marriage leave, funeral leave, maternity leave and paternity leave are also provided to employees to meet their families' needs. Although 5 working days with 40 working hours per week is fixed, the Group allows employees to pick any one out of five flexible working timeslot options.

Regular exercise is fundamental for a healthy lifestyle. The Group implemented sports incentive reward scheme to encourage employees to do exercises.

TALENT RETENTION

With the abovementioned staff benefits and welfare, the Group successfully achieved 96% total retention rate in the Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

HEALTH AND SAFETY

The Group is committed to safeguarding the health and safety of all employees. It has implemented various gadgets to monitor and enhance the working condition of employees. For example, air monitoring devices are installed in the office to monitor the air pollutant level. The related information is displayed in pantry for employees' reference. To prevent overuse of the same muscles and ligaments, standing tables are provided to employees. Employees can choose to work at standing or sitting position at their own preference.

For the sake of hygiene, the water machine is cleaned daily. The mouthpiece, protective guards and collective basin are cleaned by the janitor regularly. Moreover, the Group adopts certified cleaning detergent with The U.S. Environmental Protection Agency's ("EPA's") Safer Choice label, so that only products with safer chemical ingredients are used in office.

In the Year, only one employee was involved in work injuries and a total of 176 hours of lost working hours were recorded. Looking ahead, the Group would continue to promote occupational health and safety to employees, and avoid any work injury or accident by all means.

DEVELOPMENT AND TRAINING

The Group encourages employees to continue learning and growing. Both employee initial performance assessment and annual performance assessment are performed to help facilitate two-way communication between management and employees, as well as to help management to better understand employees' training and development needs. From time to time, there are internal training held to improve our employees' skills and knowledge, as well as to keep them updated of the recent design trends. Apart from internal training, employees are entitled examination leave for three times per year to prepare and sit for examinations related to their work duties.

LABOUR STANDARDS

The Group complies with all immigration laws and regulations. During the recruitment process, documentation of being legally eligible to work in Hong Kong, Shanghai or Guangzhou is obtained and verified.

Respecting human rights has been an integral part of the Group's approach to sustainability. The Group fully complies with labour laws and other relevant legislation that prohibits child labour and forced labour. The Group does not employ any person below the age of eighteen at its workplace. Any violence, with the purpose of deliberately causing difficulties, threats and/or corporal punishment, forcing employees to work is prohibited.

During the Year, there was no material non-compliance with applicable laws and regulations in relation to labour standards.

SECTION B: SOCIAL – OPERATING PRACTICES

SUPPLY CHAIN MANAGEMENT

The Group implements rigorous management of its suppliers. In this regard, the Group maintains a list of suppliers which meets the Group's procurement requirements, and purchase orders are only made to the suppliers on the list, so as to ensure product quality and mitigate the risk of any supply chain disruptions. Moreover, the Group conducts regular performance assessment for its suppliers to ensure the requirements of the Group are met.

The suppliers are encouraged to demonstrate their corporate social responsibilities by complying with corporate social responsibility codes as well as business ethics, with respect to workplace operations, marketing activities, social contacts and environmental responsibilities. High standards of morality which include prohibition of provision and acceptance of bribes and/or other unfair benefits are adopted by the Group. Information of business activities, business structure, financial status and financial performance, etc. should be disclosed only in accordance with applicable laws and regulations.

PRODUCT RESPONSIBILITY

QUALITY CONTROL

The Group is committed to providing services with high standards of quality and reliability, based on the clients' requirements. The Group has set up a comprehensive Design Quality Control Manual, detailing the contents and level of details to be incorporated in different documentations, labelling requirements on samples and the typical scope of work. A detailed checklist has also been established to specifying the working procedures at different stages, so as to ensure the quality of services provided.

The Group's quality control team, headed by the Chief Creative Officer, is responsible for overseeing the designs produced by each design and decoration team for each project, and overseeing each design team in aspects including workload assessment, billing matters, project management, contractual matters and client relationships.

During the Year, there was no material non-compliance with applicable laws and regulations relating to product responsibility.

CLIENT SERVICE MANAGEMENT

Client satisfactory is at the upmost importance in the Group. Meetings are held with clients to understand their preferences and requirements, drawings are delivered to them from time to time during projects. Clients are required to fill in a confirmation of reference drawings to confirm the design before the commencement of the next stage. Questionnaires are distributed to them to collect comments and feedbacks during and at the end of design projects. Improvement will be made accordingly, and the collected comment and feedbacks are taken as reference for future design. Moreover, if any compliant is received, corrective action as well as preventive action will be considered, so as to ensure the quality of client services and prevent similar problems in the future.

CONFIDENTIALITY

The Group has established and circulated the Company Policy, specifying the importance of confidentiality. Employees are strictly forbidden, whether during employment, or after, irrespective of the circumstances of termination, to disclose to any other person, firm, company, press, media, or association any confidential information of the Group's potential, actual or past clients. Failure to comply with this obligation may be treated by the Group as gross misconduct for which the employee may be liable for summary dismissal.

ANTI-CORRUPTION

All forms of bribery and corruption are prohibited. Employees should not solicit or accept any advantage in connection with their work without the permission of the Group. Advantages include both monetary and non-monetary gifts, loans, fee, reward, employment, contract, service, favour, etc. It is the Group's rule that no director or employee may solicit or accept any advantage from any person having business dealings with the Group, including clients, suppliers and contractors. Moreover, under no circumstances may a director or employee offer an advantage to any person or company for the purpose of influencing such person or company in any business dealings.

A Code of Conduct has been established for enabling the directors and employees to perform at the highest level of integrity, commitment and professionalism.

During the Year, there was no concluded legal case regarding corrupt practices brought against the Group or its employees.

SECTION B: SOCIAL – COMMUNITY

It is the Group's responsibilities to positively contribute to the industry and community. In the view of this, we participate in various community charitable activities and encourage participation of employees. Employees can enjoy two days leave for participating in community serving activities.

Steve Leung Travelling Scholarship was set up in 2008 to cultivate young interior designers in Hong Kong and mainland China. The scholarship programme has bestowed HK$100,000 in total to 5 interior design student winners during the Year.

During the Year, we have also participated in activities to promote art and design, support elderly-friendly inclusive society, care disabled children, etc. Looking forward, the Group is committed to investing more resources into the community serving section for the sake of positively contributing to the society.

REGULATORY COMPLIANCE

The Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to emissions, employment, health and safety, labour standards, product responsibility and anti-corruption during the Year.

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors are pleased to present their annual report and the audited consolidated financial statements for the Year.

PRINCIPLE ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The principle activities of its subsidiaries are set out in note 43 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the Year are set out in the consolidated statement of profits or losses and comprehensive income on page 84.

No interim dividend had been declared to the shareholders during the Year. The Board proposed a final dividend of HK$2.5 cents per share and a special dividend of HK$2.5 cents per share to the shareholders on the register of members on 21 August 2019, amounting to a total of approximately HK$57.0 million.

The recommendation of the payment of dividends is subject to the absolute discretion of our Board, and, after listing of the shares of the Company on the Stock Exchange any declaration of final and special dividends for the year will be subject to the approval of our shareholders. The Group does not have any dividend policy. Directors may recommend a payment of dividend after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as may be relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our shareholders.

Dividend payments will also depend upon the availability of dividends received from our subsidiaries in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including Hong Kong Financial Reporting Standards ("HKFRSs"). PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our PRC subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements, convertible bond instruments or other agreements that we or they may enter into in the future.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

BUSINESS REVIEW

The review of the business of the Group for the year and the discussion on the Group's business development are set out in the "MANAGEMENT DISCUSSION AND ANALYSIS" section. In addition, discussions on the Group's relationships with key stakeholders, environmental policies and performance and compliance with relevant laws and regulations which have a significant impact on the Group are as follows.

DIRECTORS' REPORT (CONTINUED)

PRINCIPAL RISK AND UNCERTAINTIES

The description of principle risk and uncertainties the Group facing and key financial performance indicators are set out in the "MANAGEMENT DISCUSSION AND ANALYSIS" section. The financial risk management objectives and policies of the Group are set out in note 39 to the consolidated financial statements. The Group is exposed to the operational risk in relation to the business of the Group. With the growth and expansion of our operations, the potential risks to our business increase as well. In order to identify, assess and control the risks that may create impediments to our success, we have implemented a risk management committee that covers each material aspect of our operations, including financial risk, operational risk, security and compliance, etc. As our risk management is a systematic project, each of our departments is responsible for identifying and evaluating the risks relating to its area of operations. Our Risk Management Committee is responsible for overseeing, assessing and reviewing our risk management policy and supervising the performance on our risk management.

RELATIONSHIP WITH KEY STAKEHOLDERS

The Group's success also depends on support from key stakeholders which comprise employees, clients and consultants, subcontractors and vendors.

EMPLOYEES

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resources management is to reward and recognise performing staff by providing a competitive renumeration package and implementing a performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate trainings and by providing opportunities within the Group for career advancement.

CLIENTS

The Group's major clients are property developers, main-contractors, hotel/restaurant owners and private individuals in Hong Kong and the PRC. The Group provides professional and quality services in interior design, interior decorating and furnishing services and/or product design whilst maintaining long terms profitability, business and growth on assets.

CONSULTANTS, SUBCONTRACTORS AND VENDOR

The Group believes that its subcontractors and suppliers also form an important part in our business which enhancing our bargaining power on specialised design, and they are important to overall cost control in the interior decorating and furnishing service to increase our competitiveness. The Group communicates with our consultants, subcontractors and vendors proactively to ensure they are committed to delivering high-quality service, and sustainable products and services to the Group. Unless the clients require the Group to engage consultants, subcontractors and vendors nominated by them, the Group will select consultants, subcontractors and vendors from our approved lists of consultants, subcontractors and vendors. In addition, during the continuance of the contracts with the consultants, subcontractors and vendors, the Group will provide guidelines on client's requirement and require them to follow. The Group effectively implements the subcontractor assessment process to monitor the performance of its subcontractors by conducting regular review on work, client's feedback, factory visit, evaluation on the performance of the contract and other measures.

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility in promoting a sustainable and environmentally friendly environment. We strive to minimise our environmental impact by saving electricity and to build our Group in a sustainable way. We have adopted a set of environmental friendly policy to minimise our impact on the environment. Details of the Group's environmental policies and performance are set out in the section headed "ENVIRONMENT, SOCIAL AND GOVERNANCE REPORT".

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group mainly providing services and trading business in Hong Kong and the PRC. The Directors confirmed that, during the Year and up to this annual report date, the Group had obtained all the registrations and certifications required for its business and operations and had complied with the applicable laws and regulations in Hong Kong and the PRC in all material and relevant aspects.

FOUR-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past four financial years are set out on page 160.

SHARE CAPITAL

Details of movements in share capital of the Company during the Year are set out in note 31 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the Year ended 31 December 2018 are set out in the consolidated statements of changes in equity on page 86 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands and the Company's articles of association, amounted to approximately HK$294.1 million (Previous Year: HK$91.0 million).

DIRECTORS

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

Executive Directors

Mr. SIU Man Hei	*(Chief Executive Officer)*
Mr. YIP Kwok Hung Kevin	*(Chief Financial Officer)*
Mr. DING Chunya	
Ms. KAU Wai Fun	

Non-Executive Directors

Mr. XU Xingli	*(Chairman)*
Mr. HUANG Jianhong	*(appointed on 23 January 2019)*
Mr. XIE Jianyu	*(resigned on 23 January 2019)*

Independent Non-Executive Directors

Mr. LIU Yi
Mr. SUN Yansheng
Mr. TSANG Ho Ka Eugene

Mr. XIE Jianyu had tendered his resignation as non-executive Director due to his existing business commitments requiring more of his dedications as a director of Sundart Holdings Limited, one of the controlling shareholders of the Company, with effect from 23 January 2019.

Mr. HUANG Jianhong, Mr. YIP Kwok Hung Kevin, Mr. Ding Chunya and Ms. KAU Wai Fun, shall retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM") pursuant to the Company's articles of association.

Information regarding Directors' emoluments is set out in note 12 to the consolidated financial statements.

DIRECTORS' PROFILES

Details of the Directors' profile are set out in the section captioned "PROFILES OF DIRECTORS AND SENIOR MANAGEMENT" of the annual report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and has duly reviewed the confirmation of independence of each of these Directors. The Company considers that all of the independent non-executive directors are independent.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company, the non-executive Director and each of the independent non-executive Directors have signed appointment letters with the Company. The appointment of each of the Directors is for a term of three years commencing from the Listing Date which maybe terminated by either party by giving a written notice at least three months in advance.

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the date of this annual report, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be 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 they were taken or deemed to have taken under such provisions of the SFO); or (b) to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules, are set out as follows:

Name of Director	Long/Short position	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding in issued shares
Mr. Siu Man Hei	Long	Beneficial owner	10,032,000	0.880%

Save as disclosed in the foregoing, as at the date of this report, having sufficient enquiry to and with the best knowledge of the Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be 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 he was taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the date of this report, as far as known to the Directors and chief executives of the Company, shareholders (other than Directors and chief executives of the Company) who has an interest or a short position in the shares which would be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO, or would be, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or as recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following substantial shareholders (other than the Directors and chief executives of the Company), were as follows:

Name of Shareholder	Long/ Short position	Capacity/ Nature of interest	Number of shares	Approximate percentage of shareholding in issued shares
Eagle Vision Development Limited	Long	Beneficial owner	598,500,000	52.50%
Peacemark Enterprises Limited (Note 2)	Long	Interest in controlled corporation	598,500,000	52.50%
Jangho Hong Kong Holdings Limited (Note 3)	Long	Interest in controlled corporation	598,500,000	52.50%
Jangho Group Co., Ltd (Note 4)	Long	Interest in controlled corporation	598,500,000	52.50%
北京江河源控股有限公司 (Beijing Jiangheyuan Holdings Co.,Ltd.) (Note 5) (Note 6)	Long	Interest in controlled corporation	598,500,000	52.50%
Mr. Liu Zaiwang (Note 6)	Long	Interest in controlled corporation	598,500,000	52.50%
Ms. Fu Haixia (Note 7)	Long	Interest of spouse	598,500,000	52.50%
Sino Panda Group Limited	Long	Beneficial owner	256,500,000	22.50%
Mr. Leung Chi Tien Steve (Note 8)	Long	Interest in controlled corporation	256,500,000	22.50%
Ms. Chan Siu Wan (Note 9)	Long	Interest of spouse	256,500,000	22.50%
Gloryeild Enterprises Limited (Note 10)	Long	Interest in 10% or more of shares	171,000,000	15.00%

DIRECTORS' REPORT (CONTINUED)

Name of Shareholder	Long/ Short position	Capacity/ Nature of interest	Number of shares	Approximate percentage of shareholding in issued shares
Sundart Holdings Limited (Note 11)	Long	Interest in 10% or more of shares	171,000,000	15.00%
Reach Glory International Limited (Note 12)	Long	Interest in 10% or more of shares	118,845,000	10.43%
Health Capital Enterprises Limited (Note 13)	Long	Interest in 10% or more of shares	171,000,000	15.00%
Gangyuan Architectural Decoration Hongkong Limited (Note 14)	Long	Interest in 10% or more of shares	171,000,000	15.00%
北京港源建築裝飾工程有限公司 (Gangyuan Architectural Decoration Engineering Co., Ltd.) (Note 15)	Long	Interest in 10% or more of shares	171,000,000	15.00%
北京江河創展管理諮詢有限公司 (Beijing Jangho Chuangzhan Management Consulting Company Limited) (Note 16)	Long	Interest in 10% or more of shares	117,562,500	10.31%

Notes:

1. On the basis of 1,140,000,000 share capital in issue as at 31 December 2018.

2. Eagle Vision Development Limited ("Eagle Vision") is beneficially owned as to approximately 42.86% by Peacemark Enterprises Limited ("Peacemark Enterprises") and therefore Peacemark Enterprise is deemed to be interested in the shares held by Eagle Vision under the SFO.

3. Peachmark Enterprises is wholly and beneficially owned by Jangho Hong Kong Holdings Limited ("Jangho HK") and therefore Jangho HK is deemed to be interested in the shares indirectly held by Peacemark Enterprises through Eagle Vision under the SFO.

4. Jangho HK is wholly and beneficially owned by Jangho Group Co., Ltd. ("Jangho Co.") and therefore Jangho Co. is deemed to be interested in the shares indirectly held by Jangho HK through Peacemark Enterprises and Eagle Vision under the SFO.

5. Ms. Fu Haixia ("Ms. Fu"), the spouse of Mr. Liu Zaiwang ("Mr. Liu"), is the sole director of Beijing Jiangheyuan Holdings Co., Ltd. ("Jiangheyuan"). The board of directors of Jangho Co is controlled by Jiangheyuan and therefore Jiangheyuan is deemed to be interested in the shares held by Jangho Co through Jangho HK, Peacemark Enterprises and Eagle Vision under the SFO.

6. Jangho Co. is beneficially owned as to approximately 27.35% by Jiangheyuan (a company which is 85% and 15% beneficially owned by Mr. Liu and his spouse Ms. Fu, respectively) and beneficially owned as to approximately 23.25% by Mr. Liu and therefore, Mr. Liu is deemed to be interested in the shares indirectly held by Jangho Co. through Jangho HK, Peacemark Enterprises and Eagle Vision under the SFO.

DIRECTORS' REPORT (CONTINUED)

7. Ms. Fu is the spouse of Mr. Liu and is therefore deemed to be interested in the shares that Mr. Liu is interested in under the SFO.

8. Sino Panda Group Limited ("Sino Panda") is wholly and beneficially owned by Mr. Leung Chi Tien Steve ("Mr. Steve Leung") and therefore Mr. Steve Leung is deemed to be interested in the shares held by Sino Panda under the SFO.

9. Mr. Chan Siu Wan is the spouse of Mr. Steve Leung and is therefore deemed to be interested in the shares that Mr. Steve Leung is interested in under the SFO.

10. Eagle Vision was beneficially owned as to approximately 28.57% by Gloryeild Enterprises Limited ("Gloryeild Enterprises"). As such, the Company is indirectly owned as to 15.00% by Gloryeild Enterprises as at the date of this report.

11. Gloryeild Enterprises was wholly and beneficially owned by Sundart Holdings Limited ("Sundart Holdings"). As such, the Company is indirectly owned as to approximately 15.00% by Sundart Holdings as at the date of this report.

12. Sundart Holdings was beneficially owned as to approximately 69.50% by Reach Glory International Limited ("Reach Glory"). As such, the Company is indirectly owned as to approximately 10.43% by Reach Glory as at the date of this report.

13. Eagle Vision was beneficially owned as to approximately 28.57% by Health Capital Enterprises Limited ("Health Capital"). As such, the Company is indirectly owned as to 15.00% by Health Capital as at the date of this report.

14. Health Capital was wholly and beneficially owned by Gangyuan Architectural Decoration Hongkong Limited ("Gangyuan HK"). As such, the Company is indirectly owned as to approximately 15.00% by Gangyuan HK as at the date of this report.

15. Gangyuan HK was wholly and beneficially owned by Gangyuan Architectural Decoration Engineering Co., Ltd. ("Gangyuan Decoration"). As such, the Company is indirectly owned as to approximately 15.00% by Gangyuan Decoration as at the date of this report.

16. Gangyuan Decoration was beneficially owned as to 68.75% by Beijing Jangho Chuangzhan Management Consulting Company Limited ("Jangho Chuangzhan"). As such, the Company is indirectly owned as to approximately 10.31% by Jangho Chuangzhan as at the date of this report.

Save as disclosed above, the Directors and chief executives of the Company are not aware of any shareholders (other than the Directors and chief executives of the Company) who, as at the date of this report, has an interest or a short position in the shares which will be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or would be, directly or indirectly, interested in 5% or more of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

PRE-IPO SHARE OPTION SCHEME

On 11 June 2018, the Company conditionally adopted a pre-IPO share option scheme ("Pre-IPO Share Scheme") for the primary purpose of recognising the contribution of certain senior management, employees, consultants and other contributors of the Group ("Participants") have made or may have been made to the growth of the Group.

The subscription price for any share under the Pre-IPO Share Option Scheme shall be an amount equal to 50% discount to the mid-point of the offer price of the IPO, i.e. HK44 cents.

An offer of the grant of an option shall be deemed to have been accepted and such option to which such offer related shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of such offer duly signed by the grantee with the number of shares in respect of which such offer is accepted clearly stated therein, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company. Such remittance shall in no circumstances be refundable. Once accepted, the option is granted as from the offer date.

The grantees may only exercise their options no more than 20% of the total number of underlying shares under the options granted to such grantee every 12 months and the outstanding and unexercised Pre-IPO Share Options at the end of each vesting period may be rolled over to the next vesting period and exercisable during the option period.

The Pre-IPO Scheme was expired on the Listing Date, i.e. 5 July 2018. Save for the options which have been granted before the Listing Date, no further options were or will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

The shares which may be issued upon exercise of all options to be granted under the Pre-IPO Share Option Scheme shall not exceed 10% of the Shares in issue as at the Listing Date, i.e. 5 July 2018 (i.e. 114,000,000 Shares).

The Pre-IPO Share Options will be terminated immediately and would no longer be exercisable in the event of termination of employment for reasons including, but not limited to, misconduct of the employee and the employee being arrested for breach of any criminal law.

DIRECTORS' REPORT (CONTINUED)

The table below shows details of the share options granted under the Pre-IPO Share Option Scheme during the Year.

Category of grantees	Date of Grant	Exercisable period	As at 1 January 2018	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	As at 31 December 2018
Executive director								
Mr. Siu Man Hei	15/06/2018	05/07/2018 – 30/06/2024	–	2,006,400	–	–	–	2,006,400
		05/07/2019 – 30/06/2025	–	2,006,400	–	–	–	2,006,400
		05/07/2020 – 30/06/2026	–	2,006,400	–	–	–	2,006,400
		05/07/2021 – 30/06/2027	–	2,006,400	–	–	–	2,006,400
		05/07/2022 – 30/06/2028	–	2,006,400	–	–	–	2,006,400
Senior management and other employees	15/06/2018	05/07/2018 – 30/06/2024	–	4,090,320	–	–	–	4,090,320
		05/07/2019 – 30/06/2025	–	4,090,320	–	–	–	4,090,320
		05/07/2020 – 30/06/2026	–	4,090,320	–	–	–	4,090,320
		05/07/2021 – 30/06/2027	–	4,090,320	–	–	–	4,090,320
		05/07/2022 – 30/06/2028	–	4,090,320	–	–	–	4,090,320
			–	30,483,600	–	–	–	30,483,600

Except as set out above, no other options have been granted or agreed to be granted by the Group under the Pre-IPO Share Option Scheme during the Year.

SHARE OPTION SCHEME

On 11 June 2018, The Company adopted a share option scheme ("Scheme") for the primary purpose of motivating the Eligible Persons (as defined below) to optimise their future contributions to the Group and/or to reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), enabling the Group to attract and retain individuals with experience and ability and/or rewarding them for their past contributions. Subject to the terms of the Scheme, the Board shall be entitled at any time during the life of the Scheme to offer the grant of any options ("Options") to subscribe for such number of shares to any Eligible Person as the Board may in its absolute discretion select. The basis of eligibility shall be determined by the Board from time to time.

Persons satisfying any of the following ("Eligible Persons") may be offered with options by the Board, at its absolute discretion:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Executive");

(b) any proposed employee, any full-time of part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group;

(c) a Director of proposed Director (including an independent non-executive director) of any member of the Group;

(d) a direct or indirect shareholder of any member of the Group;

(e) a supplier of goods or services to any member of the Group;

(f) a client, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(g) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(h) an associate (as defined in the Listing Rules) of any of the persons referred to in paragraphs (a) to (g) above.

DIRECTORS' REPORT (CONTINUED)

The Board shall set out in the offer the terms on which the option is to be granted. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time. No options shall be granted under the Scheme at any time if such grant shall result in the scheme limit being exceeded.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the Listing Date (i.e. 114,000,000 shares). The Company may seek approval of its shareholders in general meeting for refreshing such 10% limit. As at the date of the annual report, no shares available for issue under the Scheme and any other schemes of the Company.

The maximum number of shares issued and to be issued upon exercise of the options granted to each Eligible Person (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the shares in issue for the time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Any grant of options to any Director, chief executive or substantial shareholder (as such term as defined in the Listing Rules) of the Company, or any of their respective associates under the Scheme is subject to the prior approval of the independent non-executive Directors (excluding independent non-executive Directors who or whose associates is the grantee of an options). Where any grant of options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1% of the shares in issue on the date of such grant; and (ii) having an aggregate value, based on the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK$5.0 million, such further grant of the options shall be subject to prior approval of the shareholders with such person and his associates abstaining from voting in favour of general meeting.

An offer for the grant of option must be accepted within 28 days from the offer date. Options granted shall be taken up upon payment of HK$1 as consideration for the grant of option. Options may be exercised at any time from the date which option is deemed to be granted and accepted and expired on the date as the Board in its absolute discretion determine and which shall not exceeding a period of 10 years from the date on which the share options are deemed to be granted and accepted but subject to the provisions for early termination thereof contained in the Scheme.

The subscription price is determined by the Board, and shall not be less than whichever is the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the offer date.

The Scheme shall be valid and effective for a period of 10 years commencing from 11 June 2018. No share options were granted, forfeited or expired during the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year was the Company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the Directors, or their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such right during the Year.

DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' INTERESTS UNDER THE SHARE OPTION SCHEME OF THE COMPANY

Save as disclosed above, none of the Directors of the Company or chief executives or employees of the Company has any interests under any share option scheme of the Company.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "SHARE OPTION SCHEME", no equity-linked agreements were entered by the Group or existed during the Year.

CONNECTED TRANSACTIONS

The Group has entered into the following transactions with the connected persons of the Company. All of such transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

FRAMEWORK AGREEMENT WITH JANGHO CHUANGXIN REAL ESTATE CO., LTD. (JANGHO CHUANGXIN)

Jangho Chuangxin is owned, directly and indirectly, by Mr. Liu, a controlling shareholder of the Company. Accordingly, Jangho Chuangxin is an associate of Mr. Liu and is regarded as a connected person of the Company.

On 28 September 2018, the Company entered into a framework agreement (the "Framework Agreement") with Jangho Chuangxin, pursuant to which, the Company provided interior design services and interior decorating and furnishing services to Jangho Chuangxin and/or its subsidiaries for a term from 28 September 2018 to 31 December 2020. The maximum transaction amounts for the three years ending 31 December 2020 are HK$25,000,000, HK$25,000,000 and HK$25,000,000, respectively (equivalent to approximately RMB22,000,000, RMB22,000,000 and RMB22,000,000, respectively). During the Year, the aggregate transaction amount was HK$22.9 million.

The Framework Agreement and the transactions conducted and contemplated under the Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules, as one or more of the applicable percentage ratios for the annual cap of the transactions conducted and contemplated under the Framework Agreement, is more than 5%, but are less than 25%. The transactions conducted and contemplated under the Framework Agreement are therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DESIGN SERVICE AGREEMENT WITH GANGYUAN ARCHITECTURAL DECORATION ENGINEERING CO., LTD. (GANGYUAN DECORATION)

Gangyuan Decoration was a substantial shareholder of Gangyuan Design and a non-wholly owned subsidiary of Jangho Co., one of our Controlling Shareholders. Gangyuan Decoration constitutes a substantial shareholder of our subsidiary and an associate of Jangho Co. under the Listing Rules and is therefore a connected person of our Company under the Listing Rules.

On 13 June 2018, Gangyuan Design entered into a design service agreement (the "Gangyuan Design Service Agreement") with Gangyuan Decoration, pursuant to which, Gangyuan Decoration subcontracted to Gangyuan Design the interior design services (the "Gangyuan Design Services") for the projects undertaken by Gangyuan Decoration for a term from 13 June 2018 to 31 December 2020. The maximum transaction amounts for the three years ending 31 December 2020 are RMB7,000,000, RMB7,000,000 and RMB7,000,000, respectively. During the Year, the aggregate transaction amount was HK$5.8 million (equivalent to approximately RMB4.9 million).

The Gangyuan Design Service Agreement and the transactions conducted and contemplated under the Gangyuan Design Service Agreement constitute continuing connected transactions of the Company under the Listing Rules, as, (i) one or more of the applicable percentage ratios for the annual cap of the transactions conducted and contemplated under the Gangyuan Design Service Agreement, which aggregated with the annual cap of Framework Agreement, is more than 5%, but are less than 25%; and (ii) the annual caps of the Gangyuan Design Service Agreement, which aggregated with the annual cap of Framework Agreement, are more than HK$10,000,000. The transactions conducted and contemplated under the Gangyuan Design Service Agreement are therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Saved as disclosed above, other significant related party transactions entered into by the Group during the Year, which do not constitute connected transactions under the Listing Rules are disclosed in note 37 to the consolidated financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "CONNECTED TRANSACTIONS" above and in note 37 to the consolidated financial statements, no other transactions, arrangements and contracts of significance, to which the Company of any of its subsidiaries was a party and in which a Director of a connected entity of a Director had a material interest whether directly or indirectly, 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

For 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 of their respective subsidiaries, please see "CONNECTED TRANSACTIONS" and note 37 to the consolidated financial statements.

MANAGEMENT CONTRACTS

Save for service contracts with the Directors, no contract by which a person undertakes the management and administration of the whole or any substantial part of the Company's business was entered or subsisted during the Year.

COMPETING BUSINESS

During the Year, none of the Directors or the controlling shareholders of the Company and their respective associates had any interest in a business, apart from the business of the Group, which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

In order to avoid any possible future competition between the Group and each of the Controlling Shareholders, each of the Controlling Shareholders as covenantors executed a deed of non-competition dated 11 June 2018 ("Deed of Non-Competition") in favour of the Company (for itself and as trustee for its subsidiaries), pursuant to which, each of the covenantors confirms, inter alia, that other than its/his/her interests in the Company, none of them is engaged in any business which, directly or indirectly, competes or may compete with the business of the Group, or has any interests in such business. Each of the covenantors also gave certain non-competition undertakings under the Deed of Non-Competition as set out in the paragraph headed "Relationship with Controlling Shareholders – Deed of Non-Competition" in the Prospectus.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the articles of association of the Company, the Directors of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty of supposed duty, in their respective offices or trusts.

The Company has arranged appropriate directors and officers liability in insurance coverage for its Directors and officers.

EMOLUMENT POLICY

The emolument policy of the employees of the Group was set up by the Remuneration Committee. The emolument of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market trend.

RETIREMENT BENEFIT SCHEME

Details of the Group's retirement benefit schemes are set out in note 42 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this report, the Company has maintained a sufficient public float since 5 July 2018 up to the date of this report as required under the Listing Rules.

CHARITABLE DONATIONS

Donations made by the Company during the Year for charitable amounted to HK$1,232,660.

MAJOR CUSTOMERS, SUBCONTRACTORS AND SUPPLIERS

For the Year, the aggregate revenue attributable to the five largest customers was less than 30% of the total revenue of the Group. The aggregate purchases attributable to the five largest suppliers of the Group during the Year was less than 30% of the total purchases of the Group.

Other than disclosed above, at no time during the Year did a Director, a close associate of a Director of a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

CORPORATE GOVERNANCE

The Company has complied with the code provisions and certain recommended best practices set out in the CG Code. Details of the corporate governance report are set out on pages 38 to 49 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events occurred after 31 December 2018.

AUDITOR

The Financial Statements has been audited by Messrs. Deloitte Touche Tohmatsu ("Deloitte"), who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

On behalf of the Board
Steve Leung Design Group Limited
XU Xingli
Chairman

Hong Kong, 11 March 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

To the Shareholders of Steve Leung Design Group Limited
梁志天設計集團有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Steve Leung Design Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 84 to 159, 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, consolidated statement of changes in equity and 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 its 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 the 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.

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 year. 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on service contracts from interior design services, interior decorating and furnishing design services and product design services	
We identified the revenue recognition on service contracts from interior design services, interior decorating and furnishing design services and product design services as a key audit matter due to the significant judgments exercised by the management in determining the total contract costs and contract costs incurred for work performed to date. As set out in note 4 to the consolidated financial statements, the Group recognises service revenue by reference to the progress towards complete satisfaction of the relevant performance obligation using input method, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Accordingly, revenue recognition on service contracts involves a significant degree of management estimates and judgment, with estimates being made to assess the total contract costs and stage of completion of the contract. The details of the accounting policies and estimation uncertainty in relation to revenue recognition on service contracts from interior design services, interior decorating and furnishing design services and product design services are set out in notes 3 and 4 to the consolidated financial statements. As disclosed in note 5 to the consolidated financial statements, the service revenue amounted to HK$397,736,000 for the year ended 31 December 2018.	Our procedures in relation to revenue recognition on service contracts from interior design services, interior decorating and furnishing design services and product design services included: • Understanding the management's process relating to the estimation of total contract costs and recording of costs; • Obtaining an understanding from the Group's project team including project managers, about the contract terms, performance and status of selected contracts to evaluate the reasonableness of the basis of estimation of the total contract costs, and contract costs incurred for work performed to date; • Comparing the staff costs incurred on selected contracts extracted from the timesheet recording system to the estimated total contract costs with the percentage of completion of individual contracts and evaluating the reasonableness of the estimated total contract costs; • Performing comparisons between the percentage of completion and the percentage of progress billing on selected contracts to identify and investigate any significant differences by obtaining an understanding from project team and checking correspondence with customers of the Group; and • Checking the progress billings, on a sample basis, to invoices issued and checking staff costs incurred, on a sample basis, to the timesheet recording system and human resources record.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Estimated provision of expected credit losses ("ECL") for trade receivables and contract assets	
We identified the estimated provision of ECL for trade receivables and contract assets as a key audit matter due to their significance to the consolidated financial statements as a whole and the use of judgment and estimates by the management in determining the allowance for credit losses and write-offs. As shown in notes 22 and 24 to the consolidated financial statements, as at 31 December 2018, the carrying amounts of trade receivables and contract assets are HK$145,342,000 (net of allowance for credit losses of HK$14,275,000) and HK$62,950,000, respectively. As disclosed in note 4 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables and contract assets individually for debtors with significant balances and/or collectively based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is reasonable and supportable available without undue costs or effort. In addition, trade receivables and contract assets that are credit impaired are assessed for ECL individually. The loss allowance amount of the credit impaired trade receivables and contract assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 39 to the consolidated financial statements, a net impairment loss of HK$1,388,000 in respect of the trade receivables was recognised in profit or loss by the Group for the year ended 31 December 2018.	Our procedures in relation to the estimated provision of ECL for trade receivables and contract assets included: • Obtaining an understanding of key controls on how the management estimates the ECL of trade receivables and contract assets including the individual assessment on significant balances and the credit impaired trade receivables and contract assets and the use of provision matrix for collective assessment; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables and contract assets ageing analysis as at 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant invoices; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables and contract assets as at 31 December 2018, including their identification of credit impaired trade receivables and contract assets, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); • Evaluating the disclosures regarding the impairment assessment of trade receivables and contract assets in notes 22, 24 and 39 to the consolidated financial statements; and • Testing subsequent settlements of credit impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period.

OTHER INFORMATION

The directors of the Company 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 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, 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.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the 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 solely to you, as a body, in accordance with our agreed terms of engagement, 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 year 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 partner on the audit resulting in the independent auditor's report is Sze On Tat.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
11 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue	5	**503,890**	434,822
Cost of sales		**(277,388)**	(221,757)
Gross profit		**226,502**	213,065
Other gains and losses	7	**4,707**	3,152
Impairment losses on trade receivables		**(1,388)**	(5,040)
Other income	8	**2,539**	1,926
Administrative expenses		**(129,811)**	(102,806)
Listing expenses		**(13,412)**	(8,826)
Finance costs	9	**(916)**	(149)
Profit before taxation		**88,221**	101,322
Income tax expense	10	**(30,208)**	(27,763)
Profit for the year	11	**58,013**	73,559
Other comprehensive (expense) income that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(11,573)**	10,718
Total comprehensive income for the year		**46,440**	84,277
Profit for the year attributable to:			
– Owners of the Company		**56,727**	72,251
– Non-controlling interests		**1,286**	1,308
		58,013	73,559
Total comprehensive income for the year attributable to:			
– Owners of the Company		**44,937**	82,694
– Non-controlling interests		**1,503**	1,583
		46,440	84,277
Earnings per share (expressed in Hong Kong cents)	15		
Basic		**5.70**	8.45
Diluted		**5.67**	8.45

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current Assets			
Property, plant and equipment	16	**24,315**	10,941
Intangible assets	17	**4,355**	4,025
Goodwill	18	**1,231**	1,290
Deposits paid for acquisition of property, plant and equipment	23	**3,769**	6,659
Rental deposits	23	**6,042**	3,292
Deferred tax assets	19	**11,797**	8,293
		51,509	34,500
Current Assets			
Inventories	20	**1,444**	1,384
Note receivables	21	**60,000**	–
Trade receivables	22	**145,342**	49,044
Other receivables, deposits and prepayments	23	**16,734**	23,448
Contract assets	24	**62,950**	–
Amounts due from customers for contract works	25	**–**	110,371
Tax recoverable		**–**	466
Pledged bank deposits	26	**–**	1,004
Bank balances and cash	26	**284,218**	154,910
		570,688	340,627
Current Liabilities			
Trade payables	27	**24,264**	8,963
Other payables and accrued charges	27	**58,098**	84,378
Dividend payable		**–**	35,000
Bank borrowings	28	**20,000**	8,000
Obligations under a finance lease	29	**223**	–
Contract liabilities	30	**20,316**	–
Amounts due to customers for contract works	25	**–**	5,334
Tax liabilities		**12,592**	26,151
		135,493	167,826
Net Current Assets		**435,195**	172,801
Total Assets less Current Liabilities		**486,704**	207,301
Capital and Reserves			
Share capital	31	**11,400**	–
Reserves		**465,011**	199,174
Equity attributable to owners of the Company		**476,411**	199,174
Non-controlling interests		**9,479**	7,976
Total Equity		**485,890**	207,150
Non-current Liabilities			
Deferred tax liabilities	19	**82**	151
Obligations under a finance lease	29	**732**	–
		814	151
		486,704	207,301

The consolidated financial statements on pages 84 to 159 were approved and authorised for issue by the Board of Directors on 11 March 2019 and are signed on its behalf by:

SIU MAN HEI	**YIP KWOK HUNG KEVIN**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Equity attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000 (Note (a))	Merger reserve HK$'000 (Note (b))	Statutory reserve HK$'000 (Note (c))	Exchange reserve HK$'000	Long-term employee benefit reserve HK$'000 (Note (d))	Shareholder's contribution HK$'000 (Note (e))	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2017	–	–	–	663	(9,182)	3,831	2,683	175,976	173,971	6,935	180,906
Profit for the year	–	–	–	–	–	–	–	72,251	72,251	1,308	73,559
Exchange difference arising on translation of foreign operations	–	–	–	–	10,443	–	–	–	10,443	275	10,718
Total comprehensive income for the year	–	–	–	–	10,443	–	–	72,251	82,694	1,583	84,277
Transfer of reserves	–	–	–	2,289	–	–	–	(2,289)	–	–	–
Effect of group reorganisation	–	112,360	(112,360)	–	–	–	–	–	–	–	–
Dividend recognised as distributions (note 14)	–	(16,698)	–	–	–	–	–	(83,302)	(100,000)	–	(100,000)
Shareholder's contribution	–	–	–	–	–	–	43,119	–	43,119	–	43,119
Reversal of shareholder's contribution	–	–	–	–	–	–	(2,683)	–	(2,683)	–	(2,683)
Recognition of equity settled long-term employee benefits	–	–	–	–	–	1,540	–	–	1,540	–	1,540
Acquisition of additional interest in a subsidiary (note (f))	–	–	–	–	–	–	–	533	533	(542)	(9)
At 31 December 2017	–	95,662	(112,360)	2,952	1,261	5,371	43,119	163,169	199,174	7,976	207,150
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**56,727**	**56,727**	**1,286**	**58,013**
Exchange difference arising on translation of foreign operations	**-**	**-**	**-**	**-**	**(11,790)**	**-**	**-**	**-**	**(11,790)**	**217**	**(11,573)**
Total comprehensive (expense) income for the year	**-**	**-**	**-**	**-**	**(11,790)**	**-**	**-**	**56,727**	**44,937**	**1,503**	**46,440**
Transfer of reserves	**-**	**-**	**-**	**213**	**-**	**-**	**-**	**(213)**	**-**	**-**	**-**
Capitalisation issue (note 31)	**8,550**	**(8,550)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Issue of new shares pursuant to the initial public offering (note 31)	**2,850**	**247,950**	**-**	**-**	**-**	**-**	**-**	**-**	**250,800**	**-**	**250,800**
Share issue expenses	**-**	**(20,977)**	**-**	**-**	**-**	**-**	**-**	**-**	**(20,977)**	**-**	**(20,977)**
Recognition of equity settled long-term employee benefits	**-**	**-**	**-**	**-**	**-**	**2,477**	**-**	**-**	**2,477**	**-**	**2,477**
At 31 December 2018	**11,400**	**314,085**	**(112,360)**	**3,165**	**(10,529)**	**7,848**	**43,119**	**219,683**	**476,411**	**9,479**	**485,890**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2018

Notes:

(a) Share premium included the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the share capital and other reserves of SLD Group Holdings Limited, a subsidiary which was incorporated pursuant to the group reorganisation (the "Reorganisation") of the Group in connection with the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as set out in the section headed "History, Development and Reorganisation" in the prospectus of the Company dated 22 June 2018 (the "Prospectus").

(b) Merger reserve represents the difference between the amount of share capital and share premium of the Company issued, and the share capital of Steve Leung Designers Limited ("SLD") exchanged in connection with the Reorganisation.

(c) The articles of association of the Company's subsidiaries established in the People's Republic of China (the "PRC") state that they may make an appropriation of 10% of their profit for the year (prepared under generally accepted accounting principles in the PRC) each year to the statutory reserve until the balance reaches 50% of their paid-in capital. The statutory reserve shall only be used for making good losses, capitalisation into paid-in capital and expansion of their production and operation.

(d) The amount represents the recognition of the equity settled long-term employee benefit scheme of a subsidiary of the Company in respect of "Share-linked Bonus and Share Conversion Scheme" (the "Conversion Scheme") and share option scheme, details of which are set out in notes 40 and 41, respectively.

(e) (i) As at 31 December 2018, the amount represents the contribution from a shareholder pursuant to the sale and purchase agreement of SLD Acquisition as defined in the section headed "History, Development and Reorganisation" in the Prospectus. The seller (who is also the non-controlling shareholder of SLD) had guaranteed a certain level of profit of SLD for the three years ended 31 December 2016 and the Group will receive from the seller 50% of the shortfall of actual profit generated by SLD with the guarantee profit as contribution. An approximate amount of HK$43,119,000 was confirmed by shareholders of SLD and the amount was received and recognised by the Group as a shareholder 's contribution on 24 November 2017.

(ii) As at 1 January 2017, the amount represents the contributions for the long-term employee benefit scheme of a subsidiary of the Company in respect of "Three-Year Loyalty Incentive Scheme" (the "Loyalty Incentive Scheme"). The contributions have been reversed during the year ended 31 December 2017. Details are set out in note 40.

(f) During the year ended 31 December 2017, the Group acquired 1% additional interest in Steve Leung Interior Design (Beijing) Limited from a non-controlling shareholder of a subsidiary for a consideration of RMB7,000 (equivalent to approximately HK$9,000). The difference between the cash consideration paid and the carrying amount of the net assets attributable to the additional interest assumed from the non-controlling shareholder of HK$533,000 is credited to retained profits.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	**2018 HK$'000**	2017 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**88,221**	101,322
Adjustments for:			
Amortisation of intangible assets		**1,047**	1,983
Depreciation of property, plant and equipment		**7,418**	5,927
Expense recognised in respect of Loyalty Incentive Scheme	40	**1,703**	3,003
Expense recognised in respect of Conversion Scheme and share option scheme	41	**2,477**	1,540
Loss on disposals of property, plant and equipment		**275**	32
Finance costs		**916**	149
Impairment losses on trade receivables		**1,388**	5,040
Interest income		**(1,555)**	(585)
Operating cash flows before movements in working capital		**101,890**	118,411
(Increase) decrease in inventories		**(60)**	385
Increase in trade receivables		**(48,058)**	(13,731)
Decrease (increase) in other receivables, deposits and prepayments		**3,700**	(11,659)
Increase in contract assets		**(14,623)**	–
Increase in amounts due from customers for contract works		**–**	(10,279)
Increase in trade payables		**16,387**	4,129
(Decrease) increase in other payables and accrued charges		**(12,422)**	26
Increase in contract liabilities		**2,814**	–
Decrease in amounts due to customers for contract works		**–**	(3,744)
Net cash generated from operations		**49,628**	83,538
Hong Kong Profits Tax paid		**(17,868)**	–
PRC Enterprise Income Tax paid		**(27,209)**	(19,517)
Withholding tax paid		**(806)**	(1,655)
Interest paid		**(916)**	(149)
NET CASH FROM OPERATING ACTIVITIES		**2,829**	62,217

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES		
Interest received	**1,146**	585
Additions to property, plant and equipment	**(17,710)**	(10,131)
Proceeds from disposal of property, plant and equipment	**125**	359
Additions to intangible assets	**(1,647)**	(921)
Additions to note receivables	**(60,000)**	–
Repayment to a fellow subsidiary on remaining consideration of acquisition of a subsidiary	**–**	(8,196)
Placement of pledged bank deposits	**–**	(1,004)
Withdrawal of pledged bank deposits	**1,004**	–
NET CASH USED IN INVESTING ACTIVITIES	**(77,082)**	(19,308)
FINANCING ACTIVITIES		
Dividend paid	**(35,000)**	(65,000)
Issue of shares of the Company, net of transaction costs	**229,823**	–
Contribution from a shareholder	**–**	43,119
Acquisition on additional interest in subsidiaries	**–**	(9)
New bank borrowings raised	**240,000**	52,500
Repayments of bank borrowings	**(228,000)**	(49,500)
Repayment to a fellow subsidiary	**–**	(177)
Repayment of obligations under a finance lease	**(215)**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**206,608**	(19,067)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**132,355**	23,842
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**154,910**	126,337
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(3,047)**	4,731
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH	**284,218**	154,910

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION AND REORGANISATION

Steve Leung Design Group Limited (the "Company") was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 December 2016 and its shares were listed on the Stock Exchange on 5 July 2018 (the "Listing Date"). The Company's immediate holding company is Eagle Vision Development Limited, a limited liability company incorporated in the British Virgin Islands ("BVI"), whereas the directors of the Company consider that the Company's ultimate holding company is Jangho Group Co., Ltd., a company incorporated in PRC with its shares listed on the Shanghai Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

Pursuant to the Reorganisation as set out in the section headed "History, Development and Reorganisation" in the Prospectus, the Company and SLD Group Holdings Limited, a direct wholly-owned subsidiary of the Company, were interspersed between SLD and its shareholders on 21 April 2017 by allotment and issue of shares in the Company. After that the Company became the holding company of the companies now comprising the Group. The Group comprising the Company and its subsidiaries resulting from this Reorganisation is regarded as a continuing entity.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group which include the results, changes in equity and cash flows of the companies comprising the Group for the year ended 31 December 2017 have been prepared as if the Company had always been the holding company of the companies now comprising the Group and the current group structure had been in existence throughout the year ended 31 December 2017, or since their respective dates of incorporation or establishment, whichever it is a shorter period.

The Company acts as an investment holding company and provides corporate management services. The principal activities of the Company's subsidiaries are set out in note 43.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

NEW AND AMENDMENTS TO HKFRSS THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

NEW AND AMENDMENTS TO HKFRSS THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's performance and financial positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- service revenue from provision of interior design services, interior decorating and furnishing design services and product design services;
- license fee income from license arrangement; and
- trading income from sales of interior decorative products.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

NEW AND AMENDMENTS TO HKFRSS THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

2.1 HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

SUMMARY OF EFFECTS ARISING FROM INITIAL APPLICATION OF HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	Carrying amounts under HKFRS 15 at 1 January 2018* HK$'000
Current Assets				
Trade receivables	(a)	49,044	55,366	104,410
Contract assets	(a)	–	55,005	55,005
Amounts due from customers for contract works	(a)	110,371	(110,371)	–
Current Liabilities				
Other payables and accrued charges	(b)	84,378	(12,331)	72,047
Contract liabilities	(a) (b)	–	17,665	17,665
Amounts due to customers for contract works	(a)	5,334	(5,334)	–

* The Group recognised the cumulative effect of initially applying HKFRS 15 as a reclassification to the opening balances as at 1 January 2018. The amounts in this column are before the adjustments from the application of HKFRS 9.

For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

Notes:

(a) In relation to design service contracts previously accounted for under HKAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. HK$55,005,000, HK$55,366,000 and HK$5,334,000 of amounts due from/to customers for contract works were reclassified to contract assets, trade receivables and contract liabilities, respectively.

(b) At the date of initial application, included in other payables and accrued charges are deposits received from customers for contract works amounted to HK$12,231,000 and advances received from customers for contract work amounted to HK$100,000. These balances were reclassified to contract liabilities upon application of HKFRS 15.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

NEW AND AMENDMENTS TO HKFRSS THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

2.1 HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

SUMMARY OF EFFECTS ARISING FROM INITIAL APPLICATION OF HKFRS 15 (CONTINUED)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018. The application of HKFRS 15 has no material impact on the Group's consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported HK$'000	Reclassification HK$'000	Amounts without application of HKFRS 15 HK$'000
Current Assets			
Trade receivables	145,342	(68,047)	77,295
Contract assets	62,950	(62,950)	–
Amounts due from customers for contract works	–	130,997	130,997
Current Liabilities			
Other payables and accrued charges	58,098	17,819	75,917
Contract liabilities	20,316	(20,316)	–
Amounts due to customers for contract works	–	2,497	2,497

Impact on the consolidated statement of cash flows

	As reported HK$'000	Reclassification HK$'000	Amounts without application of HKFRS 15 HK$'000
OPERATING ACTIVITIES			
Increase in trade receivables	(48,058)	15,881	(32,177)
Increase in contract assets	(14,623)	14,623	–
Increase in amounts due from customers for contract works	–	(30,504)	(30,504)
Decrease in other payables and accrued charges	(12,422)	5,488	(6,934)
Increase in contract liabilities	2,814	(2,814)	–
Decrease in amounts due to customers for contract works	–	(2,674)	(2,674)

The explanations of the above changes affected in the current year by the application of HKFRS 15 as compared to HKAS 18 and the related interpretations are set out in notes (a) and (b) above for describing the reclassifications made to the consolidated statement of financial position at 1 January 2018 upon the adoption of HKFRS 15.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

NEW AND AMENDMENTS TO HKFRSS THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

2.2 HKFRS 9 FINANCIAL INSTRUMENTS

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

SUMMARY OF EFFECTS ARISING FROM INITIAL APPLICATION OF HKFRS 9

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets and trade receivables. Except for those which had been determined as credit impaired under HKAS 39, contract assets and trade receivables have been assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings based on their historical default rates which are adjusted for forward-looking estimates. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including note receivables, other receivables, pledged bank deposits and bank balances, are assessed on 12 months ECL basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained profits.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

NEW AND AMENDMENTS TO HKFRSS THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

2.2 HKFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

NEW AND AMENDMENTS TO HKFRSS IN ISSUE BUT NOT YET EFFECTIVE

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

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

2 Effective for annual periods beginning on or after 1 January 2021.

3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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

5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

NEW AND AMENDMENTS TO HKFRSS THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

2.2 HKFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

NEW AND AMENDMENTS TO HKFRSS IN ISSUE BUT NOT YET EFFECTIVE (CONTINUED)

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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon the application of 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 and operating cash flows, respectively.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 will not result in any changes in classification of these assets.

Other than certain requirements which are also applicable to lessor, 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 at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$48,313,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (CONTINUED)

NEW AND AMENDMENTS TO HKFRSS THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR (CONTINUED)

2.2 HKFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

NEW AND AMENDMENTS TO HKFRSS IN ISSUE BUT NOT YET EFFECTIVE (CONTINUED)

HKFRS 16 LEASES (CONTINUED)

In addition, the Group currently considers refundable rental deposits paid of HK$6,338,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amount of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements would result in changes in measurement, presentation and disclosure as indicated above. The Group would elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group would not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group would elect the modified retrospective approach for the application of HKFRS 16 as lessee and would recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies are set out below:

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

CHANGES IN THE GROUP'S INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS

Acquisitions of businesses, other than business combination under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer 's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOODWILL (CONTINUED)

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

REVENUE FROM CONTRACTS WITH CUSTOMERS (UPON APPLICATION OF HKFRS 15 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE FROM CONTRACTS WITH CUSTOMERS (UPON APPLICATION OF HKFRS 15 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2) (CONTINUED)

CONTRACTS WITH MULTIPLE PERFORMANCE OBLIGATIONS (INCLUDING ALLOCATION OF TRANSACTION PRICE)

For contracts that contain more than one performance obligations (provision of design services and sales of goods), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

OVER TIME REVENUE RECOGNITION: MEASUREMENT OF PROGRESS TOWARDS COMPLETE SATISFACTION OF A PERFORMANCE OBLIGATION

INPUT METHOD

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Service revenue from interior design services, interior decorating and furnishing services and product design services is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation using input method as the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

License fee revenue for granting the right to use the Group's intellectual property is recognised when the performance obligation is satisfied at a point in time at which the license is granted to the customer.

Trading income is recognised at a point in time when the customers obtains control of the distinct good or service.

REVENUE RECOGNITION (PRIOR TO 1 JANUARY 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (PRIOR TO 1 JANUARY 2018) (CONTINUED)

Service revenue from interior design services, interior decorating and furnishing services and product design services is recognised when the outcome of the contract can be measured reliably and the stage of completion at the end of the reporting period can be measured reliably. When the outcome of the contract cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that it is probable to be recoverable. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers.

Revenue from sales of goods is recognised when the goods are delivered and titles have passed.

License fee income is recognised on an accrued basis in accordance with the substance of the relevant agreement.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

SERVICE CONTRACTS (PRIOR TO 1 JANUARY 2018)

Where the outcome of a service contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade receivables.

LEASING

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASING (CONTINUED)

THE GROUP AS LESSEE

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

GOVERNMENT GRANTS

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

SHARE-BASED PAYMENTS

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

SHARE-BASED PAYMENTS ARRANGEMENTS

Where a shareholder transferred the equity instruments of a group entity to an employee in return for service provided to the Group, the transaction is accounted for as equity-settled share-based payment transaction of the Group. The fair value of services received is determined by reference to the fair value of the equity instruments at the grant date. It is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (i. e. long-term employee benefit reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to long-term employee benefit reserve.

If new equity instruments are granted to the employee and, on the date when those new equity instruments are granted, the Group identifies the new equity instruments granted as replacement equity instruments for the original grant of equity instruments which are cancelled or settled during the vesting period, the Group accounts for the granting of replacement equity instruments as a modification of the original grant of equity instruments. The incremental fair value granted is the difference between the fair value of the replacement equity instruments and the net fair value of the cancelled equity instruments, at the date the replacement equity instruments are granted. The incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENTS (CONTINUED)

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

SHARE OPTIONS GRANTED TO EMPLOYEES

Equity-settled share-based payments to employees providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (long-term employee benefit reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to long-term employee benefit reserve.

SHORT-TERM AND OTHER LONG-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employee rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting period. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RETIREMENT BENEFIT COSTS

Payments to the Mandatory Provident Fund Scheme (the "MPF Scheme") and state-managed retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAXATION (CONTINUED)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

INTANGIBLE ASSETS ACQUIRED SEPARATELY

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with indefinite lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

IMPAIRMENT ON TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units (or a cash-generating unit) for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT ON TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL (CONTINUED)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS

CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS (UPON APPLICATION OF HKFRS 9 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

AMORTISED COST AND INTEREST INCOME

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

IMPAIRMENT OF FINANCIAL ASSETS (UPON APPLICATION HKFRS 9 WITH TRANSITIONS IN ACCORDANCE WITH NOTE 2)

The Group recognises a loss allowance for ECL on financial assets and other assets which are subject to impairment under HKFRS 9 (including note receivables, trade receivables, certain other receivables, pledged bank deposits and bank balances, and contract assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (UPON APPLICATION HKFRS 9 WITH TRANSITIONS IN ACCORDANCE WITH NOTE 2) (CONTINUED)

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(I) SIGNIFICANT INCREASE IN CREDIT RISK

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (UPON APPLICATION HKFRS 9 WITH TRANSITIONS IN ACCORDANCE WITH NOTE 2) (CONTINUED)

(I) SIGNIFICANT INCREASE IN CREDIT RISK (CONTINUED)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(II) DEFINITION OF DEFAULT

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (UPON APPLICATION HKFRS 9 WITH TRANSITIONS IN ACCORDANCE WITH NOTE 2) (CONTINUED)

(III) CREDIT-IMPAIRED FINANCIAL ASSETS

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(IV) WRITE-OFF POLICY

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(V) MEASUREMENT AND RECOGNITION OF ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (UPON APPLICATION HKFRS 9 WITH TRANSITIONS IN ACCORDANCE WITH NOTE 2) (CONTINUED)

(V) MEASUREMENT AND RECOGNITION OF ECL (CONTINUED)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis:

- Nature of financial instruments (i.e. the Group's trade receivables and certain other receivables are each assessed as a separate group. Note receivables are assessed for expected credit losses on an individual basis);
- Past-due status; and
- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income 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 amortised cost of the financial asset.

CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS (BEFORE APPLICATION OF HKFRS 9 ON 1 JANUARY 2018)

The Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, certain other receivables, pledged bank deposit, and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (BEFORE APPLICATION OF HKFRS 9 ON 1 JANUARY 2018)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

DERECOGNITION OF FINANCIAL ASSETS

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

FINANCIAL LIABILITIES AND EQUITY

CLASSIFICATION AS DEBT OR EQUITY

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

EQUITY INSTRUMENTS

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

FINANCIAL LIABILITIES AT AMORTISED COST

Financial liabilities (including trade payables, other payables and accrued charges, dividend payable and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

DERECOGNITION OF FINANCIAL LIABILITIES

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

REVENUE RECOGNITION ON SERVICE CONTRACTS FROM INTERIOR DESIGN SERVICES, INTERIOR DECORATING AND FURNISHING DESIGN SERVICES AND PRODUCT DESIGN SERVICES

As detailed in notes 3 and 5, the Group recognised revenue on service contracts from interior design services, interior decorating and furnishing design services and product design services by reference to the progress towards complete satisfaction of the relevant performance obligation using input method, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The management regularly discusses with the project team in order to review and revise the estimates of the total contract costs based on estimated manhours and stage of completion of the work performed to date with reference to the performance and status of corresponding service contract work. Accordingly, revenue recognition on service contracts involves a significant degree of management estimates and judgment, with estimates being made to assess the total contract costs and contract costs incurred for work performed to date.

The management reviews and revises the estimates of total contract costs for the design services and contract costs incurred for work performed to date as the contract progresses, the actual outcome of the contract in terms of its total costs may be higher or lower than the estimates and this will affect the revenue and profit recognised.

ESTIMATED PROVISION OF ECL FOR TRADE RECEIVABLES AND CONTRACT ASSETS

The Group has considered all the possible default events over the expected life of the trade receivables and contract assets and assessed individually for debtors with significant balances and/or collectively using a provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is reasonable and supportable available without undue costs or effort. In addition, trade receivables and contract assets that are credit impaired are assessed for ECL individually. The loss allowance amount of the credit impaired trade receivables and contract assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.

The provision of ECL is sensitive to changes in estimates. The information about the Group's assessment of ECL and the details of the Group's trade receivables and contract assets are disclosed in notes 39, 22 and 24, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

5. REVENUE

The Group's revenue represents service revenue from provision of interior design services, interior decorating and furnishing design services and product design services, license fee revenue from product design services and trading income from trading of interior decorative products.

An analysis of the Group's revenue for the years ended 31 December 2018 and 31 December 2017 is as follows:

	2018 HK$'000	2017 HK$'000
Service revenue	**397,736**	377,341
License fee revenue	**2,380**	2,174
Trading income	**103,774**	55,307
	503,890	434,822

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Interior design services HK$'000	Interior decorating and furnishing services HK$'000	Product design services HK$'000	Total HK$'000
Geographical markets				
Hong Kong	**45,168**	**2,716**	**–**	**47,884**
PRC	**298,512**	**116,157**	**2,447**	**417,116**
Other regions	**36,581**	**239**	**2,070**	**38,890**
	380,261	**119,112**	**4,517**	**503,890**
Timing of revenue recognition				
Over time				
Service revenue	**380,261**	**15,338**	**2,137**	**397,736**
At point in time				
License fee revenue	**–**	**–**	**2,380**	**2,380**
Trading income	**–**	**103,774**	**–**	**103,774**
	–	**103,774**	**2,380**	**106,154**
	380,261	**119,112**	**4,517**	**503,890**

5. REVENUE (CONTINUED)

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

The Group provides interior design services, interior decorating and furnishing design services and product design services to customers. Such services are recognised as a performance obligation satisfied over time as the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation using input method.

The Group's service contracts include payment schedules which require stage payments over the design period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits range from 10% to 20% of total contract sum, when the Group receives a deposit before design service commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the specific contract exceeds the amount of the deposit.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the design services are performed representing the Group's right to consideration for the services performed because the rights are conditioned on the Group's future performance in achieving specified milestones. The contract assets are transferred to trade receivables when the rights become unconditional upon meeting the billing milestones.

The Group sells interior decorative products and grant the right to use the Group's intellectual property to customers.

For trading of interior decorative products, revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the specific location and confirmed by the customers. There is no credit period given on billing for trading of interior decorative products.

For license arrangement, revenue is recognised when the Group grant the right to use the Group's intellectual property. There is no credit period given on billing for license arrangement.

The expected timing of recognising revenue on transaction price related to the performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 is within one year. The Group elected to apply the practical expedient by recognising revenue in the amount to which the Group has right to invoice. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. OPERATING SEGMENTS

The Group is organised into operating business units according to the nature of the services provided or goods sold. The Group determines its operating segments based on these business units by reference to the nature of the services provided or goods sold, for the purpose of reporting to the chief operating decision makers ("CODM"), i.e. the executive directors of the Company.

Specifically, the Group's reportable segments under HKFRS 8 *Operating Segments* are as follows:

1. Interior design services: Provision of interior design services

2. Interior decorating and furnishing services: Provision of interior decorating and furnishing design services and trading of interior decorative products

3. Product design services: Provision of product design service and license arrangement for product design services

Segment information about these reportable and operating segments is presented below.

SEGMENT REVENUE AND RESULTS

	Interior design services HK$'000	Interior decorating and furnishing services HK$'000	Product design services HK$'000	Total HK$'000
For the year ended 31 December 2018				
Revenue				
Segment revenue from external customers	**380,261**	**119,112**	**4,517**	**503,890**
Results				
Segment results	**80,261**	**22,474**	**414**	**103,149**
Unallocated income				**–**
Interest income				**1,555**
Depreciation of property, plant and equipment				**(2,796)**
Loss on disposals of property, plant and equipment				**(275)**
Listing expenses				**(13,412)**
Profit before taxation				**88,221**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

6. OPERATING SEGMENTS (CONTINUED)

SEGMENT REVENUE AND RESULTS (CONTINUED)

	Interior design services HK$'000	Interior decorating and furnishing services HK$'000	Product design services HK$'000	Total HK$'000
For the year ended 31 December 2017				
Revenue				
Segment revenue from external customers	360,478	70,700	3,644	434,822
Results				
Segment results	103,242	6,883	1,862	111,987
Unallocated income				69
Interest income				585
Depreciation of property, plant and equipment				(2,461)
Loss on disposals of property, plant and equipment				(32)
Listing expenses				(8,826)
Profit before taxation				101,322

Note: There is no inter-segment revenue for both years.

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned by each segment without allocation of certain unallocated income, interest income, certain depreciation of property, plant and equipment, loss on disposals of property, plant and equipment and listing expenses. This is the measure reported to the CODMs for the purposes of resource allocation and performance assessment.

The CODMs make decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODMs do not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

OTHER SEGMENT INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2018

	Interior design services HK$'000	**Total HK$'000**
Amounts included in the measure of segment results:		
Amortisation of intangible assets	**1,047**	**1,047**
Depreciation of property, plant and equipment	**4,622**	**4,622**
Impairment losses on trade receivables	**1,388**	**1,388**

6. OPERATING SEGMENTS (CONTINUED)

OTHER SEGMENT INFORMATION (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Interior design services HK$'000	Total HK$'000
Amounts included in the measure of segment results:		
Amortisation of intangible assets	1,983	1,983
Depreciation of property, plant and equipment	3,466	3,466
Impairment losses on trade receivables	5,040	5,040

GEOGRAPHICAL INFORMATION

The Group's revenue from external customers is mainly derived from customers located in Hong Kong and the PRC, which is determined based on the location of projects.

	2018 HK$'000	2017 HK$'000
External revenue:		
Hong Kong	**47,884**	37,531
PRC	**417,116**	374,845
Other regions	**38,890**	22,446
	503,890	434,822

The Group's non-current assets are located in Hong Kong and the PRC, which is determined based on the geographical location of these assets.

	2018 HK$'000	2017 HK$'000
PRC	**21,611**	8,808
Hong Kong	**18,101**	17,399
	39,712	26,207

Note: Non-current assets excluded deferred tax assets.

INFORMATION ABOUT MAJOR CUSTOMERS

During the years ended 31 December 2018 and 2017, none of the Group's single customer attributed to more than 10% of the Group's total external revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

7. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Exchange gain, net	**4,982**	3,184
Loss on disposals of property, plant and equipment	**(275)**	(32)
	4,707	3,152

8. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Disbursement from customers	**–**	215
Grants received from local government	**687**	494
Interest income from bank deposits	**1,146**	585
Interest income from note receivables	**409**	–
Miscellaneous income	**297**	632
	2,539	1,926

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank borrowings	**903**	149
Interest on the obligations of a finance lease	**13**	–
	916	149

10. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong Profits Tax	**–**	8,102
PRC Enterprise Income Tax	**33,696**	18,078
	33,696	26,180
Withholding tax	**–**	1,655
Underprovision in prior years:		
Hong Kong Profits Tax	**303**	2,100
PRC Enterprise Income Tax	**–**	28
	303	2,128
Deferred taxation (note 19)	**(3,791)**	(2,200)
	30,208	27,763

10. INCOME TAX EXPENSE (CONTINUED)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

The EIT Law requires withholding tax to be levied on distribution of profits earned by PRC entities for profits generated after 1 January 2008 at rate of 5% for Hong Kong resident companies, which are the beneficial owners of the dividend received.

The income tax expense for the year can be reconciled from the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 **HK$'000**	2017 HK$'000
Profit before taxation	**88,221**	101,322
Tax at applicable tax rate of 16.5%	**14,556**	16,718
Tax effect of expenses not deductible for tax purpose	**2,637**	1,541
Tax effect of tax loss not recognised	**5**	–
Utilisation of tax losses previously not recognised	**–**	(42)
Effect of different tax rate of the PRC subsidiaries operating in other jurisdiction	**12,716**	5,754
Underprovision in prior years	**303**	2,128
Withholding tax for distributable earnings of the PRC subsidiaries	**–**	1,655
Others	**(9)**	9
Income tax expense for the year	**30,208**	27,763

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2018 HK$'000	2017 HK$'000
Amortisation of intangible assets		
– included in cost of sales	**627**	1,776
– included in administrative expenses	**420**	207
	1,047	1,983
Auditors' remunerations	**1,280**	583
Cost of inventories recognised as an expense	**67,395**	44,275
Depreciation of property, plant and equipment	**7,418**	5,927
Staff costs:		
Directors' emoluments (note 12)	**16,904**	14,115
Other staffs		
– basic salaries, allowances and other benefits	**145,049**	112,071
– discretionary bonus	**18,436**	22,419
– retirement benefits scheme contributions	**20,971**	18,252
– expense recognised in respect of Loyalty Incentive Scheme (note 40)	**982**	1,876
– expense recognised in respect of Conversion Scheme (note 40) and share option scheme (note 41)	**1,662**	1,016
	187,100	155,634
	204,004	169,749
Operating lease rental paid in respect of rented properties	**26,510**	16,662
Operating lease rental paid in respect of rented office equipment	**858**	1,381

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The executive directors of the Company were appointed on 21 April 2017, and the non-executive directors and independent non-executive directors were appointed on 21 April 2017 and 11 June 2018 respectively. Details of the emoluments paid or payable to the directors of the Company by the Group during the year are as follows:

	Other emoluments						
	Directors' fees HK$'000	Basic salaries allowances and other benefits HK$'000	Discretionary bonus HK$'000 (Note (c))	Retirement benefits scheme contributions HK$'000	Expense recognised in respect of Loyalty Incentive Scheme HK$'000 (note 40)	Expense recognised in respect of Conversion Scheme and share option scheme HK$'000 (notes 40 and 41)	Total HK$'000
For the year ended 31 December 2018							
Executive directors:							
Siu Man Hei (Note (a))	–	6,237	2,493	180	721	815	10,446
Yip Kwok Hung, Kevin (Note (b))	–	1,380	2,215	69	–	–	3,664
Ding Chunya	–	475	407	95	–	–	977
Kau Wai Fun	–	1,323	160	64	–	–	1,547
Non-executive directors:							
Xu Xingli	–	–	–	–	–	–	–
Xie Jianyu (Note (d))	–	–	–	–	–	–	–
Independent non-executive directors:							
Tsang Ho Ka Eugene	90	–	–	–	–	–	90
Liu Yi	90	–	–	–	–	–	90
Sun Yansheng	90	–	–	–	–	–	90
	270	9,415	5,275	408	721	815	16,904

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

	Other emoluments						
	Directors' fees HK$'000	Basic salaries allowances and other benefits HK$'000	Discretionary bonus HK$'000 (Note (c))	Retirement benefits scheme contributions HK$'000	Expense recognised in respect of Loyalty Incentive Scheme HK$'000 (note 40)	Expense recognised in respect of Conversion Scheme HK$'000 (note 40)	Total HK$'000
For the year ended 31 December 2017							
Executive directors:							
Siu Man Hei (Note (a))	–	5,410	2,918	168	1,127	524	10,147
Yip Kwok Hung, Kevin (Note (b))	–	1,140	515	57	–	–	1,712
Ding Chunya	–	313	378	75	–	–	766
Kau Wai Fun	–	1,259	170	61	–	–	1,490
Non-executive directors:							
Xu Xingli	–	–	–	–	–	–	–
Xie Jianyu (Note (d))	–	–	–	–	–	–	–
	–	8,122	3,981	361	1,127	524	14,115

Notes:

(a) Siu Man Hei is the chief executive officer of the Group.

(b) Yip Kwok Hung, Kevin is the chief financial officer of the Group.

(c) Certain executive directors of the Company are entitled to discretionary bonus which is determined with reference to the performance of the Group.

(d) Xie Jianyu has been resigned as non-executive director with effect from 23 January 2019.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group (including emoluments for the services as employee prior to 21 April 2017).

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

There was no arrangement under which a director waived or agreed to waive any emoluments for both years.

13. FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2017: one) were directors for the year ended 31 December 2018. Their emoluments are included in note 12 above. The emoluments of the remaining three (2017: four) non-directors individuals for the year ended 31 December 2018 are as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, allowances and other benefits	**9,720**	11,452
Discretionary bonus (Note)	**4,098**	5,872
Retirement benefits scheme contributions	**477**	456
Expense recognised in respect of Loyalty Incentive Scheme (note 40)	**114**	513
Expense recognised in respect of Conversion Scheme (note 40) and share option scheme (note 41)	**437**	249
	14,846	18,542

Note: Certain non-director individuals of the Company are entitled to discretionary bonus which is determined with reference to the performance of the Group.

The number of the highest paid employees who are not the directors whose remuneration fell within the following bands is as follows:

	No. of employees	
	2018	2017
HK$2,000,001 to HK$2,500,000	**–**	2
HK$2,500,001 to HK$3,000,000	**2**	–
HK$3,500,001 to HK$4,000,000	**–**	1
HK$9,000,001 to HK$9,500,000	**1**	–
HK$10,000,001 to HK$10,500,000	**–**	1
	3	4

No emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

14. DIVIDEND

	2018 HK$'000	2017 HK$'000
Dividends recognised as distributions during the year:		
SLD (Note)	–	70,000
The Company – 2017 interim dividend HK$30,000 per share	–	30,000
	–	100,000

Note: The rate of dividend and the number of shares ranking for the above dividends are not presented as such information is not meaningful having regard to the purpose of these consolidated financial statements.

Included in the dividend payable in the consolidated statement of financial position as at 31 December 2017 is an amount of HK$24,500,000 payable by SLD to the shareholders on the register of members of SLD on 31 December 2016 and an amount of HK$10,500,000 payable by the Company to its shareholders.

No dividends were paid, declared or proposed during the year ended 31 December 2018. Subsequent to the end of the reporting period, a final dividend of HK2.50 cents per share and a special dividend of HK2.50 cents per share in respect of the year ended 31 December 2018, amounting to HK$57,000,000 in aggregate, was proposed by the directors of the Company and is subject to the approval of the shareholders at the forthcoming annual general meeting ("AGM")

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2018 HK$'000	2017 HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**56,727**	72,251

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**995,547,945**	855,000,000
Effect of dilutive potential ordinary shares in respect of outstanding share options	**4,793,428**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,000,341,373**	855,000,000

The calculation of basic earnings per share is based on assumption that the reorganisation and the capitalisation issue as detailed in the Prospectus had been effective on 1 January 2017.

15. EARNINGS PER SHARE (CONTINUED)

No diluted earnings per share for the year ended 31 December 2017 was presented as there were no potential ordinary shares in issue for the year ended 31 December 2017.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 1 January 2017	13,594	3,142	30,611	4,499	51,846
Additions	669	60	2,743	–	3,472
Disposals	–	(2)	(1,270)	(179)	(1,451)
Exchange realignments	365	–	948	39	1,352
At 31 December 2017	14,628	3,200	33,032	4,359	55,219
Additions	12,443	1,064	6,955	1,308	21,770
Disposals	(5)	(265)	(2,382)	–	(2,652)
Exchange realignments	(505)	–	(783)	(25)	(1,313)
At 31 December 2018	26,561	3,999	36,822	5,642	73,024
DEPRECIATION					
At 1 January 2017	10,718	2,447	22,033	3,240	38,438
Provided for the year	1,211	308	3,526	882	5,927
Eliminated upon disposals	–	(1)	(1,031)	(28)	(1,060)
Exchange realignments	282	–	664	27	973
At 31 December 2017	12,211	2,754	25,192	4,121	44,278
Provided for the year	2,750	399	3,948	321	7,418
Eliminated upon disposals	(4)	(262)	(1,986)	–	(2,252)
Exchange realignments	(262)	–	(451)	(22)	(735)
At 31 December 2018	14,695	2,891	26,703	4,420	48,709
CARRYING VALUES					
At 31 December 2018	11,866	1,108	10,119	1,222	24,315
At 31 December 2017	2,417	446	7,840	238	10,941

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the remaining term of leases or 25%
Furniture and fixtures	25%
Office equipment	18% to 47.5%
Motor vehicles and yacht	20% to 25%

The carrying value of motor vehicles includes an amount of HK$1,170,000 (2017: nil) in respect of motor vehicles held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

17. INTANGIBLE ASSETS

	Software HK$'000 (Note (a))	Backlog contracts HK$'000 (Note (b))	License HK$'000 (Note (c))	Total HK$'000
COST				
At 1 January 2017	6,874	1,128	868	8,870
Additions	921	–	–	921
Exchange realignments	520	79	61	660
At 31 December 2017	8,315	1,207	929	10,451
Additions	1,647	–	–	1,647
Exchange realignments	(582)	–	(98)	(680)
At 31 December 2018	9,380	1,207	831	11,418
AMORTISATION				
At 1 January 2017	3,733	282	60	4,075
Provided for the year	864	870	249	1,983
Exchange realignments	298	55	15	368
At 31 December 2017	4,895	1,207	324	6,426
Provided for the year	790	–	257	1,047
Exchange realignments	(329)	–	(81)	(410)
At 31 December 2018	5,356	1,207	500	7,063
CARRYING VALUES				
At 31 December 2018	4,024	–	331	4,355
At 31 December 2017	3,420	–	605	4,025

Notes:

(a) The software has finite useful lives and is amortised on a straight-line basis at 20% per annum.

(b) The backlog contracts, which represented backlog orders from ongoing design projects, were purchased as part of a business combination in prior years and were fully amortised during the year ended 31 December 2017. The amortisation period was approximately 1 year based on the expected completion date of the backlogs.

(c) The license represents Architect Design and Design Grade A License (建築裝飾工程設計專項甲級) which were purchased as part of a business combination in prior years. The license has finite useful lives and is amortised on a straight-line basis for approximately 3.5 years.

18. GOODWILL

	HK$'000
At 1 January 2017	1,206
Exchange realignments	84
At 31 December 2017	1,290
Exchange realignments	(59)
At 31 December 2018	**1,231**

For the purpose of impairment testing, goodwill has been allocated to a cash-generating unit, representing 北京港源建築裝飾設計研究院有限公司 acquired by the Group during the year ended 31 December 2016, in the interior design services segment.

During the year ended 31 December 2018, the management performed impairment review for the goodwill. The recoverable amount of the cash-generating unit has been determined by a value-in-use calculation based on the cash flow forecast derived from the most recent financial budgets and estimated future cash flows covering a 5-year period as approved by management and using a pre-tax discount rate of 13.47% (2017: 13.47%), that reflect current market assessments of the time value of money and the risks specific to the cash-generating unit. The cash flows beyond the five-year period are extrapolated using a 2% (2017: 3%) growth rate. The growth rate is based on industry growth forecasts. Changes in gross margin are based on past practices and expectations of future changes in the market. The management believes that reasonably possible change in any of these assumptions would not cause the carrying amount of the cash-generating unit containing the goodwill to exceed its recoverable amount.

19. DEFERRED TAXATION

The following are the major deferred tax (assets) liabilities recognised and movement during the year:

	Accelerated tax depreciation HK$'000	Allowance for credit losses/ doubtful debts HK$'000	Accrued bonus HK$'000	Accrued expenses HK$'000	Provision for amounts due from customers for contract works/ contract assets HK$'000	Tax losses HK$'000	Fair value adjustment on business acquisition HK$'000	Unrealised profits HK$'000	Total HK$'000
At 1 January 2017	282	(1,748)	(2,068)	(74)	(613)	(1,816)	413	–	(5,624)
(Credit) charge to profit or loss	(441)	(1,532)	–	–	–	53	(280)	–	(2,200)
Exchange realignments	–	(185)	(145)	(6)	–	–	18	–	(318)
At 31 December 2017	(159)	(3,465)	(2,213)	(80)	(613)	(1,763)	151	–	(8,142)
Transfer arising from application of HKFRS 15	–	(613)	–	–	613	–	–	–	–
Charge (credit) to profit or loss	108	77	1,344	80	–	(4,973)	(64)	(363)	(3,791)
Exchange realignments	–	167	50	–	–	–	(5)	6	218
At 31 December 2018	(51)	(3,834)	(819)	–	–	(6,736)	82	(357)	(11,715)

19. DEFERRED TAXATION (CONTINUED)

For the purpose of presentation in the consolidated statement of financial position, the following is the analysis of the deferred taxation:

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**(11,797)**	(8,293)
Deferred tax liabilities	**82**	151
	(11,715)	(8,142)

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary from 1 January 2008 onwards. As at 31 December 2018, the aggregate amount of temporary differences associated with undistributed earnings of the PRC subsidiaries for which deferred tax liabilities have not been recognised are HK$150,692,000 (2017: HK$49,506,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At 31 December 2018, the Group had unused estimated tax losses of HK$41,739,000 (2017: HK$11,565,000) available for offset against future profits respectively. A deferred tax asset has been recognised in respect of such tax losses of HK$40,824,000 (2017: HK$10,682,000). No deferred tax asset has been recognised on the remaining tax losses of HK$915,000 (2017: HK$883,000) due to the unpredictability of future profit streams. The tax losses available may be carried forward indefinitely.

20. INVENTORIES

Inventories represent finished goods for trading purpose.

21. NOTE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Fixed-rate note receivables	**60,000**	–

During the year, the Group subscribed for two short term notes with a fixed interest rate of 6.00% per annum from an independent third party. The first short term note of HK$30,000,000 and the second short term note of HK$30,000,000 will be matured on 21 April 2019 and 17 June 2019, respectively. As at 31 December 2018, these note receivables are measured at amortised cost using the effective interest method, less any impairment and are guaranteed by a director who is one of the shareholders of the issuer of the notes.

21. NOTE RECEIVABLES (CONTINUED)

As at 31 December 2018, the Group's note receivables are not past due as at the reporting date. The directors of the Company are in the view that there have been no significant increase in credit risk nor default. No impairment loss is recognised for the year ended 31 December 2018.

As at 31 December 2018, the Group does not hold any collateral on the note receivables nor pledged as security for the borrowing.

22. TRADE RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**159,617**	62,336
Less: allowance for credit losses/doubtful debts	**(14,275)**	(13,292)
	145,342	49,044

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers under HKFRS 15 amounted to HK$145,342,000 and HK$104,410,000 respectively.

Included in the carrying amount of trade receivables as at 31 December 2018 is an amount of HK$12,573,000 (2017: nil) due from a related party controlled by a controlling shareholder of the Company.

The following is an aged analysis of trade receivables, net of allowance for credit losses/doubtful debts, presented based on the invoice date at the end of each reporting period.

	2018 HK$'000	2017 HK$'000
0 to 30 days	**103,083**	14,513
31 to 90 days	**15,368**	13,866
91 to 180 days	**7,993**	8,937
Over 180 days	**18,898**	11,728
	145,342	49,044

There is no credit period given on billing for its interior design services, interior decorating and furnishing design services and product design service, license arrangement of interior design services and product design services, and trading of interior decorative products.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$145,342,000 which are past due as at the reporting date. Out of the past due balances, HK$26,891,000 has been past due more than 90 days and is not considered as in default since the amounts are still considered as recoverable based on historical experience and forward-looking estimates. The Group does not hold any collateral over these balances.

22. TRADE RECEIVABLES (CONTINUED)

As at 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$49,044,000, which are past due but not impaired at the end of the reporting period for which the Group has not provided for impairment loss since the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances. The average age of these receivables is 180 days.

AGEING OF TRADE RECEIVABLES WHICH ARE PAST DUE BUT NOT IMPAIRED

	2017 HK$'000
0 to 30 days	14,513
31 to 90 days	13,866
91 to 180 days	8,937
Over 180 days	11,728
	49,044

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS

	2017 HK$'000
At beginning of the year	7,604
Allowance recognised in profit or loss	7,186
Amounts written off as uncollectible	(69)
Impairment losses reversed	(2,146)
Exchange realignments	717
	13,292

As at 31 December 2017, included in the allowance for doubtful debts are individually impaired trade receivables, which were either in severe financial difficulties or overdue for a long period time. The Group has made full allowance on these receivables and considered that they are generally not recoverable.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 39.

23. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018 **HK$'000**	2017 HK$'000
Deferred issue costs	**–**	6,440
Other receivables	**10,287**	7,312
Interest receivables from note receivables	**409**	–
Prepayments of expenses	**4,444**	5,041
Rental deposits	**6,293**	7,050
Deposits paid for acquisition of property, plant and equipment	**3,769**	6,659
Other deposits	**1,343**	897
	26,545	33,399
Analysed as:		
Current	**16,734**	23,448
Non-current – Deposits paid for acquisition of property, plant and equipment	**3,769**	6,659
Non-current – Rental deposits	**6,042**	3,292
	26,545	33,399

24. CONTRACT ASSETS

	At 31 December 2018 HK$'000	At 1 January 2018 HK$'000 (Note)
Contract assets		
Interior design services	**59,474**	50,102
Interior decorating and furnishing design services	**2,978**	4,903
Product design services	**498**	–
	62,950	55,005

Note: The amounts in this column are after the adjustments from the application of HKFRS 15.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date on the design services. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfer contract assets to trade receivables upon achieving the specified milestones in the contracts.

Included in the carrying amount of contract assets as at 31 December 2018 is an amount of HK$10,831,000 (2017: nil) from a related party controlled by a controlling shareholder of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

24. CONTRACT ASSETS (CONTINUED)

The Group's design services include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits range from 10% to 20% of total contract sum as part of its credit risk management policies.

There was no retention monies held by customers for contract works performed at the end of each reporting period.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

Details of the impairment assessment are set out in note 39.

25. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORKS

	2017 HK$'000
Contracts in progress at the end of the reporting period:	
Contract costs incurred plus recognised profits less recognised losses to date	768,655
Less: Progress billings	(663,618)
	105,037
Analysed for reporting purpose as:	
Amounts due from customers for contract works	110,371
Amounts due to customers for contract works	(5,334)
	105,037

At 31 December 2017, there was no retention monies held by customers for contract work performed. At 31 December 2017, advances received from customers for contract work amounted to HK$100,000, which was included in other payables and accrued charges in note 27.

26. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

Cash at banks earns interest at market interest rates. Short term deposits during the year are placed for periods ranging from one day to one month and earn interest at respective short term deposits rates.

Pledged bank deposits as at 31 December 2017 were pledged to secure the bank borrowings of the Group.

As at 31 December 2018, the bank balances and cash of the Group denominated in Renminbi ("RMB") amounted to HK$129,778,000 (2017: HK$124,955,000).

Details of impairment assessment for the year ended 31 December 2018 are set out in note 39.

27. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	2018 HK$'000	2017 HK$'000
0 to 180 days	**21,128**	7,557
Over 180 days	**3,136**	1,406
	24,264	8,963

The following is the analysis of other payables and accrued charges at the end of each reporting period:

	2018 HK$'000	2017 HK$'000
Accrued staff benefits	**30,851**	38,572
Deposits received from customers	**16,018**	32,537
Liability associated with long-term employee benefits	**4,905**	5,372
Other payables and accrued charges	**6,324**	5,745
Listing expenses and issue costs payable	**–**	2,052
Receipts in advance	**–**	100
	58,098	84,378

28. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Revolving loans	**20,000**	8,000

As at 31 December 2018, the Group has a variable rate borrowing, which is unsecured (2017: secured), bears interest at 3.5% (2017: 3.0%) over Hong Kong Interbank Offered Rate per annum and the interest is repriced every month and repayable within one year. As at 31 December 2018, the average effective interest rate (which is equal to contracted interest rate) on the Group's bank loan is 5.95% per annum (2017: 4.24% per annum). The loan is guaranteed by the Company.

As at 31 December 2017, the Group's bank loan was secured by floating charge over all receivables of certain subsidiaries and pledged bank deposits as detailed in the note 33 and guaranteed by the immediate holding company and a non-controlling shareholder of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

29. OBLIGATIONS UNDER A FINANCE LEASE

	2018 HK$'000	2017 HK$'000
Analysed for reporting purposes as:		
Current liabilities	**223**	–
Non-current liabilities	**732**	–
	955	–

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 4.5 years (2017: nil). Interest rates underlying all obligations under finance leases are fixed at 1.3% (2017: nil) per annum. The lease has no terms of renewal or purchase options and escalation clauses.

	Minimum lease payments		Present value of minimum lease payments	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Obligations under finance leases payable:				
Within one year	**249**	–	**223**	–
Within a period of more than one year but not more than two years	**519**	–	**503**	–
Within a period of more than two years but not more than five years	**249**	–	**229**	–
	1,017	–	**955**	–
Less: future finance charges	**(62)**	–	**–**	–
Present value of lease obligations	**955**	–	**955**	–
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(223)**	–
Amount due for settlement after 12 months			**732**	–

30. CONTRACT LIABILITIES

	At 31 December 2018 HK$'000	At 1 January 2018 HK$'000 (Note)
Contract liabilities		
Interior design services	**5,433**	8,129
Interior decorating and furnishing design services	**14,883**	9,536
	20,316	17,665

Note: The amounts in this column are after the adjustments from the application of HKFRS 15.

The contract liabilities represent the Group's obligation to transfer performance obligation to customers for which the Group has received considerations from the customers.

Movements in contract liabilities:

	HK$'000
Balance at the beginning of the year	17,665
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	(14,551)
Increase in contract liabilities as a result of receiving deposits from the customers	17,365
Exchange realignments	(163)
Balance at the end of the year	20,316

When the Group receives a deposit before the design services commence, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

31. SHARE CAPITAL

Share capital of the Group at 1 January 2017 represents the aggregate paid up capital of the Company and SLD, which became an indirect wholly-owned subsidiary of the Company on 21 April 2017 pursuant to the Reorganisation as detailed in the Prospectus.

Share capital of the Group as at 31 December 2018 and 31 December 2017 represents share capital of the Company.

	Number of shares	HK$
Ordinary share of the Company of HK$0.01 each		
Authorised		
At 1 January 2017 and 31 December 2017	39,000,000	390,000
Increase on 11 June 2018 (Note (a))	3,961,000,000	39,610,000
At 31 December 2018	4,000,000,000	40,000,000
Issued and fully paid		
At 1 January 2017	100	1
Issued on 21 April 2017 for acquisition of SLD	900	9
At 31 December 2017	1,000	10
Capitalisation issue (Note (b))	854,999,000	8,549,990
Issue of shares (Note (c))	285,000,000	2,850,000
At 31 December 2018	1,140,000,000	11,400,000

Notes:

(a) On 11 June 2018, the authorised share capital of the Company was increased from HK$390,000 divided into 39,000,000 shares of par value HK$0.01 each to HK$40,000,000 divided into 4,000,000,000 shares of par value HK$0.01 each, by the creation of 3,961,000,000 shares of par value HK$0.01 each.

(b) On 5 July 2018, the Company capitalised HK$8,550,000 standing to the credit of share premium of the Company and applied such amount in paying up in full 854,999,000 shares of the Company for allotment. The new shares rank pari passu in all respects with the issued ordinary shares of the Company.

(c) On 5 July 2018, 285,000,000 ordinary shares of the Company were issued at a price of HK$0.88 by way of initial public offering. Those shares rank pari passu with the existing ordinary shares of the Company. On the same date, the Company's shares were listed on the Stock Exchange. The proceeds of HK$2,850,000 and HK$247,950,000 (net of transaction cost of HK$20,977,000) were credited to the Company's share capital and share premium, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

32. FINANCIAL INFORMATION OF THE COMPANY

The following are the statement of financial position of the Company:

	2018 HK$'000	2017 HK$'000
Non-current Asset		
Interests in subsidiaries	**112,360**	112,360
Current Assets		
Amount due from a subsidiary	**122,185**	–
Deferred issue costs	**–**	6,440
Dividend receivable	**–**	10,500
Other receivables	**415**	–
Bank balances and cash	**70,958**	47
	193,558	16,987
Current Liabilities		
Other payables and accrued	**410**	2,051
Dividend payable	**–**	10,500
Amount due to a subsidiary	**–**	25,833
	410	38,384
Net Current Assets (Liabilities)	**193,148**	(21,397)
Total Assets less Current Liabilities	**305,508**	90,963
Capital and Reserves		
Share capital	**11,400**	–
Reserves	**294,108**	90,963
Total Equity	**305,508**	90,963

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

32. FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

The followings are the movements in reserve of the Company for the current and prior years:

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	–	(12,554)	(12,554)
Effect of group reorganisation (Note)	112,360	–	112,360
Profit and total comprehensive income for the year	–	21,157	21,157
Dividend recognised as distribution	(16,698)	(13,302)	(30,000)
At 31 December 2017	95,662	(4,699)	90,963
Capitalisation issue (note 31)	(8,550)	–	(8,550)
Issue of new shares pursuant to the initial public offering (note 31)	247,950	–	247,950
Share issue expenses (note 31)	(20,977)	–	(20,977)
Loss and total comprehensive expense for the year	–	(15,278)	(15,278)
At 31 December 2018	314,085	(19,977)	294,108

Note: Share premium represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the share capital and other reserves of SLD Group Holdings Limited, a subsidiary which was incorporated pursuant to the Reorganisation.

33. PLEDGE OF ASSETS

As at 31 December 2017, the Group's bank borrowings are secured by the floating charge over all receivables of certain subsidiaries and pledged bank deposits of HK$1,004,000.

34. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**25,057**	21,509
In the second to fifth year inclusive	**23,256**	38,218
	48,313	59,727

Operating lease payments represent rental payable by the Group for its office premises and warehouses. Leases are negotiated for an average term of two years and rentals are fixed during the lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

35. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital expenditures in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,713**	6,222

36. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into a finance lease arrangement in respect of asset with capital value at the inception of the lease of HK$1,170,000 (2017: nil).

37. RELATED PARTY TRANSACTIONS

Other than the balances and transactions with related parties disclosed elsewhere in these consolidated financial statements, the Group has entered into the following transactions with its related parties during the year:

Relationship	Nature of transaction	2018 HK$'000	2017 HK$'000
Fellow subsidiary	Interior design service income	**5,778**	6,994
	Rental expense	**1,815**	833
	Purchase of property, plant and equipment	**–**	1
	Proceeds from disposals of property, plant and equipment	**–**	264
	Consultancy service income	**63**	–
Intermediate holding company	Rental income	**–**	30
Related company (Note 1)	Interior design service income	**319**	3,802
	Management fee income	**–**	80
Related company (Note 2)	Interior design service income and sales of interior decorative products	**24,356**	2,363

Notes:

1. Leung Chi Tien Steve, a director of SLD and a shareholder of the Company holds beneficial interests over these related companies.

2. Liu Zaiwang, a controlling shareholder of the Company holds controlling interests over these related companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

37. RELATED PARTY TRANSACTIONS (CONTINUED)

COMPENSATION OF KEY MANAGEMENT PERSONNEL

Directors are the key management personnel of the Group whose emoluments are disclosed in note 12.

The remuneration of other key management personnel of the Group, Leung Chi Tien Steve, is as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, allowance and other benefits	**6,123**	6,372
Discretionary bonus	**3,079**	3,584
Retirement benefits scheme contributions	**285**	270
	9,487	10,226

The remuneration of key management personnel is determined by the directors of the Company and SLD having regard to the performance of the Group.

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to the shareholder through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the year.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 28, net of cash and cash equivalents and equity attributable to the owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through payment of dividends, issue of new shares as well as issue of new debts or redemption of existing debts.

39. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at amortised cost	**497,017**	–
Loans and receivables (including cash and cash equivalents)	**–**	209,229
Financial liabilities		
Amortised cost	**86,344**	103,704

FINANCIAL RISK MANAGEMENT OBJECTIVES

The major financial instruments of the Group include note receivables, trade receivables, certain other receivables, pledged bank deposit, bank balances and cash, trade payables, other payables and accrued charges, dividend payable and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the Group's risk exposure relating to financial instruments or the manner in which it manages and measures the risks during the year.

INTEREST RATE RISK

The Group is mainly exposed to fair value interest rate risk in relation to note receivables (see note 21 for details of note receivables), and cash flow interest rate risk in relation to bank deposits (see note 26 for details of bank balances and pledged bank deposits) and bank borrowings (see note 28 for details of bank borrowings). The Group currently does not have any interest rate hedging policy. The directors of the Company monitor the interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

No interest rate sensitivity is disclosed as in the opinion of the directors of the Company, the interest rate sensitivity does not give additional value in view of insignificant exposure at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

FOREIGN CURRENCY RISK

The Group has foreign currency transactions, which expose the Group to foreign currency risk.

At the end of the reporting period, the carrying amounts of the Group's monetary assets and monetary liabilities including inter-company balances denominated in currencies other than the functional currencies of its respective group entities are as follows:

	2018		2017	
	Assets HK$'000	Liabilities HK$'000	Assets HK$'000	Liabilities HK$'000
United States dollars ("US$")	9,703	–	10,720	–
RMB	5,707	–	23,315	–
Euro ("EUR")	330	–	1,518	–
Singapore ("SGD")	850	–	–	–
Great British Pound ("GBP")	200	–	149	–
HK$	453	–	643	–
Inter-company balances				
RMB	12,663	–	50,505	–

The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

SENSITIVITY ANALYSIS

Since HK$ is pegged to US$, sensitivity analysis is not presented. The following table details the Group's sensitivity to a 5% increase and decrease in the relevant foreign currencies against the respective functional currencies of group entities. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis has been prepared based on outstanding foreign currency denominated monetary items and also inter-company balances and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the foreign currencies strengthen 5% against the relevant functional currencies. For a 5% weakening of the foreign currencies against the relevant functional currencies, there would be an equal and opposite impact on the post-tax profit, and the balances below would be negative. The sensitivity analysis of the Group also includes currency risk exposure on inter-company balances.

	RMB impact		EUR impact		SGD impact		GBP impact		HK$ impact	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Increase in post-tax profits for the year	767	3,082	14	63	35	–	8	6	19	27

39. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

CREDIT RISK AND IMPAIRMENT ASSESSMENT

As at 31 December 2018, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to manage its credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each debt on a collective and on-going basis to ensure that adequate impairment losses are made for irrecoverable amounts. A net impairment loss of HK$1,388,000 (2017: HK$5,040,000) in respect of the trade receivables was recognised by the Group for the year ended 31 December 2018.

The Group has concentration of credit risk of note receivables as at 31 December 2018. The management assess the credit risk exposure on the note receivables to be low as the counterparty was with a strong financial position.

Other than concentration of credit risk on note receivables, the Group has no significant concentration of credit risk in respect of trade and certain other receivables, with exposure spread over a number of counterparties and customers during the year.

The credit risk on liquid funds of the Group and the Company is limited because the counterparties are international or state-managed banks with high credit-ratings assigned by international credit-rating agencies.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets/other items
Low risk	The counterparty has a low risk of default	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle the amounts	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

39. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

CREDIT RISK AND IMPAIRMENT ASSESSMENT (CONTINUED)

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

2018	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK$'000	HK$'000
Financial assets at amortised cost					
Bank balances	26	Note	12m ECL	283,935	283,935
Certain other receivables	23	Low risk	12m ECL	7,457	7,457
Trade receivables	22	Low risk	Lifetime ECL – not credit-impaired	126,062	
		Watch list	Lifetime ECL – not credit-impaired	12,271	
		Doubtful	Lifetime ECL – not credit-impaired	15,139	
		Loss	Lifetime ECL – not credit-impaired	6,145	159,617
Note receivables	21	Low risk	12m ECL	60,000	60,000
Other items					
Contract assets	24	Low risk	Lifetime ECL – not credit-impaired	62,950	62,950

Note: The counterparties are licensed banks with high credit ratings and the risk of default on liquid funds is limited.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Credit-impaired trade receivables with with gross carrying amounts of HK$6,145,000 as at 31 December 2018 were assessed individually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

39. FINANCIAL INSTRUMENTS (CONTINUED)

GROSS CARRYING AMOUNT

Internal credit rating	Average loss rate	Trade receivables HK$'000	Contract assets HK$'000
Low risk	0.2%	126,062	62,950
Watch list	2.2%	12,271	–
Doubtful	51.5%	15,139	–
		153,472	62,950

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided HK$1,388,000 net impairment allowance for trade receivables. Impairment allowance of HK$6,110,000 were made on credit-impaired debtors as at 31 December 2018.

The following table shows the movement in allowance for credit losses that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL not credit impaired HK$'000	Lifetime ECL credit impaired HK$'000	Total HK$'000
As at 1 January 2018	**–**	**13,292**	**13,292**
Allowance recognised in profit or loss	**9,042**	**971**	**10,013**
Impairment losses reversed	**(720)**	**(7,905)**	**(8,625)**
Exchange adjustments	**(157)**	**(248)**	**(405)**
As at 31 December 2018	**8,165**	**6,110**	**14,275**

39. FINANCIAL INSTRUMENTS (CONTINUED)

GROSS CARRYING AMOUNT (CONTINUED)

LIQUIDITY RISK

In the management of the liquidity risk, the Group monitors 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 tables detail the contractual maturity of the Group's financial liabilities and obligations under a finance lease based on the earliest date on which the Group can be required to pay.

	Weighted average interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts HK$'000
As at 31 December 2018						
Trade payables	**–**	**24,264**	**–**	**–**	**24,264**	**24,264**
Other payables and accrued charges	**–**	**42,080**	**–**	**–**	**42,080**	**42,080**
Bank borrowings	**5.95**	**20,049**	**–**	**–**	**20,049**	**20,000**
Obligations under a finance lease		**62**	**187**	**768**	**1,017**	**955**
		86,455	**187**	**768**	**87,410**	**87,299**
As at 31 December 2017						
Trade payables	–	8,963	–	–	8,963	8,963
Other payables and accrued charges	–	51,741	–	–	51,741	51,741
Dividend payable	–	35,000	–	–	35,000	35,000
Bank borrowings	4.24	8,032	–	–	8,032	8,000
		103,736	–	–	103,736	103,704

FAIR VALUE MEASUREMENT

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

40. LONG-TERM EMPLOYEE BENEFITS

The Group adopted Loyalty Incentive Scheme and Conversion Scheme on 26 November 2014 for the purpose of enhancing the stability and the sense of belonging of the selected employees.

LOYALTY INCENTIVE SCHEME

Under the Loyalty Incentive Scheme, eligible employees may, at their discretion, deposit up to 50% of their respective year-end bonus for the years ended 31 December 2014, 31 December 2015 and/or 31 December 2016 (the "Accumulated Bonus") with the Group for a term of 24 months commencing from 31 December of the relevant years (the "Accumulation Period") (i.e. until 31 December 2016, 31 December 2017, and/or 31 December 2018). Subject to the participation of the Conversion Scheme by the relevant employees, the Group will pay to the employees who participated in the Loyalty Incentive Scheme the Accumulated Bonus plus a doubled amount (the "Incentive Bonus") within 14 days after the expiry of the relevant Accumulation Period.

During the year ended 31 December 2018, the Group recognised total expense of HK$1,703,000 (2017: HK$3,003,000) in relation to the Incentive Bonus granted under the Loyalty Incentive Scheme. As at 31 December 2018, the amounts to be borne by SLD included in the consolidated statement of financial position as "liability associated with long-term employee benefits" under other payables and accrued charges are HK$4,905,000 (2017: HK$5,372,000). During the year ended 31 December 2017, SLD had agreed to bear all the Incentive Bonus paid and payable and the unpaid amount of HK$2,683,000 previously recognised as shareholder 's contribution had been reversed with a corresponding recognition of a liability associated with long-term employee benefits (note 27).

CONVERSION SCHEME

Eligible employees may also, at their discretion, participate in the Conversion Scheme for the years ended 31 December 2014, 31 December 2015 and 31 December 2016. Pursuant to the Conversion Scheme, the eligible employees may subscribe the awarded shares in SLD in January 2017 at the discounted exercise price of HK$2,500,000 per 1% of the issued share capital of SLD from the shareholders of the Company based on the amount he/she is entitled to (including the original deposited sum and the return) under the Loyalty Incentive Scheme. Such awarded shares will be vested and transferred from the shareholders to the employees in January 2022. No awarded share in SLD was subscribed since 1 January 2017.

The total number of shares which may be awarded under the Conversion Scheme is not permitted to exceed 15% of the shares of SLD in issue at any point in time, without prior approval from the SLD's shareholders. The number of shares awarded and to be transferred from the shareholders to the employees under the Conversion Scheme and may be granted to any individual in any one year is not permitted to exceed 1.5% of the shares of SLD in issue at any point in time, without prior approval from the SLD's shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

40. LONG-TERM EMPLOYEE BENEFITS (CONTINUED)

CONVERSION SCHEME (CONTINUED)

As at 31 December 2014, 31 December 2015 and 31 December 2016, the number of shares in respect of which the Conversion Scheme had been awarded were 2.97, 2.29 and 0.44 respectively, representing 2.97%, 2.29% and 0.44% of the shares of SLD in issue at those dates. The estimated total fair values of the shares in respect of which the Conversion Scheme had been awarded on 31 December 2014, 31 December 2015 and 31 December 2016 were HK$7,427,000, HK$5,723,000 and HK$1,111,000 respectively, which was determined with reference to the consideration for SLD Acquisition as defined in the section headed "History, Development and Reorganisation" in the Prospectus.

During the year ended 31 December 2017, the Group recognised total expense of HK$1,540,000 in relation to the Conversion Scheme and accumulated in equity under the heading of "long-term employee benefit reserve".

During the year ended 31 December 2018, the Conversion Scheme is replaced by the share option scheme as detailed in note 41.

41. SHARE-BASED PAYMENT TRANSACTIONS

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY

The Company's share option scheme was adopted pursuant to a resolution passed on 11 June 2018 (the "Share Option Scheme") for the purpose of recognising the contribution of certain senior management, employees, consultants and other contributors of the Group ("Participants") that have made or may have been made to the growth of the Group. Under the Share Option Scheme, the board of directors of the Company may grant options to Participants, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

On 15 June 2018, the Company implemented a settlement plan in relation to the Conversion Scheme (the "Settlement Plan") as further detailed in "History, Development and Reorganisation" in the Prospectus. Pursuant to the Settlement Plan: (i) the Conversion Scheme was terminated and replaced by the Share Option Scheme; (ii) the entitlement of dividend rights and shares of SLD of the eligible participants under the Conversion Scheme was replaced by the share options granted to them; and (iii) all the rights, benefits and claims of the eligible participants under the Conversion Scheme were terminated.

At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 30,483,600, representing 2.674% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted shall be taken up upon payment of HK$1 as consideration for the grant of option. Options may be exercised at any time not exceeding a period of 10 years from the date which the share option is deemed to be granted and accepted. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

41. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY: (CONTINUED)

The following table discloses movements of the Company's share options held by directors and employees during the year:

Date of grant	Exercise price HK$	Outstanding at 1 January 2018	Granted during the year	Exercised during the year	Lapsed at during the year	Outstanding 31 December 2018
5 July 2018	0.44	–	6,096,720	–	–	6,096,720
		–	6,096,720	–	–	6,096,720
		–	6,096,720	–	–	6,096,720
		–	6,096,720	–	–	6,096,720
		–	6,096,720	–	–	6,096,720
		–	30,483,600	–	–	30,483,600
Weighted average exercise price		–	HK$0.44	–	–	HK$0.44

During the year ended 31 December 2018, 30,483,600 options were granted as a replacement of the Conversion Scheme on 5 July 2018. The estimated fair values of the options granted and the fair values of the shares awarded under the Conversion Scheme and cancelled on date of replacement are HK$23,569,000 and HK$23,185,000, respectively. The Company continue to expense those shares awarded under the Conversion Scheme not yet recognised over the original vesting period and expense the incremental fair values of the options granted over the share awarded under Conversion Scheme determined on the date of replacement over the period from the dates of replacement of the Conversion Scheme until the dates when the relevant share options vest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

41. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY: (CONTINUED)

The fair values of the options granted were calculated using the Binomial model. The inputs into the model were as follows:

	2018
Underlying share price	**HK$1.15**
Exercise price	**HK$0.44**
Expected volatility	**45.84%**
Risk-free rate	**2.1045%**

The fair values of the Conversion Scheme cancelled were calculated using the Binomial option pricing model. The inputs into the model were as follows:

	2018
% of restricted shares to share capital	**2.6259%**
Lock-up period	**3.49 years**
Expected volatility	**46.39%**
Risk-free rate	**1.95%**

Expected volatility was determined by using the historical volatility of the daily return of comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$2,477,000 for the year ended 31 December 2018 in relation to share options granted by the Company and shares awarded under the Conversion Scheme.

42. RETIREMENT BENEFITS SCHEME

The employees of the Company's subsidiaries in Hong Kong participate in the MPF Scheme established under the Mandatory Provident Fund Schemes Ordinance. The assets of the scheme are held separately from those of the Group, in funds under the control of trustee. All employees in Hong Kong joining the Group are required to join the MPF Scheme.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income capped at HK$1,500 per month. The retirement benefit costs charged to profit or loss represent contributions payable to such fund by the Group at rates specified in the rules of this scheme.

The employees of the Company's subsidiaries in PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll 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 required contributions under the scheme.

At 31 December 2018, there were no forfeited contributions available to offset future employers' contributions to the schemes.

The total expense recognised in profit or loss for the year ended 31 December 2018 of HK$21,379,000 (2017: HK$18,613,000) represents contributions paid or payable to the above schemes by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

43. PARTICULARS OF THE SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2018 and 2017 are as follows:

Name of subsidiaries	Place of incorporation or establishment/ operations	Issued and fully paid capital/ registered capital	2018	2017	Principal activities
Direct subsidiary:					
SLD Group Holdings Limited	BVI	US$1	100%	100%	Investment holding
Indirect subsidiaries:					
SLD	Hong Kong	HK$100	100%	100%	Provision of interior design services, interior decorating and furnishing design services and product design services
梁志天設計諮詢(深圳)有限公司 Steve Leung Designers (Shenzhen) Limited (Notes (i) & (ii))	PRC	HK$1,000,000	100%	100%	Provision of interior design services, interior decorating and furnishing design services and product design services
梁志天室內設計(北京)有限公司 Steve Leung Interior Design (Beijing) Limited (Notes (i) & (ii))	PRC	RMB700,000	100%	100%	Provision of interior design services, interior decorating and furnishing design services and product design services
北京港源建築裝飾設計研究院有限公司 Beijing Guangyuan Institute of Architectural Decoration Design and Research Co., Ltd. (Notes (i) & (iii))	PRC	RMB10,000,000	80%	80%	Provision of interior design services
梁志天生活藝術(深圳)有限公司 Steve Leung Lifestyle (Shenzhen) Limited (Notes (i) & (ii))	PRC	RMB700,000	100%	100%	Trading of interior decorating product
Steve Leung & Yoo Limited	Hong Kong	HK$1	100%	100%	Inactive
Steve Leung Architects Limited	Hong Kong	HK$100	100%	100%	Inactive
Steve Leung Exchange Limited	Hong Kong	HK$100	100%	100%	Provision of design services
Steve Leung Hospitality Limited	Hong Kong	HK$100	100%	100%	Inactive

43. PARTICULARS OF THE SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation or establishment/ operations	Issued and fully paid capital/ registered capital	2018	2017	Principal activities
Indirect subsidiaries: (Continued)					
Everyday Living Limited	Hong Kong	HK$100	100%	100%	Trading of interior decorative products
天天生活（廣州）貿易有限公司 Everyday Living (Guangzhou) Trading Limited (Notes (i) & (ii))	PRC	RMB751,000	100%	100%	Trading of interior decorative products
Steve Leung Lifestyle Limited	Hong Kong	HK$100	100%	100%	Trading of interior decorative products
港源室內設計（天津）有限公司 (Notes (i) & (iii))	PRC	RMB700,000	80%	N/A	Inactive
Steve Leung Casa Limited	Hong Kong	HK$100	100%	N/A	Inactive
Steve Leung Designers (Tianjin) Limited	Hong Kong	HK$100	100%	N/A	Inactive
梁志天裝飾設計（天津）有限公司 Steve Leung Lifestyle (Tianjin) Co., Ltd. (Notes (i) & (ii))	PRC	RMB700,000	100%	N/A	Inactive
梁志天私宅設計（天津）有限公司 Steve Leung Casa (Tianjin) Co., Ltd. (Notes (i) & (ii))	PRC	RMB700,000	100%	N/A	Inactive
梁志天室內設計（天津）有限公司 Steve Leung Designers (Tianjin) Co., Ltd. (Notes (i) & (ii))	PRC	RMB700,000	100%	N/A	Inactive

Notes:

(i) English translated name is for identification only.

(ii) The Company's subsidiary is a wholly foreign owned enterprise in PRC.

(iii) The Company's subsidiary is a sino-foreign equity joint venture in PRC.

None of the subsidiaries had issued any debt securities at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash charges. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings HK$'000	Obligations under a finance lease HK$'000	Amounts due to fellow subsidiaries HK$'000	Dividend payable HK$'000	Total HK$'000
At 1 January 2017	5,000	–	173	–	5,173
Financing cash flows	3,000	–	(177)	(65,000)	(62,177)
Non-cash changes					
Dividend recognised as distributions	–	–	–	100,000	100,000
Exchange realignment	–	–	4	–	4
At 1 January 2018	8,000	–	–	35,000	43,000
Financing cash flows	12,000	(215)	–	(35,000)	(23,215)
Non-cash changes					
Additions to property, plant and equipment (note 16)	–	1,170	–	–	1,170
At 31 December 2018	20,000	955	–	–	20,955

FINANCIAL SUMMARY

Results	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Revenue	249,865	318,608	434,822	**503,890**
Profit before tax	45,093	79,531	101,322	**88,221**
Income tax expense	(11,897)	(19,376)	(27,763)	**(30,208)**
Profit for the year	33,196	60,155	73,559	**58,013**
Profit for the year attribution to:				
– Owners of the Company	34,701	60,007	72,251	**56,727**
– Non-controlling interests	(1,505)	148	1,308	**1,286**
	33,196	60,155	73,559	**58,013**

	2015	2016	2017	**2018**
Earnings per share – basic (expressed in Hong Kong cents)	4.06	7.02	8.45	**5.70**

Assets and liabilities	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Total assets	239,026	299,916	375,127	**622,197**
Total liabilities	(103,956)	(119,010)	(167,977)	**(136,307)**
Net assets	135,070	180,906	207,150	**485,890**
Equity attributable to:				
– Owners of the Company	136,790	173,971	199,174	**476,411**
– Non-controlling interests	(1,720)	6,935	7,976	**9,479**
Total equity	135,070	180,906	207,150	**485,890**