Sundart

SUNDART HOLDINGS LIMITED
承達集團有限公司

(incorporated under the laws of British Virgin Islands with limited liability)

Stock code : 1568

2018
Annual Report

About us

Sundart is one of the leading integrated fitting-out contractors in Hong Kong, Macau and the PRC, specialising in providing professional fitting-out works for residential property and hotel projects. We have been operating our fitting-out business in Hong Kong since 1996 and we further expanded our fitting-out business to Macau and the PRC in 2005 and 2017, respectively.

We have undertaken a number of sizeable fitting-out projects in Hong Kong, Macau and the PRC. As a fitting-out contractor, we are responsible for the overall project implementation by providing, processing or arranging for the necessary materials, labour, engineering expertise and technical know-how required for the fitting-out works and carrying out corresponding project management so as to ensure that the fitting-out works conform to the contractual requirements, meet customers' expectation and are completed on time and within budget.

In addition, we acquired Kin Shing, a general building contractor in October 2010 to expand our capability as a general building contractor for construction, interior decoration, repair, maintenance and alteration and addition works for residential property, hotel, factory, and commercial projects. Further, we manufacture interior decorative timber products such as fire-rated timber doors and wooden furniture, through Dongguan Sundart, the majority of which are used for our projects.

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Tak Kwan *(Chief Executive Officer)*
Mr. Leung Kai Ming
Mr. Xie Jianyu *(Chief Financial Officer)*
Mr. Ng Chi Hang
Mr. Pong Kam Keung *(resigned on 1 February 2018)*

Non-Executive Director

Mr. Liu Zaiwang *(Chairman)*

Independent Non-Executive Directors

Mr. Tam Anthony Chun Hung
Mr. Huang Pu
Mr. Li Zheng

AUDIT COMMITTEE

Mr. Tam Anthony Chun Hung *(Chairman)*
Mr. Huang Pu
Mr. Li Zheng

REMUNERATION COMMITTEE

Mr. Huang Pu *(Chairman)*
Mr. Ng Tak Kwan
Mr. Tam Anthony Chun Hung

NOMINATION COMMITTEE

Mr. Liu Zaiwang *(Chairman)*
Mr. Huang Pu
Mr. Li Zheng

INTERNAL CONTROL COMMITTEE

Mr. Pong Kam Keung *(Chairman)*
(resigned on 1 February 2018)
Mr. Liu Zaiwang *(Chairman)*
(appointed on 1 February 2018)
Mr. Xie Jianyu

COMPANY SECRETARY

Ms. Chui Muk Heung

AUTHORISED REPRESENTATIVES

Mr. Xie Jianyu
Mr. Pong Kam Keung *(resigned on 1 February 2018)*
Ms. Chui Muk Heung *(appointed on 1 February 2018)*

AUDITOR

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Pinsent Masons
50/F, Central Plaza
18 Harbour Road
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
China Guangfa Bank Co., Ltd., Macau Branch
Citibank, N.A., Hong Kong Branch

REGISTERED OFFICE

Commerce House
Wickhams Cay 1
P.O. Box 3140, Road Town
Tortola
British Virgin Islands, VG1110

Corporate Information

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

25/F, Millennium City 3
370 Kwun Tong Road
Kowloon
Hong Kong

BVI PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (BVI) Limited
Commerce House
Wickhams Cay 1
P.O. Box 3140, Road Town
Tortola
British Virgin Islands, VG1110

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
Wan Chai
Hong Kong

STOCK CODE

1568

COMPANY'S WEBSITE

www.sundart.com

INVESTOR RELATIONS CONTACT

PR ASIA Consultants Limited
5/F, Euro Trade Centre
13–14 Connaught Road Central
Hong Kong

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"AFS"	available-for-sale
"AGM"	the annual general meeting of the Company to be held at 10:00 a.m. on Monday, 3 June 2019 at Room 03-05, 11/F, Millennium City 3, 370 Kwun Tong Road, Kowloon, Hong Kong or any adjournment thereof
"Amended Deed"	an amended and restated deed of non-competition dated 25 July 2017 given by the controlling shareholders of the Company in favour of the Company (for itself and as trustee for each of its subsidiaries) to amend and restate a deed of non-competition dated 8 December 2015
"Articles of Association"	the articles of association of the Company, as amended from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Beijing Gangyuan"	北京港源建築裝飾工程有限公司 (Beijing Gangyuan Architectural Decoration Engineering Co., Ltd.*), a company established in the PRC with limited liability and owned as to 26.25% by Jangho Co, 68.75% by Jangho Chuangzhan and 5% by Mr. Fu Jianping (符劍平), a director of Jangho Co, respectively
"Beijing Jiangheyuan"	北京江河源控股有限公司 (Beijing Jiangheyuan Holdings Co., Ltd.*), a company established in the PRC with limited liability and a controlling shareholder of the Company
"Board"	the board of Directors
"business day"	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for business
"BVI"	the British Virgin Islands
"Caiyun International"	Caiyun International Investment Limited (彩雲國際投資有限公司), a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of Yunnan Metropolitan Construction and a substantial shareholder of the Company
"close associates"	has the meaning ascribed to it under the Listing Rules
"Code Provisions"	code provisions as set out in the Corporate Governance Code and Corporate Governance Report as contained in Appendix 14 to the Listing Rules
"Company"	SUNDART HOLDINGS LIMITED 承達集團有限公司, a company incorporated in the BVI with limited liability, the shares of which are listed on the Stock Exchange (stock code: 1568)

"Company Secretary"	the company secretary of the Company
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules, and in the context of the Company, means Mr. Liu, Ms. Fu, Beijing Jiangheyuan, Jangho Co, Jangho HK and Reach Glory
"Director(s)"	the director(s) of the Company
"Dongguan Sundart"	東莞承達家居有限公司 (Dongguan Sundart Home Furnishing Co., Ltd.), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"ESG"	the environmental, social and governance
"FSC"	Forest Stewardship Council
"FVTPL"	fair value through profit or loss
"Group" or "our" or "Sundart" or "us" or "we"	the Company and its subsidiaries
"HK$" or "cents"	Hong Kong dollars or cents, the lawful currency of Hong Kong
"HKQAA"	Hong Kong Quality Assurance Agency
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Government"	the government of Hong Kong
"Internal Control Committee"	the internal control committee of the Board
"ISO"	the International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
"ISO 14001"	a member of ISO 14000 which is a family of environmental management standards set by ISO for assisting a company to continually improve its ability to efficiently identify, minimise, prevent and manage environmental impacts
"ISO 9001"	a member of ISO 9000 which is a family of standards set by ISO for quality management system where an organisation needs to demonstrate its ability to provide products that fulfil customers and applicable regulatory requirements and aim to enhance customer satisfaction
"Jangho Chuangzhan"	北京江河創展管理諮詢有限公司 (Beijing Jangho Chuangzhan Management Consultancy Co., Ltd.*), a company established in the PRC with limited liability and a wholly-owned subsidiary of Jangho Co

Definitions

"Jangho Co"	江河創建集團股份有限公司 (Jangho Group Co., Ltd.*), a joint stock limited liability company established in the PRC (the A shares of which have been listed on the Shanghai Stock Exchange (stock code: 601886) since 18 August 2011) and a controlling shareholder of the Company
"Jangho HK"	Jangho Hong Kong Holdings Limited (江河香港控股有限公司), a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of Jangho Co and a controlling shareholder of the Company
"Jangho Macau"	Jangho Curtain Wall Macao Co., Ltd (江河幕墻澳門有限公司), a company incorporated in Macau with limited liability and owned as to 99% and 1% by Jangho Co and Jangho HK, respectively
"Kin Shing"	Kin Shing (Leung's) General Contractors Limited (堅城(梁氏)建築有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"Listing Date"	29 December 2015, being the date of listing of the Shares on the main board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"m^2"	square meters
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MOP"	Macau Pataca, the lawful currency of Macau
"Mr. Liu"	Mr. Liu Zaiwang (劉載望), the non-executive Director, a controlling shareholder of the Company and the spouse of Ms. Fu
"Ms. Fu"	Ms. Fu Haixia (富海霞), a controlling shareholder of the Company and the spouse of Mr. Liu
"Nomination Committee"	the nomination committee of the Board
"PRC"	the People's Republic of China, excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Previous Year"	the year ended 31 December 2017
"Prospectus"	the Company's prospectus dated 11 December 2015

Definitions

"Reach Glory"	REACH GLORY INTERNATIONAL LIMITED, a company incorporated in the BVI with limited liability, a wholly-owned subsidiary of Jangho HK and a controlling shareholder of the Company
"Remuneration Committee"	the remuneration committee of the Board
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Share(s)"	ordinary share(s) of the Company
"Shareholder(s)"	the holder(s) of Share(s)
"Share Option Scheme"	the share option scheme, which was adopted by the Company and took effect from 1 December 2015, as amended from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary"	has the meaning ascribed to it under the Listing Rules
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Sundart Beijing"	北京承達創建裝飾工程有限公司 (Sundart Engineering & Contracting (Beijing) Limited), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Sundart Macau"	Sundart Engineering Services (Macau) Limited (承達工程服務(澳門)有限公司), a company incorporated in Macau with limited liability and an indirect wholly-owned subsidiary of the Company
"Sundart Timber"	Sundart Timber Products Company Limited (承達木材制品有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"Year"	the year ended 31 December 2018
"Yunnan Metropolitan Construction"	雲南省城市建設投資集團有限公司 (Yunnan Metropolitan Construction Investment Group Co., Ltd.*), a company established in the PRC with limited liability and a substantial shareholder of the Company
"%"	per cent.

* *for identification purpose only*

CHAIRMAN'S STATEMENT

Chairman's Statement

Dear Shareholders,

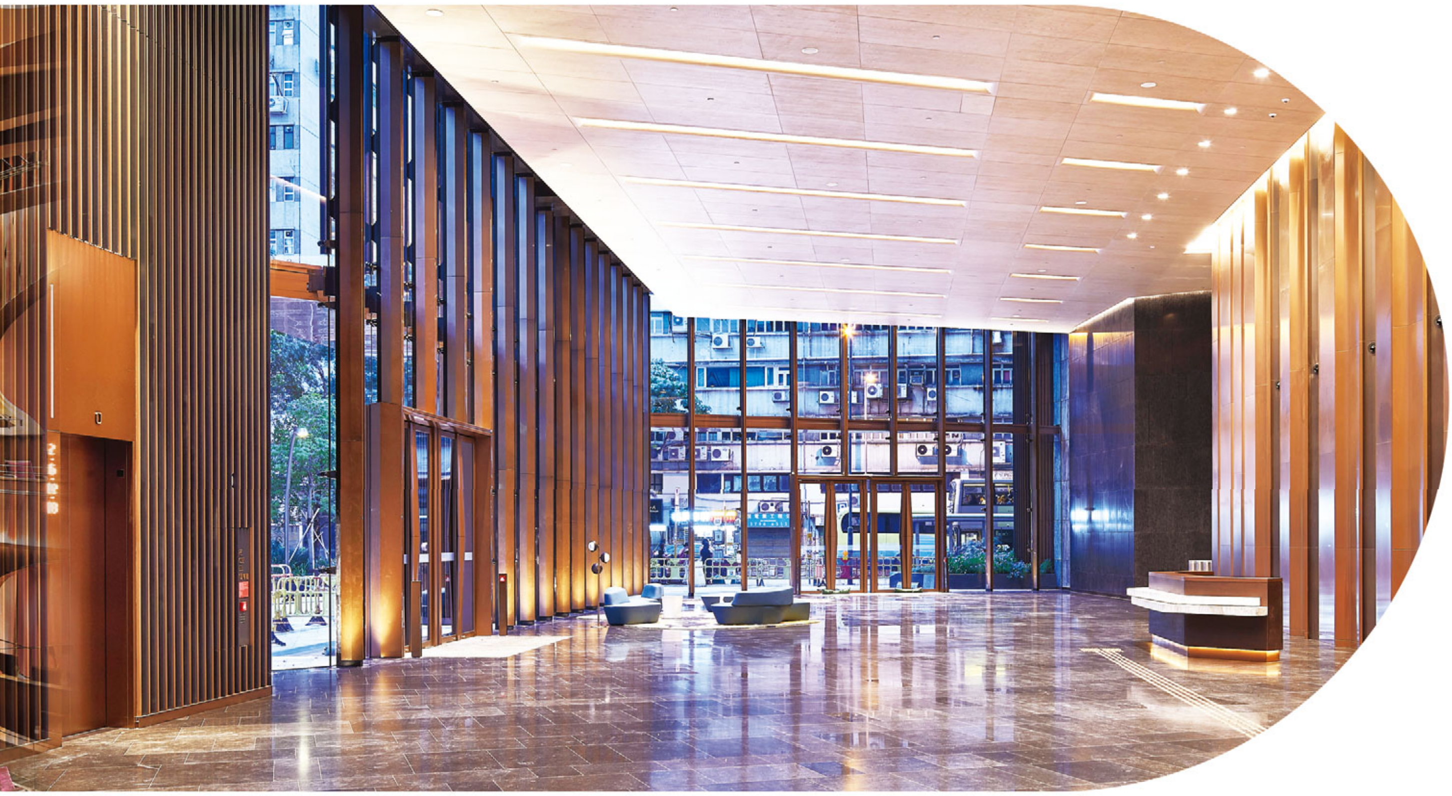
On behalf of the Board, I am pleased to present the results of the Year of the Group.

The overall Hong Kong's economic growth slowed down in 2018 due to various uncertainties in the global market, including Sino-US trade dispute, United States interest rate hike and Brexit. 2018 was a year full of opportunities and challenges to the Group. Capitalising our outstanding and experienced management team, solid business model, effective risk management and sound corporate reputation, the Group actively captured market opportunities by taking an aggressive yet prudent approach. During the Year, the Group has carried out a series of fitting-out projects for a number of sizeable hotels, casinos, residential properties and commercial buildings, and hence achieving satisfactory results.

During the Year, the Group's revenue was HK$5,390.8 million (Previous Year: HK$4,982.9 million), profit for the year was HK$381.2 million (Previous Year: HK$421.1 million) and basic earnings per share was HK17.66 cents (Previous Year: HK19.51 cents). The Board is pleased to propose a final dividend of HK5 cents per Share for the Year. Taken together with the interim dividend of HK2 cents per Share, it is equivalent to approximately 39.6% of the profit available for distribution for the Year, which is in line with the dividend policy as stated in the Prospectus.

By providing high-quality service, we work with lots of loyal business partners and can thus maintain our inherent business and enlarge our business step by step. We completed 19 fitting-out projects with the individual contract sum being not less than HK$50.0 million, and 11 alteration and addition and construction projects during the Year. Most of those projects were sizeable hotel guestrooms, casinos, residential properties and commercial buildings.

According to the information from the Statistics and Census Service of the government of Macau, the gambling industry in Macau recorded double-digit growth during the Year. Meanwhile, the completion and launch of the Hong Kong-Zhuhai-Macao Bridge has enabled unprecedented convenience in transportation between the PRC, Hong Kong and Macau. The enhancement of cross-border facilities has brought greater economic benefits, in terms of growth



of number of tourists, and development of gambling, retail and tourism industries. In addition, the Greater Bay Area Initiative is a major strategic plan of the PRC development blueprint. Guangdong, Hong Kong and Macau will continuously deepen collaboration, which will further expand, open and develop the economy in regional aspect and form the world's largest Bay Area economy. Since the launch of Greater Bay Area Initiative, the development of Greater Bay Area has accelerated, and a number of infrastructure and construction projects have been activated. Driven by rigid demand, it is expected that the fitting-out business of Guangdong, Hong Kong and Macau will possess huge growth potential.

During the Year, Caiyun International became our substantial shareholder. By integrating the abundant resources of Caiyun International, the Group will be able to fully facilitate its professional and brand advantages to seize more market opportunities to further expand its business scope and drive the growth in revenue and profits.

Looking ahead, we remain cautiously optimistic over the fitting-out market. The Group will strive to consolidate its leading position in the fitting-out industry in Hong Kong and Macau. Moreover, the strong backup from Caiyun International will enhance the Group's strength to excel its profession, branding advantages and synergies in architectural decoration in the PRC. We aim at flexibly synchronising our businesses in Hong Kong, Macau and the PRC to achieve resource sharing and edge complementing, and hence, enhancing our brand to create a one-stop chain in the construction industry.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude and thank to our Shareholders, business partners and other professional parties for their unremitting efforts and support in this competitive market. We will carry on dedicating our efforts towards the long-term development and hence deliver sustainable returns to our Shareholders.

Liu Zaiwang
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

MARKET REVIEW

The overall Hong Kong's economic growth slowed down in 2018 due to various uncertainties in the global market, including Sino-US trade dispute, United States interest rate hike and Brexit, Hong Kong was no exception as an export-oriented economy. According to the information published by Census and Statistics Department of the Hong Kong Government ("**C&SD**"), Hong Kong's gross domestic product ("**GDP**") increased by 2.9% year-on-year in real terms in the third quarter of 2018, which was lower than the growth of 3.6% compared to the same period of 2017.

According to the provisional results of the "Report on the Quarterly Survey of Construction Output" released by C&SD, the total gross value of construction works performed by main contractors in the third quarter of 2018 decreased by 1.1% in nominal terms year-on-year to HK$60.3 billion. According to the statistics from the Land Registry of the Hong Kong Government, the primary sales of residential building in 2018 reached 15,633 units, representing a year-on-year decrease of 16.2% from 18,645 units in 2017. However, the housing demand is still strong in Hong Kong. As mentioned in the Chief Executive's 2018 Policy Address, the Hong Kong Government will develop land resources in a resolute and persistent manner. The property market and construction industry in Hong Kong is expected to remain stable, and hence maintaining a steady demand in fitting-out market.

In Macau, information from the Statistics and Census Service of the government of Macau indicated that the Macau's GDP increased by 4.7% year-on-year in real terms in 2018. The economy grew at a slower pace, mainly due to a continuous decline in construction investment and a slowdown in the growth of exports of services. However, since the official opening of the Hong Kong-Zhuhai-Macao Bridge on 24 October 2018, visitor arrivals totaled 3.3 million and 3.6 million in November 2018 and December 2018, representing a year-on-year increase of 15.3% and 16.9%, respectively. It is believed that the bridge will sustain the increase in the number of visitors in long run. Meanwhile, the latest statistics from the Gaming Inspection and Coordination Bureau of Macau showed that the income from gambling sector in 2018 reached MOP303.9 billion, increased by 14.0% year-on-year. It was the first time for the gambling sector to rebound over MOP300.0 billion since 2014. The sustainable development of tourism and gambling industry will benefit the construction and fitting-out industry in Macau.

In 2018, the economy of the PRC was stable. However, it faced downward pressure against the complicated and challenging external environment. According to the information from National Bureau of Statistics of China, the PRC's GDP was RMB90,030.9 billion, while the year-on-year growth slowed down to 6.6%, which was the lowest growth rate in 28 years. Nonetheless, the total investment in real estate development of 2018 reached RMB12,026.4 billion, representing an increase of 9.5% year-on-year, of which, the investment in residential buildings was RMB8,519.2 billion, up by 13.4%. The floor space of houses newly started in 2018 was 2.1 billion m^2, representing a year-on-year increase of 17.2%, and the floor space of residential buildings newly started in 2018 was 1.5 billion m^2, representing a year-on-year increase of 19.7%. The national housing and urban-rural development work conference concluded that, in 2018, the establishment and improvement of the real estate market regulation and the construction of efficient mechanism have been accelerated in order to maintain stability of the real estate market. The reform and development of the construction industry have also been accelerated, so as to continuously improve the quality and efficiency of development of the construction industry. The development of the construction industry is expected to remain stable, and the fitting-out market will also develop steadily.

BUSINESS REVIEW

The Group is one of the leading integrated fitting-out contractors in Hong Kong, Macau and the PRC, specialising in providing professional fitting-out works for residential property and hotel projects. In addition, the Group also generated revenue from alteration and addition and construction works in Hong Kong and from manufacturing, sourcing and distribution of interior decorative materials business for sales globally. During the Year, a majority of the Group's revenue was derived from its fitting-out works in the private sector.

Regardless of increasing uncertainties in the external environment, complicated and volatile global political relations, and decelerated growth momentum across major economies, the Group maintained solid financial status during the Year. Leveraging the Group's positive brand image, proven track record and long-term trusting relationships with customers, the Group succeeded to obtain several sizable fitting-out projects during the Year. These new projects will ensure stable and healthy development of the Group in the coming years.

Fitting-out works

The Group's fitting-out business primarily includes the fitting-out works carried out for hotels, serviced apartments, residential properties and other properties in Hong Kong, Macau and the PRC. During the Year, the fitting-out business remained as the key contributor to the Group's revenue and profit.

During the Year, the Group completed a total of 19 fitting-out projects, including six, three and 10 fitting-out projects in Hong Kong, Macau and the PRC, respectively, with the individual contract sum being not less than HK$50.0 million. The total contract sum of those projects amounted to HK$3,249.0 million, out of which a total revenue of HK$1,000.6 million was recognised during the Year. As at 31 December 2018, the Group had 52 projects on hand (including contracts in progress and signed contracts yet to commence), including 24, seven and 21 projects in Hong Kong, Macau and the PRC, respectively, with the individual contract sum being not less than HK$50.0 million. The total contract sum and the value of the remaining works for such projects as at 31 December 2018 amounted to approximately HK$7,745.1 million and HK$3,553.0 million, respectively.

During the Year, the Group's revenue derived from its fitting-out business slightly decreased by HK$1.6 million year-on-year to HK$4,204.7 million (Previous Year: HK$4,206.3 million).

The Group's gross profit derived from its fitting-out business during the Year increased by HK$72.1 million or 11.5% year-on-year to HK$696.4 million (Previous Year: HK$624.3 million). During the Year, the Group's gross profit margin for its fitting-out business increased from 14.8% for the Previous Year to 16.6% for the Year. Such increase was mainly attributable to the effective cost control of the Group as a result of the increased use of the interior decorative materials manufactured by the Group in its fitting-out works for several sizeable residential property, hotel and commercial building fitting-out projects in Hong Kong, Macau and the PRC, respectively during the Year.

Alteration and addition and construction works

The Group carries out alteration and addition and construction business in Hong Kong through Kin Shing, a registered general building contractor in Hong Kong. Kin Shing's key services include construction, interior decoration, repair, maintenance and alteration and addition works for residential properties, hotels, factories and commercial buildings in Hong Kong.

During the Year, Kin Shing completed a total of 11 alteration and addition and construction projects, with a total contract sum of HK$311.6 million, out of which a total revenue of HK$33.5 million was recognised during the Year. As at 31 December 2018, Kin Shing had 19 projects on hand (including contracts in progress and signed contracts yet to commence) with a total contract sum of approximately HK$2,549.5 million. The value of the remaining works for those projects as at 31 December 2018 amounted to approximately HK$619.6 million.

During the Year, the Group's revenue derived from its alteration and addition and construction business increased by HK$364.8 million or 47.7% year-on-year to HK$1,128.8 million (Previous Year: HK$764.0 million). Such increase in revenue was primarily attributable to (i) one alteration and addition project for a commercial building in Chai Wan, which commenced in second half of 2017, was near completion; and (ii) most of works for a construction project of residential properties in Lantau Island were completed.

The Group's gross profit derived from its alteration and addition and construction business increased by HK$9.1 million or 32.2% year-on-year to HK$37.4 million (Previous Year: HK$28.3 million), whilst the gross profit margin remained stable at 3.3% (Previous Year: 3.7%).

Manufacturing, sourcing and distribution of interior decorative materials

One of the Group's core competencies lies in its manufacturing base and research and development centre in the PRC. Through Dongguan Sundart, the Group operates a manufacturing plant and a warehouse located in Dongguan, Guangdong Province, the PRC with an aggregate gross floor area of over 40,000 m^2. Dongguan Sundart manufactures interior decorative timber products such as fire-rated timber doors and wooden furniture, and provides quality and reliable re-engineering and pre-fabrication services for sizeable fitting-out projects undertaken by the Group.

During the Year, the Group's revenue derived from its manufacturing, sourcing and distribution of interior decorative materials business increased by HK$44.7 million or 354.8% year-on-year to HK$57.3 million (Previous Year: HK$12.6 million). Such increase was primarily attributable to the increase in sales of wooden furniture to Macau and United Kingdom.

In addition, the Group's gross profit derived from its manufacturing, sourcing and distribution of interior decorative materials business increased by HK$11.2 million or 169.7% year-on-year to HK$17.8 million (Previous Year: HK$6.6 million). Although the increase in revenue and gross profit, the Group's gross profit margin for its manufacturing, sourcing and distribution of interior decorative materials business decreased to 31.1% (Previous Year: 52.4%). Such decrease was primarily due to completion of an order from the Philippines with relatively high gross profit margin in the Previous Year.

Principal risks

As at 31 December 2018, the Group was principally engaged in integrated fitting-out works in Hong Kong, Macau and the PRC, alteration and addition and construction works in Hong Kong and manufacturing, sourcing and distribution of interior decorative materials business for sales globally. In view of the ever-changing business environment, the Group is facing various risks, challenges and uncertainties, including (but without limitation to): (i) the Group's contracts are not recurring in nature and its future business depends on its continuing success on project tender; (ii) the Group relies on a few major customers. If the Group fails to retain such major customers, it may materially and adversely affect its business, financial condition and results of operations; (iii) if the Group cannot effectively adapt to market conditions and customer preferences or fails to provide competitive pricing, its successful rate on project tender may be adversely affected; (iv) the Group's business may be affected by the business strategies and performance of its major customers; and (v) the Group's estimate time and costs to determine the tender price and its failure to make accurate estimate may lead to cost overruns or even losses in its projects.

FINANCIAL REVIEW

Revenue, gross profit and gross profit margin

During the Year, the Group's revenue increased by HK$407.9 million or 8.2% year-on-year to HK$5,390.8 million (Previous Year: HK$4,982.9 million). The Group's gross profit increased by HK$92.4 million or 14.0% year-on-year to HK$751.6 million (Previous Year: HK$659.2 million). The Group's gross profit margin remained stable at 13.9% (Previous Year: 13.2%). Such increase in revenue was primarily due to the increase in its alteration and addition and construction business and manufacturing, sourcing and distribution of interior decorative materials business as discussed under the paragraph headed "Business review" above.

Other income, other gains and losses

The Group recorded net other losses of HK$9.8 million for the Year (Previous Year: net other income of HK$14.2 million), primarily due to HK$36.5 million of loss from changes in fair value of financial assets at FVTPL as the market price of the listed equity securities held by the Group retreated in the Year. Even though, it was partially offset by a compensation received from the landlord for relocation of the Group's Shanghai office amounting to HK$16.3 million. The Group's new Shanghai office commenced operations in June 2018. Details of other income, other gains and losses are set out in note 7 to the consolidated financial statements.

Profit for the year

The Group's profit for the year decreased by HK$39.9 million or 9.5% year-on-year to HK$381.2 million (Previous Year: HK$421.1 million). Although the Group's gross profit increased during the Year, it was offset by the increase in administrative expenses, impairment losses – allowance for credit losses on trade receivables and contract assets and net other losses as discussed above.

Basic earnings per share

The Company's basic earnings per share for the Year was HK17.66 cents (Previous Year: HK19.51 cents), decreased by HK1.85 cents or 9.5% year-on-year and was in line with the decrease in profit for the year. Details of the earnings per share are set out in note 15 to the consolidated financial statements.

Final dividend

The Board proposed a final dividend of HK5 cents per Share for the Year subject to the approval of the Shareholders at the AGM. Taken together with the interim dividend of HK2 cents per Share paid on 26 September 2018, the total dividend for the Year is HK7 cents per Share, equivalent to approximately 39.6% of the profit available for distribution for the Year, which is in line with the dividend policy as stated in the Prospectus.

Material acquisition and disposal

No material acquisition and disposal of subsidiaries were conducted by the Group during the Year.

Financial assets at FVTPL/AFS investments

As at 31 December 2018, the Group's financial assets at FVTPL/AFS investments comprised of HK$107.5 million and HK$128.8 million (31 December 2017: HK$126.4 million and HK$125.8 million) of listed equity securities and unlisted equity fund, respectively.

During the year, the Group purchased HK$27.4 million of listed equity securities and disposed of HK$9.8 million of listed equity securities. Further, the Group recognised a net fair value loss of HK$36.5 million in profit or loss compared to that as at 31 December 2017. Up to 11 March 2019, there was a decline in the value of certain listed equity securities as the market price of those listed equity securities held by the Group retreated.

Save as disclosed above, the Group did not hold any significant investment during the Year.

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

As at 11 March 2019, the Group did not have any plans for material investments or capital assets.

CORPORATE FINANCE AND RISK MANAGEMENT

Liquidity and financial resources and capital structure

The management and control of the Group's financial, capital management and external financing functions are centralised at its headquarters in Hong Kong. The Group adheres to the principle of prudent financial management to minimise financial and operational risks it is exposed to. During the Year, the Group mainly relies on internally generated funds, bank and other borrowings to finance its operations.

The Group continued to maintain a solid financial and cash position. As at 31 December 2018, the Group's working capital stood at HK$1,784.2 million, representing an increase of HK$182.4 million from HK$1,601.8 million as recorded as at 31 December 2017, whilst bank balances and cash in total amounted to HK$887.8 million, representing an increase of HK$260.1 million from HK$627.7 million as recorded as at 31 December 2017. Such increases were mainly due to the decrease in trade and other receivables and bills receivable and the redemption of note receivable.

As at 31 December 2018, the Group had bank borrowings and other borrowings of HK$294.5 million and nil, respectively (31 December 2017: HK$307.6 million and HK$34.1 million, respectively), of which HK$199.5 million, HK$80.0 million and HK$15.0 million (31 December 2017: HK$221.7 million, HK$60.0 million and HK$60.0 million) will be repayable within one year, one to two years and three to five years, respectively. There is no seasonality issue on the Group's borrowings.

The Group continued to maintain a healthy liquidity position. As at 31 December 2018, the Group's current assets and current liabilities amounted to HK$4,430.8 million and HK$2,646.6 million, respectively (31 December 2017: HK$4,447.2 million and HK$2,845.4 million, respectively). The Group's current ratio increased slightly to 1.7 times (31 December 2017: 1.6 times) and it has maintained sufficient liquid assets to finance its operations.

As at 31 December 2018, the Group's gearing ratio of total debts divided by total equity was 12.8% (31 December 2017: 16.8%). The decrease in gearing ratio was primarily due to the repayment of the Group's borrowings during the Year.

As at 31 December 2018, the share capital and equity attributable to owners of the Company amounted to HK$1,246.8 million and HK$2,298.6 million, respectively (31 December 2017: HK$1,246.8 million and HK$2,031.8 million, respectively).

Charge on the Group's assets

As at 31 December 2018, the Group had pledged financial assets at FVTPL/AFS investments and bank deposits of HK$107.5 million and HK$48.6 million, respectively (31 December 2017: HK$126.4 million and HK$63.3 million, respectively) to secure other borrowings, certain bills payable, certain performance bonds, certain advance payment bonds and tender bonds for its operations.

Contingent liabilities and capital commitments

The Group did not have any significant contingent liabilities as at 31 December 2018 and 31 December 2017, respectively.

As at 31 December 2018, the Group had capital commitments of HK$1.0 million in relation to acquisition of property, plant and equipment (31 December 2017: HK$2.1 million) and HK$19.2 million in relation to contribution to the capital of equity fund (31 December 2017: HK$22.2 million).

Exposure to fluctuations in exchange rates and interest rates and corresponding hedging arrangements

The Group operated in various regions with different foreign currencies including MOP, Euro, RMB and United States Dollars. All of the Group's bank borrowings were made at floating rates. As at the date of this annual report, the Group had not implemented any foreign currencies and interest rates hedging policies. However, the Group's management will closely monitor exchange rate and interest rate movement and will consider to hedge against any significant aforesaid exposure when necessary.

Credit risk exposure

During the Year, the Group has adopted prudent credit policies to deal with credit risk exposure. The Group's major customers included reputable property developers, hotel owners and main contractors. Save as disclosed below, the Group was not exposed to any significant credit risk during the Year. The Group's management reviewed the recoverability of trade receivables and closely monitored the financial position of the customers from time to time with a view to keep the credit risk exposure of the Group at a relatively low level.

Reference is made to the disclosure under the section headed "Events After the Reporting Period" in the 2017 Interim Report of the Company and the annual results announcement of the Company dated 11 March 2019. It was agreed by the parties that the subject main contractor (the "**Main Contractor**") would make payment of the agreed amount (the "**Agreed Amount**") to Sundart Macau in relation to the subject fitting-out projects. However, as the Main Contractor has failed to settle the Agreed Amount after two instalments of payment since August 2018, Sundart Macau resumed the arbitration proceedings in December 2018 (the "**Resumed Arbitration**"). The Directors are of the opinion that the Resumed Arbitration will not materially affect the Group's operating and financial performance.

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.

EMPLOYEES AND REMUNERATION POLICIES

The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Discretionary bonuses and share options may also be granted to eligible staff based on individual performance in recognition of their contribution and hard work. The Group also provides training programmes for its employees to equip themselves with requisite skills and knowledge.

As at 31 December 2018, the Group employed 1,488 full-time employees (31 December 2017: 1,475). The Group's gross staff costs (including the Directors' emoluments) was HK$379.0 million for the Year (Previous Year: HK$345.2 million). The increase in gross staff costs was mainly attributable to the increase of average number of full-time employees and salary increment. During the Year, the Group's average number of full-time employees increased by 78 or 5.8% year-on-year to 1,430 (Previous Year: 1,352).

PROSPECTS AND STRATEGIES

According to a survey conducted by Nielsen regarding the research on Mainland visitors, the tourism in Hong Kong had been driven by the launch of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, Hong Kong section and the Hong Kong-Zhuhai-Macao Bridge during the Year. The number of visitors to Hong Kong remained buoyant. Shopping was the main contribution of tourist spending, which supported the development of the retail industry in Hong Kong. Meanwhile, the latest unemployment rate in Hong Kong recorded 2.8%, which was the record low in recent 20 years. Such low unemployment rate and low interest rate resulted thriving demand in the housing market in Hong Kong. In light of the above, the sustainable development of the property and construction industry in Hong Kong and steady growth of the fitting-out industry are achieved.

During the celebration of the 20th anniversary of Macau's return to the motherland this Year, the government of Macau announced to position itself as the "World Centre of Tourism and Leisure" and the "Commercial and Trade Co-operation Service Platform between China and Portuguese-speaking Countries". Macau also actively participated in the construction of the Guangdong-Hong Kong-Macao Greater Bay Area as well as the Belt and Road Initiative, striving to create new growth drivers. Meanwhile, the launch of the Hong Kong-Zhuhai-Macao Bridge coupled with the forthcoming plans of the Greater Bay Area Initiative will stimulate the growth of Macau's tourism and gambling industry. It is expected that the development opportunities in the tourism and gambling industry may benefit both construction and fitting-out industry in Macau.

The Chinese Academy of Sciences released a report on the development of real estate industry in the PRC for 2019, forecasted that the total completed investment in real estate development will increase year-on-year by 6.2%, with average price of commodity houses up by 6.7% year-on-year. According to the national housing and urban-rural development work conference, the government of the PRC has determined to enhance the stability of the property market in 2019 by stabilising land value and housing prices and managing expectations. In addition, National Bureau of Statistics of China stated that infrastructure will be the core focus to be strengthened. Therefore, the Group expects that construction industry and fitting-out market still have room to grow. It will keep an eye on the market and policy directions and adjust flexibly its business strategies in the PRC.

During the Year, Caiyun International acquired approximately 18.16% of the Company's issued share capital from Reach Glory for a total consideration of HK$1.49 billion approximately. Caiyun International is a wholly-owned subsidiary of Yunnan Metropolitan Construction, which is a large-scale enterprise specialising in the development of exhibition center, feature town, hotel, tourism real estate and other urban planning. By integrating the abundant resources of Caiyun International, the Group will be able to fully facilitate its professional and brand advantages to seize more market opportunities to further expand its business scope and drive the growth in revenue and profits.

Looking ahead, with a long-term, stable and solid business foundation, the Group will respond to the ever-changing marketing landscape by taking an aggressive yet prudent approach. The Group will also leverage its years of experience and expertise to strengthen the management and budget control, build good brand image and reputation and provide quality products and services to its customers. The Group will capture opportunities arisen from the new momentum brought by the Belt and Road Initiative and the Greater Bay Area Initiative. Through the strong alliance with its Shareholders, the Group will invest more resources to reinforce the research and development capabilities and enhance the quality of products and services. Under its prudent financial management, the operational efficiency and productivity will be greatly improved. The Group aims to build a one-stop construction industry chain and further consolidate its leading position in the fitting-out industry, and hence bringing lucrative returns to the Shareholders.

Biographies of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Ng Tak Kwan (吳德坤), aged 64, is the executive Director and chief executive officer of the Company. He is also a director of each subsidiary of the Company, excluded Sundart Beijing, 上海承達企業發展有限公司, GROW PATH INTERNATIONAL LIMITED, PEAK GAIN DEVELOPMENT LIMITED, Glory One Investments Limited and PROPER WEALTH GROUP LIMITED. Mr. Ng is one of the founders of the Group. He has been mainly focusing on the Group's daily operations since its commencement of business in 1986. He is also a member of the Remuneration Committee. Mr. Ng left the Group in 1996 and re-joined in October 1998. Currently, Mr. Ng is primarily responsible for the overall management of the business development of the Group. Mr. Ng obtained a bachelor degree of science in civil engineering from the University of Calgary, Canada in June 1978. Mr. Ng was an executive director of Rykadan Capital Limited, a company listed on the Stock Exchange (stock code:2288), from August 2009 to 20 August 2015, and has acted as a non-executive director since 21 August 2015.

Mr. Leung Kai Ming (梁繼明), aged 65, is the executive Director. He is also a director of several subsidiaries of the Company, including GLORY SPRING INVESTMENTS LIMITED, Sundart Products Limited, Sundart International Supply Limited, Sundart International Supply (Macau) Limited, Sundart Living Limited, Sundart Timber, Dongguan Sundart and Sundart Macau. Mr. Leung is one of the founders of the Group. He left the Group in July 2006 and re-joined in April 2009. Currently, he is mainly responsible for overseeing the manufacturing, technical and engineering activities and sourcing and distribution of interior decorative materials of the Group.

Mr. Xie Jianyu (謝健瑜), aged 39, is the executive Director and chief financial officer of the Company. He is also a director of each subsidiary of the Company, excluded Sundart Beijing and 上海承達企業發展有限公司. He joined the Group in June 2012 and is mainly responsible for overseeing the financing, accounting and internal control, human resource and administrative management of the Group. He is also a member of the Internal Control Committee. Prior to joining the Group, Mr. Xie was the financial manager of cost control department of ATLANTIS Holding Norway AS from March 2006 to December 2008, the chief accountant of Workz Middle East FZE from January 2009 to March 2010 and the financial director of Middle East & North Africa Group of J&H Emirates LLC from April 2010 to June 2012. Mr. Xie obtained a bachelor degree in economics from Xiamen University (廈門大學), the PRC in July 2001 and a master degree of business administration from the University of Hong Kong, Hong Kong in November 2015. Mr. Xie became a certified management accountant of the Institute of Management Accountants, the USA and a member of the Association of Chartered Certified Accountants in February 2008 and September 2014, respectively. On 21 April 2017, Mr. Xie was appointed as a non-executive director of STEVE LEUNG DESIGN GROUP LIMITED (stock code: 2262), a company listed on the Stock Exchange on 5 July 2018. He resigned from the directorship of the company on 23 January 2019.

Mr. Ng Chi Hang (吳智恒), aged 43, is the executive Director. He is also a director of several subsidiaries of the Company, including Sundart Timber, Sundart Macau, GROW PATH INTERNATIONAL LIMITED, PEAK GAIN DEVELOPMENT LIMITED, GOOD ENCORE LIMITED, Glory One Investments Limited, Good Encore Development Limited, HONEST PARK LIMITED, PROPER WEALTH GROUP LIMITED, In Wave Limited and Sundart Engineering Investments Limited. Mr. Ng joined the Group as a quantity surveyor in Sundart Timber in September 2005 and is mainly responsible for overseeing the overall operation of the Group in Macau. Prior to joining the Group, Mr. Ng was a quantity surveyor of Bridgewater & Coulton Limited from April 2000 to September 2002. Mr. Ng obtained a bachelor degree of science in surveying from the University of Hong Kong, Hong Kong in December 1998 and a master degree of science in construction and real estate from the Hong Kong Polytechnic University, Hong Kong in November 2004. He became a member of the Hong Kong Institute of Surveyors and professional member of the Royal Institution of Chartered Surveyors in February 2003. He has been a registered professional surveyor in the quantity surveying division of the Surveyors Registration Board of Hong Kong since April 2005.

Non-Executive Director

Mr. Liu Zaiwang (劉載望), aged 47, is the non-executive Director and the chairman of the Board. Mr. Liu is primarily responsible for the overall strategy, investment planning and human resource strategy of the Group. He is also a member and the chairman of the Nomination Committee and Internal Control Committee (appointed on 1 February 2018). In February 1999, Mr. Liu founded Jangho Co, the controlling shareholder, the A shares of which are listed on the Shanghai Stock Exchange(stock code:601886), which was principally engaged in the curtain wall industry and expanded its business into the medical and health care industry in recent years. He is the legal representative, director and chairman of Jangho Co and is responsible for the overall management of Jangho Co. Mr. Liu joined the Group when Jangho Co acquired 85% interests in the Company in July 2012. Mr. Liu also assumes several social positions including the member of standing committee of the National People's Congress of Shunyi District, Beijing, the PRC (北京市順義區人民代表大會常務委員) and the vice-chairman of the board of the Northeastern University (東北大學), the PRC.

Independent Non-Executive Directors

Mr. Tam Anthony Chun Hung (譚振雄), aged 68, was appointed as an independent non-executive Director on 1 December 2015. He is also a member of each of the Audit and Remuneration Committees and the chairman of the Audit Committee. Mr. Tam has over 21 years of experience in international taxation. Mr. Tam was a tax partner of Deloitte Touche Tohmatsu from 1997 to 2013. Since August 2014, Mr. Tam has been the managing tax partner of Mazars CPA Limited till August 2016 and currently a tax partner of that firm. Mr. Tam is an independent non-executive director of Colour Life Services Group Co., Limited, a company listed on the Stock Exchange(stock code:1778). Mr. Tam obtained a bachelor degree of engineering and management from McMaster University, Canada in May 1976 and a master degree of business administration in finance from the University of Toronto, Canada in November 1983. He became a member of the Institute of Chartered Professional Accountant of Ontario, Canada (formerly known as Institute of Chartered Accountants of Ontario, Canada) in March 1981 and a fellow member of the Hong Kong Institute of Certified Public Accountants in February 1993.

Mr. Huang Pu (黃璞), aged 46, was appointed as an independent non-executive Director on 1 December 2015. He is also a member of each of the Audit, Remuneration and Nomination Committees and the chairman of the Remuneration Committee. Mr. Huang worked in Huifu Investment Information Limited (匯富投資資訊有限公司) from May 2001 to June 2003. From 28 June 2018, Mr. Huang was appointed as the General Manager of Beijing Xicheng Jinrui Investment Fund Management Co., Limited (北京熙誠金睿股權投資基金管理有限公司). Currently, Mr. Huang is also an investment consultant in Beijing Dazhong Investment Co,. Ltd (北京大中投資有限公司). He obtained a bachelor degree in statistics, a master degree in economics and a doctoral degree in finance from the Renmin University of China (中國人民大學), the PRC in July 1993, July 1996 and July 1999, respectively.

Mr. Li Zheng (李正), aged 61, was appointed as an independent non-executive Director on 1 December 2015. He is also a member of each of the Audit and Nomination Committees. Mr. Li has over 28 years of experience in legal practice. Mr. Li was a partner of Guangdong Run & Race Law Firm (廣東仁人律師事務所) from June 1996 to July 2010 and has been a partner of Guangdong Shentiancheng Law Firm (廣東深天成律師事務所) since August 2010. He was an independent director of Shenzhen Nanshan Power Co., Ltd (深圳南山熱電股份有限公司), a company listed on the Shenzhen Stock Exchange(stock code:000037), and an independent director of Dalian Sunasia Tourism Holding Co. Ltd (大連聖亞旅遊控股股份有限公司), a company listed on the Shanghai Stock Exchange (stock code:600593). Respectively on 12 November 2017 and 12 February 2018, he resigned from directorships of these two companies. He is currently an independent director of Shenzhen Eternal Asia Supply Chain Management Ltd (深圳市怡亞通供應鏈股份有限公司) and Shenzhen Annil Co., Ltd (深圳市安奈兒股份有限公司), companies listed on the Shenzhen Stock Exchange (Stock Code:002183 and 002875 respectively). Mr. Li obtained a bachelor degree of laws from Jilin University (吉林大學), the PRC in August 1983 and was qualified as a lawyer in the PRC in June 1989. He was accredited as "Outstanding Young Lawyer (優秀中青年律師)" by Zhejiang Provincial Department of Justice (浙江省司法廳) and Zhejiang Law Society (浙江省律師協會) in October 1989. Mr. Li obtained the training certification of independent director in March 2011, October 2013, July 2014, October 2015 and September 2017, respectively.

Senior Management

Mr. Chung Tsz Lung Jimmy (鍾子龍), aged 58, is the assistant general manager of Sundart Timber. He joined the Group in August 2000 and is mainly responsible for overseeing the operation of the projects in high-end commercial properties and planning and supervising the tender procedure and subcontracting. Prior to joining the Group, Mr. Chung worked as quantity surveyor, contracts manager, assistant maintenance supervisor and project manager in various companies in Hong Kong and Canada. Mr. Chung obtained a higher diploma and associateship in building technology and management from the Hong Kong Polytechnic, Hong Kong (now known as the Hong Kong Polytechnic University, Hong Kong) in November 1982 and November 1983, respectively. Mr. Chung became a member of the Chartered Institute of Building of the United Kingdom in March 1988.

Mr. Chan Chung Ming (陳仲明), aged 50, is the design manager of Sundart Timber. He joined the Group as a design coordinator in September 2000. He is mainly responsible for overseeing the interior fitting-out works and monitoring the progress of design application for the projects. Mr. Chan has over 23 years' experience in interior design and shop drawing presentation of interior decorations for various types of buildings. Prior to joining the Group, Mr. Chan was a design coordinator in Sundart (CIL) Engineering Limited (承達建材工程有限公司) from July 1996 to July 1999. Mr. Chan was awarded a certificate in building studies (architectural) from the Morrison Hill Technical Institute, Hong Kong in August 1992 and graduated from the City University of Hong Kong, Hong Kong in December 1996 with a higher diploma in architectural studies. In 2009 he attended the ISO14001:2004 introduction training in the HKQAA.

Mr. Chan Hak Man (陳克民), aged 63, is the senior project manager of Sundart Timber. He joined the Group in November 2007 and is mainly responsible for organising the projects and monitoring the progress of the projects. Prior to joining the Group, Mr. Chan worked for several companies, mainly in the areas of civil engineering and interior design. Mr. Chan was respectively awarded a certificate in furniture design from the Technical Institute of the Education Department of Hong Kong in July 1981 and an associate diploma in Applied Science (Building) from Sydney Institute of Technology, Australia in December 1994.

Mr. Chiu Yeuk Ho (趙若濠), aged 58, is the senior project manager of Sundart Timber. He joined the Group as a quality assurance officer in June 2004 and was promoted to project manager in April 2005. He is mainly responsible for organising the projects and monitoring the progress of the projects. Mr. Chiu has accumulated over 32 years"experience in construction industry. He started his career as an assistant engineering in Shui On Construction Company Limited (瑞安建築有限公司) from February 1984 to July 1987. After that, he was a project coordinator and estimator of Arrow Aluminum Products Limited in Canada from 1987 to October 1992 and a project manager of Pentad Construction Company Limited (大有建築有限公司) from November 1992 to March 1996. He was a project manager of G+H Montage (Hong Kong Projects) Limited from July 1996 to October 1997. Mr. Chiu was a senior project coordinator of Hyundai Engineering & Construction Co., Ltd from November 1997 to June 2004. Mr. Chiu obtained a bachelor degree in geography-survey science from the University of Alberta, Canada in June 1984.

Mr. Chan Tze Chiu (陳子昭), aged 56, is the senior project manager of Sundart Timber. He joined the Group as a project manager in January 2008 and was promoted to a senior project manager in July 2013. He is mainly responsible for organising the projects and monitoring the progress of the projects. Prior to joining the Group, Mr. Chan was the project manager of Enful Engineering Limited (銀豐工程有限公司) from August 1988 to August 1998. Mr. Chan obtained a bachelor degree in civil engineering from Huaqiao University (華僑大學), the PRC in July 1987.

Mr. Lau Mong Yu Alex (劉夢如), aged 56, is the purchasing manager of Sundart Timber. He joined the Group as a senior purchasing officer in August 2003. He is mainly responsible for coordinating all purchasing activities of the Group. With over 23 years of experience in the procurement field, Mr. Lau is experienced in procuring professional timber products and building and decoration related materials. Prior to joining the Group, Mr. Lau was the purchasing manager of Hong Kong Teakwood Works Limited (香港柚木製品有限公司) from March 1994 to October 2001.

Ms. Chui Muk Heung (徐木香), aged 50, is the Company Secretary and the chief accountant of the Company. Ms. Chui joined the Group as a senior accountant in November 2003. She is mainly responsible for the company secretarial, financial and accounting matters of the Group. Before joining the Group, Ms. Chui had worked as accounting professional in various companies including construction materials firms and accounting firms. She was employed as an accountant by K. Wah Construction Materials (Hong Kong) Limited (嘉華建材(香港)有限公司) in July 1997 and promoted to an assistant accounts manager in June 2001 and left in August 2002. Ms. Chui was accredited as an accounting technician in November 1990. She became a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants in February 2000 and March 2000, respectively.

Mr. To Ka Wah Kevin (杜嘉華), aged 45, is the contracts manager of Sundart Timber. He joined the Group in March 2013 and is mainly responsible for participating in tender and quotation and handling contracts related matters. Prior to joining the Group, Mr. To had previously worked for several engineering companies and interior design companies. Mr. To obtained a bachelor degree of building in construction economics from the University of Technology Sydney, Australia in May 1998.

Mr. Man Pui Kwan (文沛堃), aged 62, is the managing director of Kin Shing and Sundart Project Management & Consultancy Limited. He joined the Group as a commercial director in September 2010. He is mainly responsible for the day-to-day management of Kin Shing. Mr. Man has over 38 years of experience in the field of quantity surveying and contracts management. Before founding his own business in early 1990, Mr. Man was employed as an assistant quantity surveyor in Rawlinson, Russell & Partners, a quantity surveying and construction cost consulting firm, in July 1980 and was promoted to a quantity surveyor in March 1984 and held the position until July 1987. He was then employed as a quantity surveyor in the Quantity Surveying branch of the Architectural Services Department of the Hong Kong Government from July 1987 to March 1990. Mr. Man set up his own company, Forewin Consultants Limited, in early 1990 and since then has been acting as an executive director, mainly responsible for its general operation. Mr. Man obtained a bachelor degree of science in quantity surveying from the Thames Polytechnic, United Kingdom in June 1980. Mr. Man has been a professional associate of the Royal Institute of Chartered Surveyors, a fellow of the Hong Kong Institute of Surveyors and a member of the Chartered Institute of Arbitrators since January 1984, June 1997 and September 1999, respectively.

Corporate Governance Report

The Group has made continued efforts to incorporate the key elements of sound corporate governance into its management structure and internal procedures. The Group is committed to high standards of ethics and integrity in all aspects of business and ensuring that its affairs are conducted in accordance with applicable laws and regulations and for the benefits and in the interests of the Shareholders.

CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining high standards of corporate governance and has established policies and procedures in compliance with the principles and the Code Provisions set out from time to time.

In the opinion of the Directors, the Company has complied with the Code Provisions during the Year, except for the following deviation:

Paragraph A.6.7 of the Code Provisions specifies that the independent non-executive Directors and other non-executive Directors should attend general meetings of the Company to gain and develop a balanced understanding of the views of the Shareholders. The non-executive Director and one independent non-executive Director were absent from the last annual general meeting of the Company held on 31 May 2018 due to other important business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made with all the Directors and all of them confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the Year. The Company has adopted the same Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance with the Model Code by the relevant employees was noted by the Company for the Year.

THE BOARD

Composition of the Board

As at 31 December 2018, the Board consisted of eight Directors comprising four executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Pong Kam Keung has resigned as an executive Director with effect from 1 February 2018. 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. Ng Tak Kwan *(Chief Executive Officer)*
Mr. Leung Kai Ming
Mr. Xie Jianyu *(Chief Financial Officer)*
Mr. Ng Chi Hang
Mr. Pong Kam Keung *(resigned on 1 February 2018)*

Non-executive Director
Mr. Liu *(Chairman)*

Independent non-executive Directors
Mr. Tam Anthony Chun Hung
Mr. Huang Pu
Mr. Li Zheng

For biographical details of all Directors and senior management of the Group, please see "Biographies of Directors and Senior Management". To the best knowledge of the Directors, save as disclosed in the biographies of the Directors, there is no financial, business, family or other material or relevant relationships among the members of the Board during the Year.

Functions of the Board and delegation of powers

The principal function of the Board is to consider and approve the overall business plans and strategies of the Group, develop and implement the corporate governance function and supervise the implementation of these policies and strategies and the management of the Group. 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 the 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.

Board and general meetings

The Directors can attend meetings in person or through other means of electronic communication 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 paragraph A.1.1 of the Code Provisions, the Board should meet regularly and board meetings should be held at least four times a year. During the Year, the Board held 22 meetings, four of which were regular meetings.

The attendance record of each Director at the Board meetings, the Audit Committee meetings, the Remuneration Committee meetings, the Nomination Committee meetings, the Internal Control Committee meetings and the general meetings of the Company held during the Year was as follows:

	Attendance/Number of meetings held					
Directors	**Board meetings**	**Audit Committee meetings**	**Remuneration Committee meetings**	**Nomination Committee meetings**	**Internal Control Committee meetings**	**2018 Annual general meeting**
Executive Directors						
Mr. Ng Tak Kwan	22/22	N/A	1/1	N/A	N/A	1/1
Mr. Leung Kai Ming	22/22	N/A	N/A	N/A	N/A	0/1
Mr. Xie Jianyu	22/22	N/A	N/A	N/A	2/2	1/1
Mr. Ng Chi Hang	22/22	N/A	N/A	N/A	N/A	0/1
Mr. Pong Kam Keung *(resigned on 1 February 2018)**	2/2	N/A	N/A	N/A	N/A	N/A
Non-executive Director						
Mr. Liu	5/22	N/A	N/A	1/1	2/2	0/1
Independent non-executive Directors						
Mr. Tam Anthony Chun Hung	6/22	2/2	1/1	N/A	N/A	1/1
Mr. Huang Pu	6/22	2/2	1/1	1/1	N/A	0/1
Mr. Li Zheng	6/22	2/2	N/A	1/1	N/A	1/1

* *only the meeting held during his tenure was counted.*

Directors' appointment and re-election

In compliance with paragraph A.4.2 of the Code Provisions, all directors appointed to fill a casual vacancy should be subject to election by the Shareholders at the first general meeting after appointment. By virtue of article 74(3) of the Articles of Association, the Board shall have the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy on the Board or as an additional director. Any director appointed by the Board to fill a casual vacancy shall hold office only until the next general meeting of the Company after his appointment and be subject to re-election at such meeting. Any director appointed by the Board as an addition to the existing Board shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election.

In compliance with paragraph A.4.2 of the Code Provisions, every director should be subject to retirement by rotation at least once every three years. Furthermore, pursuant to article 75(1) of the Articles of Association, 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 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.

Independent non-executive Directors

The Company has three independent non-executive Directors which complies with Rules 3.10(1) and 3.10A of the Listing Rules. Furthermore, among these three independent non-executive Directors, Mr. Tam Anthony Chun Hung has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. In accordance with Rule 3.13 of the Listing Rules, the Company has received from each of its independent non-executive Directors a written confirmation of his independence. The Company, based on such confirmations, considers each of Mr. Tam Anthony Chun Hung, Mr. Huang Pu and Mr. Li Zheng continues to be independent.

Chairman and chief executive officer

According to paragraph A.2.1 of the Code Provisions, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. Mr. Liu is the chairman of the Board and Mr. Ng Tak Kwan is the chief executive officer. Therefore, paragraph A.2.1 of the Code Provisions has been complied with.

Directors' and officers' liabilities

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.

Continuing professional development

According to paragraph A.6.5 of the Code Provisions, all directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. The Company would arrange and/or introduce some Director's training courses for the Directors to develop and explore their knowledge and skills.

Each newly appointed Director receives comprehensive, formal and tailored induction on or before the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Group and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements. The Directors are continually updated on the legal and regulatory developments, as well as business and market changes, to facilitate the discharge of their responsibilities.

In order to ensure the Directors' contribution to the Board remains informed and relevant and to develop and refresh knowledge and skills of the Directors, the Company has encouraged and funded suitable trainings for Directors to participate in continuous professional developments. During the Year, the record of the trainings of the Directors, on a named basis, is set out in the table below.

Directors	Reading journals, written training materials and/or updates	Attending courses, seminars, conferences and/ or forums	Receiving briefings from Chief Financial Officer, Company Secretary and/or other executives
Executive Directors			
Mr. Ng Tak Kwan	✔	✔	✔
Mr. Leung Kai Ming	✔	✔	✔
Mr. Xie Jianyu	✔	✔	✔
Mr. Ng Chi Hang	✔	✔	✔
Mr. Pong Kam Keung *(resigned on 1 February 2018)*	✔	✔	✔
Non-executive Director			
Mr. Liu	✔	✔	✔
Independent non-executive Directors			
Mr. Tam Anthony Chun Hung	✔	✔	✔
Mr. Huang Pu	✔	✔	✔
Mr. Li Zheng	✔	✔	✔

Note: All of the abovementioned trainings are relevant to the Group's business, the economy, corporate governance, rules and regulations, accounting, financial or professional skills and/or directors' duties and responsibilities.

BOARD COMMITTEES

Audit Committee

The Audit Committee was established on 1 December 2015 with written terms of reference which are in compliance with the Code Provisions and are available on the respective websites of the Stock Exchange and the Company. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of the external auditor, review the financial statements, provide advice in respect of financial reporting, review the risk management and internal control systems, and the effectiveness of the Group's internal audit function.

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Tam Anthony Chun Hung (the chairman of the Audit Committee), Mr. Huang Pu and Mr. Li Zheng.

The Audit Committee has performed the following works during the Year and up to the date of this annual report:

- to review, inter alia, the annual results of the Group for the years ended 31 December 2017 and 2018, and the interim results of the Group for the six months ended 30 June 2018;

- to review of the Group's risk management, internal control systems, financial reporting systems, and financial and accounting principles and policies;
- to review of the audit plan for the year ended 31 December 2018;
- to recommend to the Board to re-appoint the external auditor at the 2018 and 2019 annual general meetings;
- to review the effectiveness of the internal audit function of the Company;
- to review the findings in the internal control report;
- to review the 2019 internal audit plan;
- to review the continuing connected transactions of the Group; and
- to review the compliance with the terms of the Amended Deed.

Remuneration Committee

The Remuneration Committee was established on 1 December 2015 with written terms of reference which are in compliance with the Code Provisions and are available on the respective websites of the Stock Exchange and the Company. The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review performance based remuneration and ensure none of the Directors determine their own remuneration.

The Remuneration Committee comprises two independent non-executive Directors, namely, Mr. Huang Pu (the chairman of the Remuneration Committee) and Mr. Tam Anthony Chun Hung, and one executive Director, namely, Mr. Ng Tak Kwan.

The Remuneration Committee has performed the following works during the Year and up to the date of this annual report:

- to review, inter alia, the performance and remuneration package of the Directors;
- to review the Company's policy and structure for remuneration of all members of senior management of the Group; and
- to approve the proposed remuneration of executive Directors (where Mr. Ng Tak Kwan abstained from voting in determining his own remuneration) and senior management with effective from August 2018.

Pursuant to paragraph B.1.5 of the Code Provisions, the remuneration of the members of the senior management by band for the Year is set out below:

Remuneration bands (HK$)	Number of individual(s)
Up to 1,000,000	4
1,000,001 to up to 2,000,000	4
Above 2,000,000	1

Remuneration policy for Directors and senior management

The remuneration payable to the employees includes salaries and allowances. The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the executive Directors is to enable the Group to retain and motivate the executive Directors by linking their compensation with performance as measured against corporate objectives achieved. Each of the executive Directors is entitled to the remuneration packages including basic salaries and discretionary bonuses.

The Company's share option scheme was adopted pursuant to a resolution passed on 1 December 2015. The Company believes that by offering the eligible persons a shareholding stake in the Company, the interests of the eligible persons and the Company will align and thereby the eligible persons will have additional incentives to improve the Company's performance. For details, please see "Directors' Report – Share Option Scheme".

Nomination Committee

The Nomination Committee was established on 1 December 2015 with written terms of reference which are in compliance with the Code Provisions and are available on the respective websites of the Stock Exchange and the Company. The primary duties of the Nomination Committee include reviewing the structure, size, and composition of the Board, assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

The Board is empowered under the Articles of Association to appoint any person as a Director either to fill a casual vacancy or, as an additional member of the Board. Qualified candidates will be proposed by the Nomination Committee to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship to the Shareholders having regards to the balance of skills and experience appropriate to the Group's business.

The Nomination Committee comprises one non-executive Director, namely, Mr. Liu (the chairman of the Nomination Committee), and two independent non-executive Directors, namely Mr. Huang Pu and Mr. Li Zheng.

The Nomination Committee has performed the following works during the Year and up to the date of this annual report:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board as well as the policy concerning the diversity of the members of Board;
- to assess the independence of the independent non-executive Directors;
- to review the policy for nomination of directors, performed by the Nomination Committee;
- to review the nomination procedures and the process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship;
- to review the achievement of the measurable objectives set out in the board diversity policy; and
- to determine the rotation of the Directors at the 2018 and 2019 annual general meetings.

Board diversity policy

The Company has adopted a board diversity policy since the Listing Date. A summary of such board diversity policy, the measurable objectives set for implementing such board diversity policy, and the progress made towards achieving those objectives are disclosed below.

Summary of the Board diversity policy
With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merit, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable objectives
Selection of candidates will be based on a range of diversified perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition will be disclosed in the corporate governance report annually in accordance with the Listing Rules.

Monitoring
The Nomination Committee has reviewed the achievement of the measurable objectives as set out in the board diversity policy.

Diversity of the Board
The existing members of the Board are well experienced in the fitting-out and alteration and addition and construction industry, investment and finance businesses. Some of them are professionals in project management, finance, accounting and legal 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.

ACCOUNTABILITY AND AUDIT

Directors' and auditor's responsibilities for the consolidated financial statements

All Directors acknowledge their responsibility to prepare the Group's consolidated financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the consolidated financial statements for the Year, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. 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.

Auditor's remuneration

During the Year, the remuneration paid or payable to the auditor of the Company, Deloitte Touche Tohmatsu, in respect of their audit and non-audit services was as follows:

	HK$'000
Audit service fee	1,800
Non-audit service fee	844
Total	2,644

CORPORATE GOVERNANCE FUNCTIONS

The Board has performed the following corporate governance duties of the Company in accordance with the written terms of reference adopted by the Board during the Year and up to the date of this annual report:

- to develop and review the policies and practices on corporate governance of the Company and make recommendations;
- to review and monitor the training and continuous professional development of Directors and management of the Group;
- to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees of the Group; and
- to review the Company's compliance with the Code Provisions and the disclosure in the corporate governance report of the Company.

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 team, 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 team identifies the risks 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.

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.

COMMUNICATIONS WITH SHAREHOLDERS

The Company values communication with the Shareholders. The Company uses two-way communication channels to account to Shareholders for the performance of the Company. Enquiries and suggestions from Shareholders are welcomed, and enquires may be put to the Board through the following channels to the Company Secretary:

1. By mail to the Company's principal place of business at 25/F, Millennium City 3, 370 Kwun Tong Road, Kowloon, Hong Kong;

2. By telephone number 2583 9938;

3. By fax number 2583 9138; or

4. By email at sundart@prasia.net

The Company uses a number of formal communication channels to account to the Shareholders for the performance of the Company. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for the Shareholders to raise comments and exchange views with the Board; (iii) updated key information of the Group available on the respective websites of the Stock Exchange and the Company; (iv) the Company's website offering communication channel between the Company and its Shareholders; and (v) the Company's branch share registrar in Hong Kong serving the Shareholders in respect of all share registration matters.

The Company aims to provide its Shareholders with high standards of disclosure and financial transparency. The Board is committed to providing clear, detailed, timely manner and on a regular basis information of the Group through the publication of interim and annual reports and/or dispatching circulars, notices, and other announcements.

The Company strives to take into consideration its Shareholders' views and inputs, and address Shareholders' concerns. Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice shall be given. The chairman of the Board as well as chairmen of the Audit Committee, the Nomination Committee and the Remuneration Committee, or in their absence, the Directors are available to answer the Shareholders' questions on the Group's businesses at the meeting. To comply with paragraph E.1.2 of the Code Provisions, the management of the Group will ensure the external auditor to attend the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

The Board has established a shareholders' communication policy on 1 December 2015 and will review it on a regular basis to ensure its effectiveness to comply with paragraph E.1.4 of the Code Provisions.

In order to promote effective communication, the Company also maintains a website (www.sundart.com) which includes the latest information relating to the Group and its businesses.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for Shareholders' consideration and voting. Besides, various rights of Shareholders, including the right to propose resolutions, are contained in the Articles of Association.

The summary of certain rights of the Shareholders is disclosed below.

Procedures for convening general meetings and putting forward proposals at general meetings

According to article 49 of the Articles of Association, any one or more Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the issued Shares carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting for a day not more than 28 days after the date on which the notice convening the meeting is given, the requisitionist(s) himself (themselves), or any of them representing more than one-half of the total voting rights of all of them, may do so in the same manner but any meeting so convened shall not be held after the expiration of three months from the date of deposit of requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Any requisition to convene an extraordinary general meeting or proposal to be put forward at the general meeting can be addressed to the principal place of business in Hong Kong of the Company marked with the attention of the Board or the Company Secretary or to the Hong Kong branch share registrar of the Company at Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. The requisitionists must state in their request(s) the objects of the extraordinary general meeting to be convened, and such request must be signed by all the requisitionists. Upon receipt, the Company will verify the requisitionists' particulars and if the request is in order, the Company will convene the extraordinary general meeting in accordance with the Articles of Association.

Procedures for propose a person for election as a Director

The procedures for proposing a person for election as a Director are posted on the Company's website at www.sundart.com.

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's constitutional documents during the Year. The Articles of Association is available on the respective websites of the Stock Exchange and the Company.

COMPANY SECRETARY

The Company Secretary reports to the chief executive 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. She 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

ABOUT ESG REPORT

The Group, while focusing on its business development, is also committed to bearing corporate social responsibilities to contribute to the society. The Group prepared ESG report to describe our sustainable performance in ESG for the Year in compliance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules.

SCOPE OF ESG REPORT

ESG report covers the material environmental and social issues related to the principal businesses of the Group during the Year, so as to report their impact on all respects of environment and society as well as the underlying management policies, measures, compliance and performance. The reporting scope for the Year includes:

- fitting-out works in Hong Kong and Macau; and
- alteration and addition and construction works in Hong Kong.

PREPARATION OF ESG REPORT

ESG report is jointly prepared by the senior management and major stakeholders of the Group. By conducting materiality assessment on ESG issues, the Group identifies the ESG matters related to its business that affect the environment and society, and reviews their importance to the Group's sustainable development and stakeholders. In order to fully address the concerns raised by stakeholders, the contents of ESG Report is formulated in accordance with the materiality assessment results and the reporting methodologies adopted herein are also strictly in compliance with the principles of quantity, balance and consistency. ESG report is confirmed by the management of the Group and approved by the Board.

STRUCTURE OF ESG

To develop a good ESG governance system and implement the concept of sustainable development, the Board of the Group is positioned as the top decision maker of the ESG system. It formulates the governance strategies and memorandum of ESG for the Group, continuously reviews the ESG performance and bears responsibilities for the underlying matters. The Board has also engaged independent professional advisors to constantly ensure the appropriateness and effectiveness of the internal control and risk assessment.

The management of each department, as empowered by the Board, develops the sustainable approaches for the department, manages daily matters related to the environment and society, conducts measures regarding the environment and society and monitors the performance of measures in compliance with the ESG development goals. The Group has also established relevant dedicated teams, such as the safety management committee consisting of staffs with safety management knowledge and professional background, to assist management in dealing with the relevant matters. The Group will continue improving the management system to further enhance its ESG governance in the future.

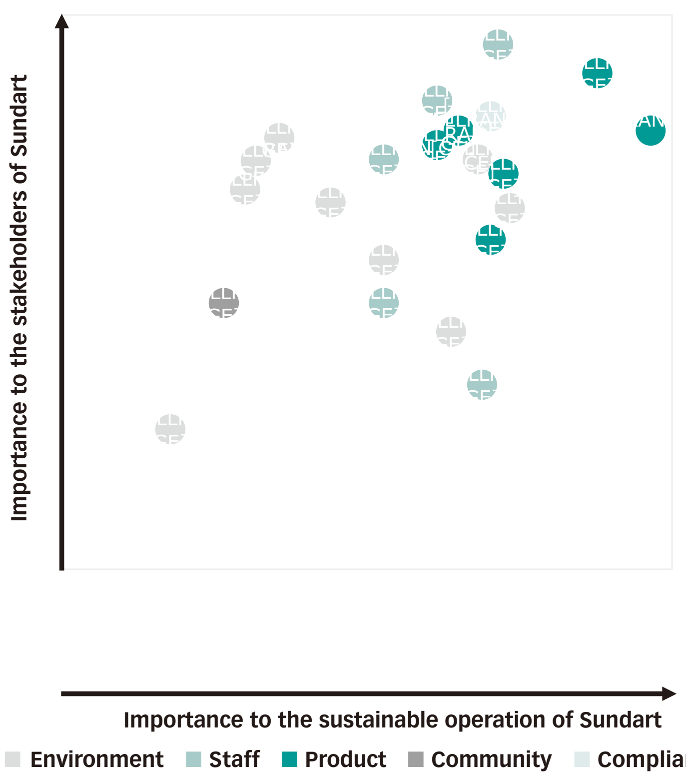
ENGAGEMENT OF STAKEHOLDERS

The Group keeps communicating with stakeholders to strengthen the relationship of mutual trust and help. The major stakeholders of the Group are classified into six groups, including staff, customers and owners, shareholders and investors, suppliers and business partners, governments and regulatory authorities, community organisations and others. The table below indicates the methods of communication between the Group and its major stakeholders:

Staff	Customers and owners	Shareholders and investors
Work conferences and counselling Training and staff activities Performance assessment	Customer hotlines and emails Sales services and after-sale return visits Questionnaires	General meetings Annual and interim reports Announcements and communications
Suppliers and business partners	**Governments and regulatory authorities**	**Community organisations and others**
Work conferences Inspections and appraisals Industry meetings	Public forums Government websites Advertising and consulting	Voluntary activities Charitable services Collaboration with social enterprise

MATERIALITY ASSESSMENT ON ESG ISSUES

The Group uses the above methods of communication between the Group and its major stakeholders to fully understand their concerns and expectations and to decide the major ESG issues accordingly. During the Year, the Group invited senior management and representatives from each stakeholder group for conducting materiality assessment on ESG issues by questionnaires. In addition to reviewing the scope of ESG issues, senior management and representatives from each stakeholder group make assessment on the importance of the issues to the sustainable operation and stakeholders of Sundart respectively, and prioritize them accordingly. ESG report also presents the following 22 matters related to ESG issues. The importance matrix during the Year is as follows:



1 Compliance with laws and regulations
2 Emissions of pollutants and greenhouse gas
3 Disposal and management of waste
4 Resource recovery
5 Use of energy
6 Use of Water resources
7 Green building
8 Environmental impact from construction
9 Biological diversity
10 Noise pollution
11 Remuneration and benefits
12 Equal opportunity and anti-discrimination
13 Occupational health and safety
14 Development and training
15 Child or forced labour
16 Selection and monitoring of suppliers and subcontractors
17 Environmentally friendly and safe raw materials
18 Project quality and product safety
19 After-sales services and handling of complaints
20 Protection of customer privacy
21 Prevention of bribery, extortion and money laundering
22 Community investment

PRODUCT RESPONSIBILITY

Project quality and product safety

The Group endeavours to provide customers with high-quality and professional products and services that are in compliance with regulations and standards. The Group strictly complies with the requirements of laws and regulations in relation to product quality, including the Buildings Ordinance, the Building (Minor Works) Regulations of Hong Kong and other applicable laws and regulations as well as standards. As required by laws and regulations, contractors shall be responsible for the quality and safety of buildings including minor works. The contractors shall all ensure that designated building professionals are in charge of these works, and a sound supervision and acceptance procedure is established to ensure product quality.

The Group has established clear management measures on fitting-out work and construction to distinguish the responsibilities of members of each department and third parties and to standardize workflow. The Group has obtained the relevant licence qualifications and shall engage building professionals in accordance with the employment requirements such as the nature, scale and risks of a project. Prior to construction, the Group shall prepare a proposal with the parties involved in a project, check and confirm the construction plan with customers and clarify the specific items and delivery date of a project, etc. During the construction process, the Group effectively implements construction specifications and quality standards, arrange supervisors to monitor the construction site and check the quality of semi-finished products as and when necessary. The Group has also adopted a strict standard of quality inspection in consistent with the latest requirement of regulations and standards. After completion and acceptance, the Group shall examine each item on the list of work completion and acceptance to ensure a result satisfactory to customers and have customers provided a report on work completion and acceptance.

In addition, the Group has established a comprehensive management system and been awarded ISO 9001 Quality Management System, ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management System certification. Meanwhile, the Group undergoes regular authentication from the HKQAA each year to ensure all management works of the Group comply with the relevant authentication requirements and standards and customers' confidence maintained. Based on the above measures, the Group has not identified any material breach of the relevant laws and regulations as well as standards in relation to product responsibility during the Year.

After-sales services and handling of complaints

The Group attaches great importance to the provision of sales services, and strictly complies with the requirements of laws and regulations in relation to sales including the Supply of Services (Implied Terms) Ordinance in Hong Kong, the Customers' Protection of Macao and other applicable laws and regulations as well as standards. According to laws and regulations, customers shall have right to acquire the information about products and services; while service providers shall provide prudential and technically reasonable services in a reasonable period of time. The Group pays high attention to customers' experience and focuses on operating with a sincere, proper and truthful business practice to ensure that the interests of customers will be maximised from promotion to the sales. Any deceptive or unfaithful promotion or competition is strictly prohibited.

The Group's mission is to establish good and long-standing relationships with each customer. It strives to listen and understand customers' inner voices and meet their real demand with the best sound services. The Group has established several communication platforms to facilitate and deepen the communication with customers. The Group also conducts research into customers' satisfaction with products and services by customer questionnaires in order to meet customers' demand in projects as much as possible and enhance service quality.

The Group also offers comprehensive after-sales services to customers for work maintenance. It also seeks customers' feedback from after-sales returning visits to improve its products in the future and thus to enhance the competitiveness of the products and services of the Group as a whole. Once a customer makes a complaint, the Group will immediately mobilize the complaint handling mechanism, pursuant to which the complaints will be mainly handled by staff in the customer service department or be jointly handled by such staff and the relevant business personnel when necessary. Such personnel shall try their best to offer satisfactory replies to customers within a specified period or take follow-up measures. The Group will also review complaint cases and continue to improve the management mechanism. Based on the above measures, the Group has not identified any material breach of the relevant laws and regulations as well as standards in relation to sales services during the Year.

Protection of customer privacy

The Group has access to the personal data of customers in the operation of its fitting-out works and construction business. Therefore, the Group attaches great importance to protecting the privacy of its customers and operates strictly in accordance with the laws and regulations in relation to the protection of personal data of customers, including the Personal Data (Privacy) Ordinance of Hong Kong, the Personal Data Protection Act of Macau and other applicable laws and regulations. The laws and regulations require that personal data users must collect and use other persons' personal data in a legal and fair manner and take practical measures to protect personal data. The Group has established strict guidelines for the use of personal data, requiring employees to properly manage customer information in terms of collection, storage and use.

The employees of the Group are required to obtain consent from customers before they can record or collect customers' personal data. The use of the data is only applicable to the business related to customers and any modification to or disclosure of customers' data without their approval is strictly forbidden. All personal data of customers must be properly stored and encrypted and only authorised business personnel can have access to them. Based on the above measures, the Group has not identified any material breach of the relevant laws and regulations as well as standards in relation to customer privacy during the Year.

Prevention of bribery, fraud and money laundering

The Group adheres to the principles of integrity and honest business operation and strictly follows the laws and regulations on preventing bribery, fraud and money laundering, including the Prevention of Bribery Ordinance in Hong Kong, the Prevention and Suppression of Money Laundering in Macau and other applicable laws and regulations. The laws and regulations prohibit dishonest operation or money laundering, and require no one to accept or provide any benefit to influence commercial decisions. The Group has been adhering to its "open-minded, responsible and upright" principles. All employees are required to strictly follow the code on personal and professional conducts and the guidelines on anti-bribery and anti-corruption conducts as provided in the staff regulations of the Group with details as follows:

1. Soliciting or accepting advantages including gifts, loans, fees, rewards, office facilities, employment, contracts, services and discounts, etc. from customers, suppliers or any other person in connection with the Group's interests is strictly prohibited. Acceptance of voluntarily given advantages may however be considered if:

   (i) the acceptance will not influence the decision and behaviour of the recipient;

   (ii) the recipient will not feel obliged to do something in return for the offer;

   (iii) the recipient can openly discuss the acceptance without reservation; and

   (iv) the nature and value of advantage (such as advertising or promotional gift) are such that refusal could be regarded as unsociable or impolite.

2. Under no circumstances should staff offer bribes or similar advantages to any person or company in order to obtain or retain business, or to acquire confidential business information, or to seek for any other return of personal advantages.

The Group has set up a reporting channel, if staff or business partners find that any of Sundart's staff are in breach of the regulation of the Group or has other misbehaviour, the whistleblower can provide the information to the independent non-executive Directors by email. The identities of the whistleblowers and the reported information will be kept strictly confidential. The independent non-executive Directors will conduct a detailed investigation of the matters. If necessary, the reported person will be punished; or severe cases will be brought to relevant law enforcement authorities. Based on the above measures, the Group has not identified any major non-compliance of laws and regulations relating to anti-bribery, fraud and money laundering during the Year.

Supplier and subcontractor management

The Group has established sound policies on supplier management. When selecting new suppliers, the procurement department is required to assess their background, product quality, business compliance, etc.. Suppliers who have passed the assessments will be placed on the approved supplier list of the Group according to its business needs. To ensure that materials purchased by the Group meet its quality requirements, the procurement department only enters into contracts with and purchases from the suppliers on the list. The Group also assesses its suppliers annually to understand their business conditions and performance on quality control, and establishes long-term cooperation relationship with outstanding suppliers.

Raw material management

Supply chain management has been a key component in the quality control system of the Group. The Group purchases materials from the suppliers designated by the architects/customers who usually have strict requirements on material purchases. The Group also, whenever possible, selects environmentally friendly materials of better quality, such as FSC-certified wooden products and low volatile organic compound coatings to minimise environmental impact caused by the materials used and ensure customers' safety.

CARING FOR EMPLOYEES

Occupational health and safety

Human resources are precious assets of the Group. The Group therefore focuses on providing a safe and healthy working environment for its staff and strictly abides by the laws and regulations relating to occupational health and safety, including the Occupational Safety and Health Ordinance, the Construction Sites (Safety) Regulations and other applicable laws and regulations and standards in Hong Kong. The laws and regulations require employers to supervise the safety of construction projects, such as providing clear guidelines and training on construction procedures, manual labour operations, accident prevention and first aid, and work environment hygiene. The Group adopts the highest health and safety standards and has developed and implemented health and safety policies to safeguard the staff by project planning, safety management, training and publicity.

In terms of project planning, the Group has established a sound engineering safety management system to provide clear guidelines for safety requirements of construction processes. The development of construction plan needs to be combined with safety considerations to properly plan the work processes with comparative dangers, and to ensure reasonable and sufficient construction time to avoid potential safety risks due to meeting tight deadlines. The Group conducts a risk assessment of the project to ensure that appropriate countermeasures are taken for each risk and preventive work is done. The Group has provided employees with safety facilities and equipments, work rules and safety training to further raise employees' occupational safety and health awareness. The Group also regularly arranges personnel to inspect the construction site and check safety requirements. If any safety problems are found, the site manager will be required to immediately remedy and properly record the case.

In terms of safety management, the Group has specifically set up a safety management committee to oversee the implementation of the health and safety policies and to update the policies annually in response to industry trends, safety regulations and standards so as to ensure that the Group maintains a high standard of health and safety performance. The Group has also engaged an accredited external independent safety inspector to check the safety management of the Group twice a year and report to the Labour Department, so as to continuously modify and optimise the existing safety management.

In terms of employee training and publicity, the Group provides specialised trainings for workers depending on the characteristics and difficulties of the projects. Any employee (including administrative staff) who enters the construction site must undergo relevant health and safety trainings of the Group to reduce the occurrence of unnecessary accidents. The Group also conducts regular fire drills, introductions to the use of fire extinguishers and first-aid trainings to enhance employees' on-the-spot emergency knowledge so that the employees of the Group can work in a healthy and safe environment. Based on the above measures, the Group has not identified any major non-compliance with the relevant laws and regulations and standards in respect of health and safety during the Year.

Remuneration and benefits

The Group is caring for talents and is committed to providing employees with excellent compensation and benefits. The Group strictly abides by the laws and regulations relating to staff remuneration and benefits, including the Employment Ordinance of Hong Kong, the Labour Relations Act of Macau and other applicable laws and regulations. The laws and regulations ensure employees to receive basic remuneration and benefits, including salaries, holidays, allowances, etc., and to enter into and terminate employment contracts in a fair and equitable manner. The Group has a comprehensive human resources policy in place to regulate relevant matters of human resources and has made it understood fully by the employees.

The remuneration of the Group's employees is determined with reference to market terms and industry practice, and the grant of performance incentives is based on the financial performance of the Group and the performance of individual employees. The Group regularly reviews the remuneration mechanism to ensure that employees receive reasonable treatment. The employee benefits of the Group include mandatory and voluntary provident fund schemes and medical insurance. Concurrently, the Share Option Scheme has been effective from 1 December 2015. The purpose of the Share Option Scheme is to reward the employees for their past contributions, motivate them to optimise their future contributions to the Group, maintain ongoing relationships with them and to attract and retain talents with experience and ability. The Group is confident that the operation of the scheme can enhance the loyalty and cohesion of its employees, realize mutual benefit and help the Group achieve long-term success.

In addition to the statutory holidays, the Group allows employees to balance work and life and satisfies the special needs of employees through a comprehensive leave system providing marriage leave, compassionate leave, study leave and examination leave. In addition, employees work according to the working time set in the employment contract. They can be compensated by means of alternative leave or overtime allowance for their overtime work according to the prevailing department's workload.

The Group will enter into labour contracts with employees to clearly outline the employment terms of employees and protect their rights and interests. The Group's recruitment and termination processes are based on the Employment Ordinance of Hong Kong, the Labour Relations Act of Macau and other applicable laws and regulations; as well as the Company's rules and regulations of human resources to ensure that the procedures are transparent and effective and bring value to employees.

Based on the above measures, the Group has not identified any major non-compliance with the laws and regulations relating to remuneration and benefits during the Year.

Development and training

The Group supports the individual development of its employees, which can inspire their potential talent and broaden their career. The Group helps its employees continuously realize their value through providing induction training, on-the-job training and external training.

The Group has well-established training system to plan and arrange the staff's training activities. The Group provides corresponding training for its staff in accordance with the date of enrollment and scope of the work to improve their awareness and recognition on the culture, background and business of the Group, and to improve their ability, personal quality and their awareness of safety. In general, the training plan set according to the strategic development direction of the Group has cultivated excellent talents for the Group.

A new employee would receive an induction training in the first week upon his/her arrival. In particular, the employee would be introduced to the structure and missions of the Group, his/her role in achieving the business objectives and success of the Group, human resource policies of the Group, helping him/her realize his/her working position and standard office procedures. In on-the-job training, through collecting staff's opinion by queries, the Group knows the training needs of the staff and whereby formulates the annual training goal. The Group cooperates with professional team to hold a serious of training activities including safety supervision, occupational health and safety, first-aid, engineering management, environment protection, courses and training about ISO, which aims at strengthening the staff's professional knowledge such as working skills, occupational safety, and ISO management. The Group also encourages its staff to take part in the external training plan and lecture, and provides training subsidies to ensure the real training needs of its staff are satisfied, which will help them improve in all aspects. Above training plans are aimed at improving the staff's knowledge and professionalisation, which will provide strong support for the development of both the Group and talents and achieve win-win situation.

Equal opportunities and anti-discrimination

"People-oriented" is not only the ultimate human resource management philosophy of the Group, but also the cornerstone of the Group's long-term development. The Group is committed to creating a diversified environment and is proud of being an employer who believes in equal opportunities. All eligible job applications, internal transfers and promotions are processed regardless of other irrelevant factors of race, color, religion, sex, sexual orientation, age, etc., so as to ensure equal opportunities and fair treatment for all employees and job applicants. The relevant labour laws and regulations, including the Employment Ordinance of Hong Kong, Labour Relations Act of Macau, also require the employers to build up a workplace with equal opportunities and respect for the staff. Based on the measures above, the Group has not identified any major non-compliance with the laws and regulations relating to equal-opportunities and anti-discrimination during the Year.

Forbidding child or forced labour

The Group strictly complies with the relevant requirements of the labour laws in Hong Kong and Macau. All job applicants must conform to the age requirement specified by local laws. The Group also absolutely forbids the recruitment of child labour and accordingly formulates a comprehensive procedure of selection and recruitment. The Group conducts open recruitment for new employees based on the job requirements of different positions and will only employ qualified candidates. The Group employs staff based on fair, open and voluntary principles. The Group has not identified any major non-compliance with the relevant laws and regulations in respect of labour standards during the Year.

SAFEGUARDING THE ENVIRONMENT

Decreasing emissions

The Group is deeply aware that protecting environment depends on each employee's effort and cooperation from the frontline staff to the management to mitigate the negative impact on the environment. Therefore, the Group has formulated various policies to properly manage the emissions of waste, noise, exhaust gas, dust, sewage and greenhouse air in full compliance with the relevant environmental laws and regulations as well as standards. Based on the following measures, the Group has not identified any major non-compliance with the laws and regulations relating to the environment during the Year.

Waste management and recycle

The construction and fitting-out business of the Group will generate certain amount of wastes, as a result, the Group deals with the wastes strictly according to the Waste Disposal Ordinance in Hong Kong and Environmental Law in Macau and other applicable laws and regulations relating to wastes. The laws prescribe wastes should be dealt with pursuant to laws and regulations to ensure they do not cause pollution to the surrounding environment. The Group has formulated internal policies to standardize the wastes treatment process. The Group's wastes are mainly materials for the protection of finished products for fitting-out works, as well as paper and toner cartridges used in each business. During the Year and Previous Year, the amount of non-hazardous wastes are as follows:

Type of non-hazardous wastes	Unit	Amount for 2018	Amount for 2017
Protective materials for fitting-out construction	Ton	**259.3**	292.53
Paper	Ton	**16.29**	16.7
Toner cartridges	Ton	**0.15**	0.21

Note 1: Although paints and solvents were used in the fitting-out works of the Group, only limited amount of them were disposed of. Therefore, disclosure of the data of such waste is not applicable.

Note 2: The fitting-out works of the Group did not generate any hazardous wastes during the Year.

The Group's Waste Management Guidelines require employees to manage and dispose of wastes in strict compliance with the requirements therein. The chemicals on the construction site should be stored in sealed containers and placed in the designated locations. Chemicals should be collected separately and disposed of in a legal manner rather than being disposed of in sewers. Construction wastes should be classified, while recyclable wastes should be treated by recycling agents for reuse whenever possible or should be transported to a designated landfill by qualified transportation companies to be disposed of in accordance with local laws.

The Group also encourages office staff to reduce wastes, including the use of papers on double sides, adoption of appropriate fonts or downsizing models to reduce the number of copies, use of electronic media for internal and external communication channels, nonuse of cover page of document if not necessary, recycle of stationery, plastic binding ring, envelopes and other materials whenever possible until they are completely consumed, encouragement of the use of rechargeable batteries, recycle of packaging boxes and fillings, and adoption of air-conditioners and refrigerators with environmentally friendly refrigerants.

Noise management

During construction and fitting-out works, the operation of machinery and equipment and some of construction processes create noise which may affect the people nearby. Accordingly, the Group strictly complies with the Noise Control Ordinance in Hong Kong, the Macau Law on Prevention and Control of Environmental Noise in Macau and other relevant applicable laws and regulations in implementing the noise control measures specified in such regulations. The Group has established Noise Management Guidelines to reduce the noise generated from construction and control the affecting areas of the noise. The Group maximizes the use of quiet mechanical tools whenever possible, such as "Quality Powered Mechanical Equipment" approved by the Environmental Protection Department; places tools with more noise, such as pumps, further away from the noise-sensitive areas such as homes, schools and hospitals; improves construction processes to reduce unnecessary knocking and cutting works; prohibits construction activities with high noise intensity during early morning and night hours; installs noise barriers near noisy mechanical equipments; shuts down machinery and equipment not in use from time to time and conducts regular maintenance and repair for equipment; monitors noise intensity regularly and applies for a valid Construction Noise Permit for construction works to ensure compliance with the Noise Control Ordinance.

Exhaust gas and dust management

The Group strictly complies with the laws and regulations on air quality, including the requirements of Air Pollution Control Ordinance in Hong Kong, the Air Pollution Control (Construction Dust) Regulation and other applicable laws and regulations, to monitor the air pollution caused by the operation. The Group has no significant direct exhaust emissions[1] in its operation and has taken the following measures to ensure that the Group's operations are in compliance with relevant environmental requirements.

In the process of fitting-out works, the volatile organic compounds in the paint and other finishes would stink and affect the surrounding indoor air quality. To reduce the level of concentration of the volatile organic compounds at the fitting-out site, the Group would try its best to recommend the customers to choose low volatile organic compound coatings before construction, thereby reducing the emission of hazardous gas that is harmful to both health and environment. The employees of the Group store the unused volatile finishes in sealed containers. Besides, the fitting-out site maintains good ventilation to prevent odours from affecting nearby residents.

During construction works, the Group regularly measures the level of concentration of air pollutants to monitor compliance. Good ventilation should be maintained and construction aggregate collectors should be placed at construction sites. The Group uses sealed containers for volatile gas to reduce exhaust gas emission. The Group does not own large-size transport vehicles, but requires its suppliers of materials to use ultra low sulphur diesel for their vehicles to reduce sulfur dioxide generated from the transport of materials. The Group also uses the power supply from the power companies wherever possible to reduce the direct burning of diesel to generate electricity at construction sites.

[1] Disclosure of gas emissions data is not applicable as significant gas emissions are not directly generated in the Group's production activities.

In addition, the Group adopts a series of construction dust control measures to reduce the impact of dust on the surrounding environment, including continuous water spraying during excavation, drilling, cutting, polishing, crushing, etc.; provides cleaning equipment at the exit of the transport vehicle, including high pressure water guns, to clean the body and wheels of the transport vehicle before leaving the construction site to reduce the dust of transport vehicles; covers the stockpile of dusty materials with impermeable coating or storing the stockpile of materials in warehouse; sets hoarding of no less than 2.4 metres high from ground level along boundary of the construction site adjoining the street or public area; conducts regular inspection on the dust concentration level at the construction site to evaluate the effectiveness of dust control measures.

Sewage management

The Group strictly complies with the laws and regulations on sewage, including the Water Pollution Control Ordinance in Hong Kong and other applicable laws and regulations, to prohibit direct discharge of sewage. The Group has no significant direct effluent discharges in its operation. The Group has also established the Sewage Management Guidelines to regulate the procedures on Group's sewage treatment. The Group installs sewage purification system at the construction site and stipulates that untreated sewage (such as mud sewage) shall not be discharged directly into the stormwater drains and must be filtered and processed in the sedimentation tanks before being discharged into sewers. The Group also regularly cleans and maintains water pipelines and U-shaped tanks to ensure that the water source is not polluted during circulation.

Greenhouse gas emissions

The Group's greenhouse gas sources are mainly from electricity consumption in construction and offices and water used in construction. During the Year and Previous Year, the greenhouse gas emitted by the Group is set out as below:

Greenhouse gas emissions	Unit	Carbon dioxide equivalent[2]	Density *(Per square meter of gross floor area)*
Greenhouse gas emissions in 2018	Ton	365.22	0.01
Greenhouse gas emissions in 2017	Ton	295	0.01

Note: The emissions figures of the Year increased in accordance with the increased number of construction works of the Group as compared with that of Previous Year.

For measures on reducing greenhouse gas emissions, please refer to the section headed "Rational use of resources" below.

Rational use of resources

The Group has made clear regulations on water, electricity, materials and other resources used in business to ensure the effective use of resources; and prohibits waste to maximise energy efficiency during the construction of projects. The Group, whenever possible, chooses environmentally friendly materials, such as wooden products certified by the FSC, to ensure the reuse of resources.

If necessary, the Group will use renewable and recyclable protective materials[3], such as eco-friendly plastic and recycled paper. In addition, the Group has obtained the ISO 14001 regarding the international environmental management systems issued by the HKQAA to effectively manage the use of office and factory resources, such as water, electricity and paper, and conducts regular authentication followed by supervision and correction in order to ensure the effective use of resources.

2 The data does not include the energy consumption that the Group cannot directly manage and control. The carbon emission is calculated with reference to the Greenhouse Gas Protocol published by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI), and the Reporting Guidance on Environmental KPIs of HKEx.

3 Disclosure for the data of packaging materials is not applicable as the Group does not consume packaging materials during production.

Use of energy

The Group's business mainly uses electricity as the source of energy. During the Year and Previous Year, the energy consumption for construction works and offices was as follow:

Type of energy	Unit	Construction works Amount	Construction works Density *(per square meter of gross floor area)*	Offices Amount	Offices Density *(per square meter of gross floor area)*
Electricity in 2018	**kWh**	**369,755**	**7.81**	**254,223**	**81.94**
Electricity in 2017	kWh	217,425	8.31	260,950	79.22

Note 1: As the Group manages various construction works at the same time, and the time span of construction project differs from one another, the area of construction project in which the Group actually consumes energy annually varies considerably. In addition, since the office area includes project offices of the Group on the construction sites, the establishment of project offices, subject to on-site management needs, may be comparatively fluctuating in terms of quantities. Both factors directly leads to changes in energy density data.

Note 2: Relevant electricity usage is not included in the statistics as the electricity consumed during fitting-out works was in general supplied directly by the contractor/landlord and the relevant usage was not provided to the Group.

The electricity usage figures of the Year increased in line with the increased number of construction works of the Group as compared with that of Previous Year. The Group has set Guidelines for Resource Management, requiring its employees to follow the initiatives on resource savings. Devices in offices should be adjusted to energy saving model as far as possible, while temperatures of air conditioning in offices should also be maintained between 20°C and 25.5°C. Employees should turn off some of the unnecessary indoor lights beyond normal office hours. For machines which are not in continuous use, employees should switch off the power during non-operation hours. Outdoor lighting with higher lighting efficiency shall be used at construction sites. In procuring new machinery, the Group will prioritise energy-efficient lighting equipment, machines and fixtures. Employees should also conduct regular inspection and maintenance on machinery and equipment, to ensure maximum energy efficiency during operation.

Water consumption management

During fitting-out works and construction works, the Group mainly uses water for material preparation, cleaning and dust suppression. The Group's water consumption for construction works during the Year and Previous Year was as follow:

Water consumption	Unit	Volume	Density *(per square meter of gross floor area)*
Water consumption in 2018	**Cbm**	**11,480**	**0.39**
Water consumption in 2017	Cbm	7,160	0.31

Note: The water consumption in offices and fitting-out works is not included in the statistics as such water usage was supplied by the properties and the relevant consumption was not provided to the Group.

The water consumption figures of the Year increased in line with the increased number of construction works of the Group as compared with that of Previous Year. The Group is committed to raising the employees' awareness of water consumption, using water resources in accordance with the principle of "use only when necessary". The waste water at the construction sites is reused in cleaning and dust suppression after filtering by sewage treatment facilities when feasible. Regular inspection is conducted on pipes to avoid unnecessary leakage. If unnecessary, employees should shut down the watering sprinklers to reduce water consumption and always take a check to prevent excessive water usage. The Group also encourages employees to reuse domestic waste water and reduce water consumption in offices.

Environmental impacts and biological diversity

The Group is highly concerned about the impact of its business on the environment and natural resources, and committed to protecting the environment and maintaining biodiversity. In addition to compliance with the relevant environmental regulations and international standards for conducting appropriate protection of the natural environment, the Group has also incorporated the concept of environmental protection into internal management and project implementation process. With a view to minimising the environmental impacts, the Group regularly monitors the potential impact of its business operations on the environment and promotes green office and production environment through four basic principles, namely reducing, reusing, recycling and replacing. At the same time, the Group authenticates the effective use of resources each year to ensure that such effective resource use can be improved continuously. The Group has also engaged the HKQAA to conduct regular authentication on its qualification of ISO 14001 regarding the environmental management systems.

Green building

The Group continues to incorporate the green concept into the design and development of products, and the Group's projects have ever been recognised by BEAM Plus, for the effective balance between the usages of land and outdoor environment with the design of energy saving and water saving, waste reduction and less environmental impacts. In the future, the Group will also continue to expand its team and be committed to attracting more talents with qualifications of green building, energy and environmental design, such as LEED Pro, BEAM Pro and BEAM Plus, in order to make a concerted effort to incorporate the sustainable development and latest green technology into customers' projects.

COMMUNITY INVESTMENT

The Group always attaches importance to corporate social responsibilities. Apart from commercial activities, the Group encourages its management and staff to participate in community services to contribute to society. Over the years, "Sundart Cheers", a committee founded by the Group and adhering to the Group's principal of corporate social responsibility, has organised a variety of activities. It not only enhances the mutual trust and cooperation among the staff, but also boosts their morale. In addition, it also motivates staff to actively organise social service activities such as charitable donations and volunteer visits, all in a bid to contribute to society in multiple aspects.

In 2018, "Sundart Cheers" organised activities, including interest classes, bowling competition squid fishing, indoor shooting game and movie entertainment programs for staff, on a monthly basic. In addition, "Sundart Cheers" also conducted charitable fundraising events and purchases charitable gifts from social enterprises. Besides, employees organised volunteer visits on a regular basis, such as visits to elderly centers and other community outreach activities, to care for the needy.

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services. The principal activities of its subsidiaries are set out in note 46 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 65.

An interim dividend of HK2 cents per Share amounting to approximately HK$43.2 million was paid to the then Shareholders during the Year. The Directors proposed the payment of a final dividend of HK5 cents per Share for the Year to the Shareholders on the register of members on 12 June 2019, amounting to approximately HK$107.9 million.

BUSINESS REVIEW

The review of the business of the Group during the Year and the discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis", and the description of principal risks and uncertainties facing the Group and key financial performance indicators are set out in the section headed "Management Discussion and Analysis". The financial risk management objectives and policies of the Group are set out in note 39 to the consolidated financial statements. No important event affecting the Group that has occurred since the end of the financial year ended 31 December 2018 and up to the date of this annual report. 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:

Relationship with key stakeholders

The Group's success also depends on the support from key stakeholders which comprise employees, customers and subcontractors and suppliers.

Employees

Employees are regarded as important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration 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.

Customers

The Group's principal customers are property developers, hotel owners and main contractors in Hong Kong, Macau and the PRC. The Group provides professional and quality services in fitting-out business whilst maintaining long term profitability, business and asset growth. The Group maintains good reputation and long-term working relationships with its customers in the provision of product re-engineering and pre-fabrication technique for sizeable fitting-out projects to meet its customers' requirements.

Subcontractors and suppliers

The Group firmly believes that its subcontractors and suppliers are equally important in cost control and increasing its bargaining power on procurement of materials, which further secures its competitiveness when bidding for tenders. The Group proactively communicates with its subcontractors and suppliers to ensure they are committed to delivering high-quality and sustainable products and services. Unless the customers require the Group to engage subcontractors and suppliers nominated by them, the Group will select subcontractors and suppliers from its approved lists of subcontractors and suppliers. In addition, during the continuance of the contracts with the subcontractors, the Group will provide them with its internal guidelines on safety and environmental issues and require them to follow. The Group effectively implements the subcontractor assessment process to monitor the performance of its subcontractors by conducting regular site visits, evaluation on the performance of the contract and other measures.

Environmental policies and performance

The Group believes that its business also depends on its ability to meet the customers' requirements in respect of safety, quality and environmental aspects. To meet the customers' requirements on safety, quality and environmental aspects, the Group has established safety, quality and environmental management systems. Through the systematic and effective control of its operations, compliance with safety, quality and environmental requirements can be further assured. The Group believes that its certifications to ISO 9001 and ISO 14001 enhance its public image and credibility and also help the Group improve its customers' confidence in its services. Details of the Group's environmental policies and performance are set out in the section headed "Environmental, Social and Governance Report".

Compliance with relevant laws and regulations

The Group mainly undertakes fitting-out works in Hong Kong, Macau and the PRC, alteration and addition and construction works in Hong Kong and the operations of manufacturing, sourcing and distribution of interior decorative materials are primarily carried out in Hong Kong, Macau and the PRC. The Directors confirmed that during the Year, 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, Macau and the PRC in all material respects.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 152.

SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution to the Shareholders in accordance with the Articles of Association amounted to HK$1,303.8 million.

Details of movements in the reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity on page 68 and note 34 to the consolidated financial statements, respectively.

DIRECTORS

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

Executive Directors

Mr. Ng Tak Kwan *(Chief Executive Officer)*
Mr. Leung Kai Ming
Mr. Xie Jianyu *(Chief Financial Officer)*
Mr. Ng Chi Hang
Mr. Pong Kam Keung *(resigned on 1 February 2018)*

Non-executive Director

Mr. Liu *(Chairman)*

Independent non-executive Directors

Mr. Tam Anthony Chun Hung
Mr. Huang Pu
Mr. Li Zheng

In accordance with Article 75 of the Articles of Association and pursuant to paragraph A.4.2 of the Code Provisions, Mr. Leung Kai Ming, Mr. Xie Jianyu and Mr. Ng Chi Hang shall retire, and being eligible, offer themselves for re-election at the AGM.

Information regarding the Directors' and chief executive's emoluments are set out in note 12 to the consolidated financial statements.

DIRECTORS' PROFILES

For details of the Directors' profiles, please see "Biographies of Directors and Senior Management".

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and has duly reviewed the confirmation of independence of each of the Directors. The Company, based on such confirmations, considers that all of the independent non-executive Directors continue to be independent.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and 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 deemed or taken 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 were as follows:

Long position in the Shares and underlying Shares

Name of Director	Nature of interests/capacity	Number of Shares held	Approximate percentage of interests in the Company
Mr. Liu *(note)*	Interest in controlled corporation	1,108,000,000	51.34%

Note:

Jangho Co was approximately 27.35% beneficially owned by Beijing Jiangheyuan (a company which was 85% and 15% beneficially owned by Mr. Liu and his spouse, Ms. Fu, respectively) and approximately 25.07% beneficially owned by Mr. Liu and therefore, Mr. Liu was deemed to be interested in the Shares indirectly held by Jangho Co through Jangho HK and Reach Glory under the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors or the chief executive of the Company had any interests or short positions 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 he was deemed or taken 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 IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, according to the register kept by the Company pursuant to section 336 of the SFO and, so far as is known to the Directors and the chief executive of the Company, the persons (other than the Directors or the chief executive of the Company) or entities who had an interest or a short position in the Shares and the underlying Shares (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

Interests in the Shares and underlying Shares

Name of substantial shareholder	Nature of interests/capacity	Number of Shares held *(Note 1)*	Approximate percentage of interests in the Company *(Note 2)*
Reach Glory	Beneficial owner	1,108,000,000 (L)	51.34% (L)
Jangho HK *(note 3)*	Interest in controlled corporation	1,108,000,000 (L)	51.34% (L)
Jangho Co *(note 4)*	Interest in controlled corporation	1,108,000,000 (L)	51.34% (L)
Beijing Jiangheyuan *(note 5)*	Interest in controlled corporation	1,108,000,000 (L)	51.34% (L)
Ms. Fu *(note 6)*	Interest of spouse	1,108,000,000 (L)	51.34% (L)
Caiyun International *(note 7)*	Beneficial owner	392,000,000 (L) 392,000,000 (S)	18.16% (L) 18.16% (S)
Yunnan Metropolitan Construction *(note 8)*	Interest in controlled corporation	392,000,000 (L) 392,000,000 (S)	18.16% (L) 18.16% (S)

Notes:

1. The letters "L" and "S" denote long position and short position, respectively, in the Shares.

2. On the basis of 2,158,210,000 Shares in issue as at 31 December 2018.

3. Reach Glory was beneficially wholly-owned by Jangho HK and therefore Jangho HK was deemed to be interested in the Shares held by Reach Glory under the SFO.

4. Jangho HK was beneficially wholly-owned by Jangho Co and therefore Jangho Co was deemed to be interested in the Shares indirectly held by Jangho HK through Reach Glory under the SFO.

5. Ms. Fu, the spouse of Mr. Liu, was the sole director of Beijing Jiangheyuan. The board of directors of Jangho Co was controlled by Beijing Jiangheyuan and therefore Beijing Jiangheyuan was deemed to be interested in the Shares indirectly held by Jangho Co through Jangho HK and Reach Glory under the SFO.

6. Ms. Fu is the spouse of Mr. Liu and was therefore deemed to be interested in the Shares indirectly held by Mr. Liu under the SFO.

7. Pursuant to a sale and purchase agreement dated 28 December 2018, Reach Glory agreed to sell, and Caiyun International agreed to purchase, an aggregate of 392,000,000 Shares, and Reach Glory irrevocably and unconditionally granted to Caiyun International an option to sell to Reach Glory and to require Reach Glory to repurchase such Shares pursuant to the repurchase undertaking contained therein. For details, please refer to the announcement of the Company dated 28 December 2018.

8. Caiyun International was beneficially wholly-owned by Yunnan Metropolitan Construction and therefore Yunnan Metropolitan Construction was deemed to be interested in the Shares held by Caiyun International under the SFO.

Save as disclosed above, so far as is known to the Directors or the chief executive of the Company, as at 31 December 2018, no other person (other than the Directors or the chief executive of the Company) had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or any options in respect of such share capital.

SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to a resolution passed on 1 December 2015 for the purpose of providing incentives or rewards to eligible persons who the Board considers, in its sole discretion, have contributed or will contribute to the Group. Under the Share Option Scheme, the Board may grant options to eligible persons, including directors of the Company and its subsidiaries, to subscribe for the Shares. Eligible persons of the Share Option Scheme, amongst others, include any executives, any employee (including proposed, full-time or part-time employee), a director or proposed director (including an independent non-executive director), a direct or indirect shareholder of any member of the Company and its subsidiaries and an associate of any of the aforementioned persons.

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 Share Option 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 Share Option 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 Share Option 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. 200,000,000 Shares). The Company may seek approval of its Shareholders in general meeting for refreshing such 10% limit. As at the date of this annual report, no Shares available for issue under the Share Option 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 Share Option 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 Share Option 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 Share Option Scheme shall be valid and effective for a period of 10 years commencing from 1 December 2015. 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 and 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.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the paragraph headed "Share Option Scheme" above, no equity-linked agreements were entered into 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. Seven of such transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules.

Continuing connected transactions

Master subcontracting agreement with Inno Unity Engineering Limited ("Inno")

Inno is a private limited company incorporated in Hong Kong and provides interior fitting-out works and alteration and addition works. Inno is owned as to 90% by Mr. Leung Hon Sing, Allan, a director of Kin Shing. Kin Shing is an indirect wholly-owned subsidiary of the Company, and thus, Mr. Leung is a core connected person of the Company. Inno is an associate of Mr. Leung and is therefore a connected person of the Company within the meaning of the Listing Rules.

On 4 January 2016, Kin Shing entered into a master subcontracting agreement (the "**Master Subcontracting Agreement**") with Inno, pursuant to which, Kin Shing subcontracted various subcontracting works, including but not limited to electrical and mechanical works, builder's works and other minor works, to Inno for a term commencing from 4 January 2016 and ended on 31 December 2018 (the "**Subcontracting Period**"). The maximum transaction amounts for the three years ended 31 December 2018 were HK$2.95 million per annum. During the Year, the aggregate transaction amount was HK$0.6 million.

The Master Subcontracting Agreement constituted a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. As (i) each of the applicable percentage ratios (other than the profits ratio) in respect of the transactions under the Master Subcontracting Agreement are, on an annual basis, less than 5%; (ii) the transaction amounts for each financial year during the Subcontracting Period are less than HK$3,000,000; and (iii) the transactions under the Master Subcontracting Agreement have been conducted on normal commercial terms, the transactions fell within the de minimis threshold as stipulated under Rule 14A.76(1)(c) of the Listing Rules and are fully exempt from the reporting, announcement, circular, independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

Entrustment agreement with Jangho Co, Jangho Chuangzhan and Beijing Gangyuan
Jangho Co is a substantial shareholder of the Company and Jangho Chuangzhan, a wholly-owned subsidiary of Jangho Co, is an associate of Jangho Co. Each of Jangho Co and Jangho Chuangzhan is a connected person of the Company within the meaning of the Listing Rules.

On 25 July 2017, Sundart Beijing entered into an entrustment agreement (the "**Entrustment Agreement**") with Jangho Co, Jangho Chuangzhan and Beijing Gangyuan, pursuant to which, Sundart Beijing was entitled to exercise all shareholders' rights over 95% of the equity interest collectively held by Jangho Co and Jangho Chuangzhan in Beijing Gangyuan other than the right to receive dividend, the right to receive residual assets and properties upon the winding up of Beijing Gangyuan and the entitlement and undertaking to profit and loss in Beijing Gangyuan for a term of two years commencing from 10 August 2017 and shall automatically be extended for one year if none of the parties to the Entrustment Agreement has proposed termination or modification thereof upon its expiration (the "**Entrustment Period**"). The entrustment fee under the Entrustment Agreement for the Entrustment Period payable by Jangho Co and Jangho Chuangzhan in aggregate is RMB0.3 million per annum. During the Year, the entrustment fee income from Jangho Co and Jangho Chuangzhan were RMB0.1 million and RMB0.2 million, respectively.

The Entrustment Agreement constituted a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. As (i) each of the applicable percentage ratios (other than profits ratio) in respect of the entrustment fee under the Entrustment Agreement is, on an annual basis, less than 5%; (ii) the entrustment fee for each financial year during the Entrustment Period is less than HK$3,000,000; and (iii) the transaction under the Entrustment Agreement has been and will be conducted on normal commercial terms, the transaction fell within the de minimis threshold as stipulated under Rule 14A.76(1)(c) of the Listing Rules and is fully exempt from the reporting, announcement, circular, independent Shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

Guarantees from Jangho Co in respect of the banking facilities
During the Year, Sundart Beijing has maintained four banking facilities which were secured by guarantees provided by Jangho Co (the "**Guarantees**"). As Jangho Co is a substantial shareholder of the Company, the provision of Guarantees constituted continuing connected transactions in the form of financial assistance from a connected person in favour of the Group. As (i) the Guarantees are not secured by any assets of the Group; and (ii) the Guarantees are on normal commercial terms or better, the Guarantees are fully exempt from the reporting, announcement, circular, independent Shareholders' approval and annual review requirements under Rule 14A.90 of the Listing Rules.

*Banking facility granted by China Minsheng Banking Corp., Ltd. ("**China Minsheng Bank**")*
Pursuant to the facility letter dated 20 January 2017, China Minsheng Bank granted a banking facility to Sundart Beijing with an aggregate sum of RMB50 million. Such facility was secured by a guarantee of RMB50 million executed by Jangho Co, which was replaced by the corporate guarantee given by the Company from 8 March 2018.

*Banking facility granted by HSBC Bank (China) Company Limited ("**HSBC Bank**")*
Pursuant to the facility letter dated 19 August 2016, HSBC Bank granted a banking facility to Jangho Co and Sundart Beijing with an aggregate sum of RMB130 million. After 30 June 2017, the banking facility granted by HSBC Bank decreased to RMB80 million. Such facility in respect of Sundart Beijing was secured by (i) pledged bank deposit by Sundart Beijing; and (ii) a guarantee of RMB88 million executed by Jangho Co, which was replaced by the corporate guarantee given by the Company from 18 October 2018.

*Banking facility granted by China Guangfa Bank Co., Ltd. ("**China Guangfa Bank**")*
Pursuant to the facility letter dated 26 July 2017, China Guangfa Bank granted a banking facility to Sundart Beijing with an aggregate sum of RMB80 million. Such facility was secured by a guarantee of RMB80 million executed by Jangho Co, which expired since 27 July 2018.

*Banking facility granted by Hua Xia Bank Co., Limited ("**Hua Xia Bank**")*
Pursuant to the facility letter dated 19 December 2018, Hua Xia Bank granted a banking facility to Sundart Beijing with an aggregate sum of RMB100 million. Such facility was secured by a guarantee of RMB100 million executed by Jangho Co, which is valid until 19 December 2019.

Performance bonds issued through Jangho Co

As at 31 December 2018, Sundart Beijing has undertaken thirteen fitting-out projects in the PRC which required the provision of performance bonds to guarantee the performance of Sundart Beijing of its obligations pursuant to the requirements as set out in the relevant contracts of these projects. Jangho Co authorised a bank to issue certain performance bonds to the customers of Sundart Beijing for such purpose accordingly (collectively, the "**Performance Bonds**"). Details of each of the thirteen Performance Bonds are set out below:

Customer	Issued bank	Amount of the Performance Bond *in RMB' million*	Period of the Performance Bond
Customer A	China Construction Bank	15.6	16 January 2017–31 March 2019
Customer A	China Construction Bank	5.5	2 May 2017–31 March 2019
Customer A	China Construction Bank	14.6	2 May 2017–30 June 2019
Customer B	China Construction Bank	13.0	3 September 2018–20 February 2020
Customer C	China Construction Bank	3.9	19 September 2018–5 January 2020
Customer D	China Construction Bank	2.2	25 October 2018–20 April 2019
Customer D	China Construction Bank	2.6	25 October 2018–15 September 2019
Customer A	China Construction Bank	0.5	23 November 2018–1 June 2020
Customer E	China Construction Bank	3.6	10 December 2018–1 December 2019
Customer F	China Construction Bank	4.9	14 December 2018–28 November 2019
Customer G	China Construction Bank	2.6	14 December 2018–28 June 2020
Customer G	China Construction Bank	3.3	14 December 2018–28 June 2020
Customer H	China Construction Bank	1.8	18 December 2018–28 June 2019

As Jangho Co is a substantial shareholder of the Company, the provision of the Performance Bonds constituted continuing connected transactions in the form of financial assistance from a connected person in favour of the Group. As (i) the Performance Bonds are not secured by any assets of the Group; and (ii) the Performance Bonds are on normal commercial terms or better, the Performance Bonds are fully exempt from the reporting, announcement, circular, independent Shareholders' approval and annual review requirements under Rule 14A.90 of the Listing Rules.

Advance payment bonds issued through Jangho Co

As at 31 December 2018, Sundart Beijing has undertaken four fitting-out projects in the PRC which required the provision of advance payment bonds. Pursuant to the requirements as set out in the relevant contracts of these projects, Jangho Co authorised a bank to issue certain advance payment bonds to the customers of Sundart Beijing for guarantee of Sundart Beijing's repayment of such advanced payment to the customers under the relevant contracts (collectively, the "**Advance Payment Bonds**"). Details of each of the four Advance Payment Bonds are set out below:

Customer	Issued bank	Amount of the Advance Payment Bond *in RMB' million*	Period of the Advance Payment Bond
Customer C	China Construction Bank	3.9	19 September 2018–25 June 2019
Customer D	China Construction Bank	2.0	25 October 2018–15 January 2019
Customer D	China Construction Bank	2.5	25 October 2018–15 March 2019
Customer F	China Construction Bank	7.4	14 December 2018–28 May 2019

As Jangho Co. is a substantial shareholder of the Company, the provision of the Advance Payment Bonds constituted continuing connected transactions in the form of financial assistance from a connected person in favour of the Group. As (i) the Advance Payment Bonds are not secured by any assets of the Group; and (ii) the Advance Payment Bonds are on normal commercial terms or better, the Advance Payment Bonds are fully exempt from the reporting, announcement, circular, independent Shareholders' approval and annual review requirements under Rule 14A.90 of the Listing Rules.

Tender bond issued through Jangho Co

As at 31 December 2018, Sundart Beijing has tendered one fitting-out project in the PRC which required the provision of a tender bond (the "**Tender Bond**"). Pursuant to the requirements as set out in the relevant tender, Jangho Co authorised a bank to issue the Tender Bond for guarantee of Sundart Beijing's obligations under the relevant tender. Details of the Tender Bond are set out below:

Customer	Issued bank	Amount of the Tender Bond *in RMB' million*	Period of the Tender Bond
Customer I	China Construction Bank	4.5	19 September 2018–20 April 2019

As Jangho Co. is a substantial shareholder of the Company, the provision of the Tender Bond constituted a continuing connected transaction in the form of financial assistance from a connected person in favour of the Group. As (i) the Tender Bond is not secured by any assets of the Group; and (ii) the Tender Bond is on normal commercial terms or better, the Tender Bond is fully exempt from the reporting, announcement, circular, independent Shareholders' approval and annual review requirements under Rule 14A.90 of the Listing Rules.

Business cooperation framework agreement with Jangho Co

Jangho Co is a substantial shareholder of the Company and is therefore a connected person of the Company within the meaning of the Listing Rules.

On 27 October 2017, Sundart Beijing (for itself and on behalf of its subsidiaries) ("**Sundart Beijing Group**") entered into a framework agreement on mutual provision of services (the "**Business Cooperation Framework Agreement**") with Jangho Co (for itself and on behalf of its subsidiaries, but excluding the members of the Group) ("**Jangho Group**"), for a term commencing from 27 October 2017 and ending on 31 December 2019. Under the Business Cooperation Framework Agreement, Jangho Group agreed to subcontract fitting-out works in relation to the projects undertaken by Jangho Group to Sundart Beijing Group. The maximum annual transaction amounts for the three years ending 31 December 2019 are RMB20 million, RMB50 million and RMB50 million, respectively ("**Sundart Beijing Group's Annual Caps**"). During the Year, the aggregate transaction amount under Sundart Beijing Group's Annual Caps was RMB0.1 million.

Meanwhile, Sundart Beijing Group agreed to subcontract specialised works and/or technical advisory services in relation to the projects undertaken by Sundart Beijing Group to Jangho Group under the Business Cooperation Framework Agreement. The maximum annual transaction amounts for the three years ending 31 December 2019 are RMB50 million, RMB80 million and RMB80 million, respectively ("**Jangho Group's Annual Caps**"). During the Year, the aggregate transaction amount under Jangho Group's Annual Caps was RMB5.0 million.

The Business Cooperation Framework Agreement constituted a continuing connected transaction of the Company under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) in respect of transactions under the Business Cooperation Framework Agreement are, on an annual basis, more than 0.1% but less than 5%, the transactions are subject to the reporting, announcement and annual review requirements but are exempt from the circular and independent Shareholders' approval requirements under Rule 14A.76(2)(a) of the Listing Rules.

The independent non-executive Directors have reviewed and confirmed that the continuing connected transactions for the Year have been entered into (i) in the ordinary and usual course of the business of the Group; (ii) on normal commercial terms or better; (iii) on terms that are fair and reasonable according to the relevant agreements governing them and in the interests of the Shareholders as a whole; and (iv) within the caps as disclosed in the relevant announcements. The auditor of the Company was engaged to report on the continuing connected transactions entered into by the Group for the Year in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Connected transactions

Two fitting-out works agreements with Jangho Macau

Jangho Macau is owned as to 99% and 1% by Jangho Co and Jangho HK, respectively. As Jangho Macau is an associate of Jangho Co, which is a substantial shareholder of the Company, Jangho Macau is a connected person of the Company within the meaning of the Listing Rules.

On 5 July 2018, Sundart Macau entered into a fitting-out works agreement with Jangho Macau, pursuant to which, Sundart Macau agreed to provide interior fitting-out works, including supply and installation of wall panel, gypsum board ceiling and wallcovering, for a Macau hotel project undertaken by Jangho Macau at a consideration of MOP3.1 million, which was recorded as revenue during the Year.

On 26 July 2018, Sundart Macau entered into another fitting-out works agreement with Jangho Macau, pursuant to which, Sundart Macau agreed to provide interior fitting-out works, including supply and installation of drywall, timber skirting and wallcovering, for another Macau hotel project undertaken by Jangho Macau at a consideration of MOP1.2 million, which was also recorded as revenue during the Year.

Such two fitting-out works agreements constituted connected transactions of the Company under Chapter 14A of the Listing Rules. As (i) each of the applicable percentage ratios (other than the profits ratio) of the aggregate consideration under these two fitting-out works agreements is less than 0.1%; and (ii) the transactions have been conducted on normal commercial terms, the transactions fell within the de minimis threshold as stipulated under Rule 14A.76(1)(a) of the Listing Rules and are fully exempt from the reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Subcontracting agreement with Jangho Macau

Jangho Macau is a connected person of the Company as described above.

On 27 March 2014, Sundart Macau entered into a subcontracting agreement in relation to the design, supply and installation of window and louver systems with Jangho Macau for approximately MOP62.7 million, pursuant to which Sundart Macau agreed to subcontract certain design, supply and installation of window and louver system works for a Macau hotel podium to Jangho Macau. The cost incurred from this subcontracting agreement was MOP40,000 during the Year and accumulated to MOP58.2 million.

Such subcontracting agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. As (i) each of the applicable percentage ratios (other than the profits ratio) of the total consideration is more than 0.1% but less than 5%; and (ii) the transaction has been conducted on normal commercial terms, the transaction is subject to the reporting and announcement requirements but is exempt from the circular and independent Shareholders' approval requirements under Rule 14A.76(2)(a) of the Listing Rules.

The Board confirmed that the Company has complied with the requirements of the Listing Rules in relation to the disclosure of the aforesaid connected transactions and continuing connected transactions.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Save as those disclosed in the paragraph headed "Connected Transactions" above and in note 44 to the consolidated financial statements, no other transactions, arrangements and contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director or 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 of the Company or their respective subsidiaries or the contracts of significance for the provision of services to the Group by the controlling shareholders of the Company or their respective subsidiaries, please see the paragraph headed "Connected Transactions" above and note 44 to the consolidated financial statements, respectively.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into by the Group or existed 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 interests 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 of the Company, each of the controlling shareholders of the Company as a covenantor (the "**Covenantor**") executed the Amended Deed in favour of the Company (for itself and as trustee for each of its subsidiaries), pursuant to which, each of the Covenantors undertakes, inter alia, that it/he/she will not, and will use its/his/her best endeavours to procure, its/his/her close associates (other than any member of the Group) not to, whether directly or indirectly, whether for profit or not, participate in or engage in any business which, directly or indirectly, competes or may compete with the Group's business. For details, please refer to the announcements of the Company dated 17 May 2017 and 25 July 2017 and the circular of the Company dated 30 June 2017, respectively.

The independent non-executive Directors have reviewed on the compliance with the terms of the Amended Deed and considered that the Covenantors have complied with the terms of the Amended Deed and the enforcement of the undertakings contained therein by the parties thereto.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of the assets or profits of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officers' liability 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 on the basis of their merit, qualifications and competence. The emolument of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a Share Option Scheme as an incentive to eligible persons, details of which are set out under the paragraph headed "Share Option Scheme" above.

RETIREMENT BENEFIT SCHEME

Details of the Group's retirement benefit schemes are set out in note 41 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or applicable laws of the BVI where the Company is incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

SANCTIONS

During the Year, two meetings of the Internal Control Committee were held on 27 March 2018 and 28 August 2018, respectively, to review, inter alia, the Group's guidelines and procedures with respect to the sanction law matters. The Internal Control Committee was of the view that such guidelines and procedures, which have been complied with, were effective and well-functioned.

As at 31 December 2018, the Group has not used any funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, any activities or business in breach of the sanctions enacted, enforced or imposed by the United States government, the European Union and Australian government with respect to Russia.

SUFFICIENCY OF PUBLIC FLOAT

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

CHARITABLE DONATIONS

Charitable donations made by the Group during the Year amounted to HK$0.1 million.

MAJOR CUSTOMERS, SUBCONTRACTORS AND SUPPLIERS

For the Year, the aggregate amount of revenue attributable to the Group's five largest customers accounted for 42.7% of the Group's total revenue and the revenue from its largest customer accounted for 13.1% of its total revenue.

In addition, the Group's purchases attributable to its five largest subcontractors and suppliers accounted for less than 30% of the Group's total purchases.

During the Year, none of the Directors, their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the total number of issued Shares) had any interests in any of the Group's five largest customers.

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

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

CORPORATE GOVERNANCE

Details of corporate governance report are set out on pages 25 to 34 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events occurred after 31 December 2018.

AUDITOR

The consolidated financial statements have been audited by Deloitte Touche Tohmatsu, who will retire and, being eligible, offer itself for re-appointment at the AGM.

On behalf of the Board
Ng Tak Kwan
Chief Executive Officer and Executive Director

Hong Kong, 11 March 2019

Independent Auditor's Report

Deloitte. 德勤

To the Shareholders of SUNDART HOLDINGS LIMITED
承達集團有限公司
(incorporated in British Virgin Islands with limited liability)

OPINION

We have audited the consolidated financial statements of SUNDART HOLDINGS LIMITED 承達集團有限公司 (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 65 to 151, 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	**How our audit addressed the key audit matter**
Contract revenue from fitting-out works and alteration and addition and construction works and contract costs	
We identified the contract revenue from fitting-out works and alteration and addition and construction works and contract costs as a key audit matter as they are quantitatively significant to the consolidated financial statements as a whole and there are significant judgments exercised by the management of the Group in determining the total outcome of the projects as well as the percentage of completion of construction works and the amount of contract revenue recognised. The Group recognises contract 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. If the price of contract costs varied significantly in the coming months from the budgets, the contract profit for each of the individual projects would differ significantly from the estimated contract profit. Accordingly, revenue recognition on contract revenue 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 fitting-out works and alteration and addition and construction works are set out in notes 3 and 4, respectively, to the consolidated financial statements. As disclosed in notes 5 and 11 to the consolidated financial statements, the contract revenue and the contract costs amounted to HK$5,333,425,000 and HK$4,599,692,000 for the year ended 31 December 2018, respectively.	Our procedures in relation to contract revenue and contract costs included: • Discussing with the project managers, quantity surveyors and the management of the Group and checking the supporting documents including contracts and variation orders to evaluate the reasonableness of the management's estimation of the budgeted revenue and budgeted contract costs; • Checking the basis of the budgeted revenue to underlying construction contracts and other relevant correspondences and supporting documents in respect of variations in construction works or price adjustments; • Recalculating the percentage of completion based on accumulated actual cost incurred to date over the total budget cost; and • Agreeing the contract costs, on a sample basis, incurred to date to the subcontractor payment certificates and supplier invoices.

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 (included unbilled receivable) and contract assets

We identified the estimated provision of ECL for trade receivables and contract assets as a key audit matter due to the significance to the consolidated financial position as a whole and the use of judgement and estimates by the management of the Group in determining the allowance for credit losses.

As shown in notes 22 and 25A to the consolidated financial statements, as at 31 December 2018, the carrying amounts of trade receivables and contract assets are HK$1,271,971,000 (net of allowance for credit losses of HK$16,878,000) and HK$1,775,883,000 (net of allowance for credit losses of HK$10,797,000), 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, the impairment losses of HK$16,972,000 and HK$10,797,000 in respect of the trade receivables and contract assets were recognised in profit or loss by the Group for the year ended 31 December 2018, respectively.

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 ageing analysis and contract assets as at 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant invoices/progress certificates and other supporting documents;
- 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, 25A and 39 to the consolidated financial statements; and
- Testing subsequent settlements of credit-impaired trade receivables and contract assets, 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.

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.

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

- 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.

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

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

The engagement 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*		
Contract revenue from fitting-out works		**4,204,593**	4,206,268
Contract revenue from alteration and addition and construction works		**1,128,832**	764,038
Manufacturing, sourcing and distribution of interior decorative materials		**57,329**	12,642
Total revenue		**5,390,754**	4,982,948
Cost of sales		**(4,639,191)**	(4,323,705)
Gross profit		**751,563**	659,243
Other income, other gains and losses	*7*	**(9,770)**	14,232
Impairment losses	*9*	**(27,769)**	–
Selling expenses		**(14,879)**	(10,091)
Administrative expenses		**(261,724)**	(188,997)
Other expenses		**(773)**	(1,308)
Share of profits of associates		**17,732**	14,329
Finance costs	*8*	**(9,166)**	(1,864)
Profit before taxation		**445,214**	485,544
Income tax expense	*10*	**(64,012)**	(64,451)
Profit for the year attributable to owners of the Company	*11*	**381,202**	421,093
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Fair value change on available-for-sale investments		**–**	4,813
Investment revaluation reserve reclassified to profit or loss in relation to impairment loss on available-for-sale investments		**–**	8,676
Investment revaluation reserve reclassified to profit or loss upon disposal of available-for-sale investments		**–**	(6,568)
Exchange differences arising on translation of foreign operations		**(26,144)**	26,434
Share of other comprehensive (expense) income of an associate		**(1,872)**	2,094
Release of translation reserve upon deregistration of a subsidiary		**–**	23
Other comprehensive (expense) income for the year		**(28,016)**	35,472
Total comprehensive income for the year attributable to owners of the Company		**353,186**	456,565
Earnings per share			
Basic *(HK cents)*	*15*	**17.66**	19.51

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	16	**137,522**	33,518
Investment properties	17	**10,171**	10,545
Goodwill	18	**1,510**	1,510
Financial assets at fair value through profit or loss	19	**236,329**	–
Available-for-sale investments	19	**–**	252,229
Interests in associates	20	**129,876**	133,216
		515,408	431,018
Current assets			
Inventories	21	**43,345**	69,722
Trade and other receivables and bills receivable	22	**1,668,088**	1,799,053
Amounts due from related companies	23	**6,921**	49,334
Amount due from a fellow subsidiary	24	**–**	915
Contract assets	25A	**1,775,883**	–
Amounts due from customers for contract work	25B	**–**	1,077,085
Retentions receivable	22	**–**	710,093
Tax recoverable		**82**	65
Note receivable	26	**–**	50,000
Pledged bank deposits	27	**48,633**	63,273
Bank balances and cash	27	**887,829**	627,658
		4,430,781	4,447,198
Current liabilities			
Trade and other payables	28	**1,985,224**	2,024,842
Bills payable	28	**214,880**	233,753
Amount due to a fellow subsidiary	24	**–**	2,613
Contract liabilities	29	**110,001**	–
Amounts due to customers for contract work	25B	**–**	197,258
Tax payable		**41,953**	45,274
Bank borrowings	30	**294,539**	307,557
Other borrowings	31	**–**	34,139
		2,646,597	2,845,436
Net current assets		**1,784,184**	1,601,762
Total assets less current liabilities		**2,299,592**	2,032,780

Consolidated Statement of Financial Position
At 31 December 2018

	NOTES	**2018 *HK$'000***	2017 *HK$'000*
Capital and reserves			
Share capital	*33*	**1,246,815**	1,246,815
Reserves		**1,051,814**	784,956
Equity attributable to owners of the Company		**2,298,629**	2,031,771
Non-current liability			
Deferred tax liabilities	*32*	**963**	1,009
		2,299,592	2,032,780

The consolidated financial statements on pages 65 to 151 were approved and authorised for issue by the board of directors on 11 March 2019 and are signed on its behalf by:

Ng Tak Kwan
Director

Xie Jianyu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Legal reserve HK$'000 (Note a)	Statutory reserve HK$'000 (Note b)	Investment revaluation reserve HK$'000	Property revaluation reserve HK$'000	Shareholders' contribution reserve HK$'000	Translation reserve HK$'000	Other reserves HK$'000 (Note c)	Accumulated profits HK$'000	Total HK$'000
At 1 January 2017	1,246,815	19,700	60	16,022	–	1,241	6,615	(23,183)	242,594	901,163	2,411,027
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	26,434	–	–	26,434
Share of other comprehensive income of an associate	–	–	–	–	–	–	–	2,094	–	–	2,094
Release of translation reserve upon deregistration of a subsidiary	–	–	–	–	–	–	–	23	–	–	23
Fair value change on available-for-sale investments	–	–	–	–	4,813	–	–	–	–	–	4,813
Investment revaluation reserve reclassified to profit or loss in relation to impairment loss on available-for-sale investments	–	–	–	–	8,676	–	–	–	–	–	8,676
Investment revaluation reserve reclassified to profit or loss upon disposal of available-for-sale investments	–	–	–	–	(6,568)	–	–	–	–	–	(6,568)
Profit for the year	–	–	–	–	–	–	–	–	–	421,093	421,093
Total comprehensive income for the year	–	–	–	–	6,921	–	–	28,551	–	421,093	456,565
Payment of cash consideration upon combination of entities under common control *(note 1)*	–	–	–	–	–	–	–	–	(520,000)	–	(520,000)
Transfer from accumulated profits to statutory reserve	–	–	–	11,101	–	–	–	–	–	(11,101)	–
Dividends paid *(note 14)*	–	–	–	–	–	–	–	–	–	(315,821)	(315,821)
At 31 December 2017	1,246,815	19,700	60	27,123	6,921	1,241	6,615	5,368	(277,406)	995,334	2,031,771
Impact on initial application of HKFRS 9 *(note 2.2)*	–	–	–	–	(6,921)	–	–	–	–	6,921	–
At 1 January 2018 (restated)	1,246,815	19,700	60	27,123	–	1,241	6,615	5,368	(277,406)	1,002,255	2,031,771
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	–	(26,144)	–	–	(26,144)
Share of other comprehensive expenses of an associate	–	–	–	–	–	–	–	(1,872)	–	–	(1,872)
Profit for the year	–	–	–	–	–	–	–	–	–	381,202	381,202
Total comprehensive (expenses) income for the year	–	–	–	–	–	–	–	(28,016)	–	381,202	353,186
Transfer from accumulated profits to statutory reserve	–	–	–	13,243	–	–	–	–	–	(13,243)	–
Dividends paid *(note 14)*	–	–	–	–	–	–	–	–	–	(86,328)	(86,328)
At 31 December 2018	1,246,815	19,700	60	40,366	–	1,241	6,615	(22,648)	(277,406)	1,283,886	2,298,629

Notes:

(a) In accordance with the provisions of the Macau Commercial Code, the subsidiaries of SUNDART HOLDINGS LIMITED 承達集團有限公司 (the "Company") in Macau are required to transfer a minimum of 25% of their profit for the year to the legal reserve before appropriation of dividends until the legal reserve equals half of the quota capital of these subsidiaries. This reserve is not distributable to the shareholders.

(b) As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the subsidiaries established in the PRC shall set aside 10% of their net profits based on statutory accounts prepared in accordance with the relevant regulations and accounting principles generally accepted in the PRC to the statutory reserve before the distribution of the net profit each year until the balance reaches 50% of its paid-in capital. The statutory reserve can only be used upon approval by the board of directors of the relevant subsidiary to offset accumulated losses or increase capital.

(c) Other reserves as at 31 December 2018 and 31 December 2017 included (i) a credit amount of HK$33,600,000 of recognition of other service costs, which represented the difference between the fair value and consideration (represented by the net assets attributable to) of the acquisition of 10.2% equity interests in the Company by a director, and (ii) a debit amount of HK$311,006,000, which represented the merger reserve of the acquisition of 100% equity interest in Sundart Engineering & Contracting (Beijing) Limited ("Sundart Beijing") in relation to the application of merger accounting to the acquisition of Sundart Beijing, being a business combination involving entities under common control as described in note 1.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	NOTE	**2018 *HK$'000***	2017 *HK$'000*
OPERATING ACTIVITIES			
Profit before taxation		**445,214**	485,544
Adjustments for:			
Depreciation of property, plant and equipment		**8,558**	5,869
Loss on deregistration of a subsidiary		**–**	23
Loss (gain) on disposal of property, plant and equipment		**3,466**	(49)
Reversal of allowance for inventories		**–**	(19)
Loss from changes in fair value of financial assets at fair value through profit or loss		**36,481**	–
Impairment losses		**27,769**	–
Gain reclassified from investment revaluation reserve upon disposal of available-for-sale investments		**–**	(6,568)
Gain from change in fair value of investment property		**–**	(115)
Impairment loss on available-for-sale investments		**–**	8,676
Interest income		**(5,380)**	(3,754)
Interest expense		**9,166**	1,864
Share of profits of associates		**(17,732)**	(14,329)
Operating cash flows before movements in working capital		**507,542**	477,142
Decrease (increase) in inventories		**26,377**	(47,731)
Decrease (increase) in trade and other receivables and bills receivable		**66,517**	(345,598)
Decrease (increase) in amounts due from related companies		**39,114**	(46,317)
Decrease (increase) in amount due from a fellow subsidiary		**610**	(915)
Decrease in amount due from ultimate holding company		**–**	212
Increase in contract assets		**(11,811)**	–
Increase in amounts due from customers for contract work		**–**	(140,347)
Increase in retentions receivable		**–**	(152,778)
Increase (decrease) in trade and other payables		**63,242**	(245,146)
(Decrease) increase in bills payable		**(8,424)**	13,275
(Decrease) increase in amount due to a fellow subsidiary		**(2,613)**	307
Decrease in amount due to ultimate holding company		**–**	(371)
Decrease in contract liabilities		**(135,382)**	–
Increase in amounts due to customers for contract work		**–**	130,595
Cash from (used in) operations		**545,172**	(357,672)
Interest paid		**(9,166)**	(1,864)
Income tax refunded		**284**	4,806
Income tax paid		**(67,853)**	(84,745)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**468,437**	(439,475)

Consolidated Statement of Cash Flows
For the year ended 31 December 2018

	NOTE	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(11,491)**	(17,138)
Purchase of investment property		**–**	(2,410)
Acquisition of assets through acquisition of a subsidiary	35	**(106,005)**	–
Purchase of financial assets at fair value through profit or loss		**(30,363)**	–
Purchase of available-for-sale investments		**–**	(238,277)
Additions to note receivable		**(30,000)**	(50,000)
Placement of pledged bank deposits		**(63,629)**	(107,774)
Proceeds from disposal of property, plant and equipment		**59**	139
Proceeds from disposal of financial assets at fair value through profit or loss		**9,782**	–
Proceeds from disposal of available-for-sale investments		**–**	127,715
Redemption of note receivable		**80,000**	–
Interest received		**5,380**	3,754
Repayment from a fellow subsidiary		**–**	7,685
Repayment from an associate		**19,200**	–
Release of pledged bank deposits		**75,359**	120,732
NET CASH USED IN INVESTING ACTIVITIES		**(51,708)**	(155,574)
FINANCING ACTIVITIES			
New bank borrowings raised		**397,379**	427,400
New other borrowings raised		**30,538**	34,139
Repayments of bank borrowings		**(410,397)**	(119,843)
Repayments of other borrowings		**(64,677)**	–
Payment for the combination of entities under common control		**–**	(520,000)
Dividends paid		**(86,328)**	(315,821)
NET CASH USED IN FINANCING ACTIVITIES		**(133,485)**	(494,125)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**283,244**	(1,089,174)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**627,658**	1,689,549
Effect of foreign exchange rate changes		**(23,073)**	27,283
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**887,829**	627,658

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL INFORMATION AND BASIS OF PREPARATION

General information

The Company is a public limited company incorporated in the British Virgin Islands (the "BVI") on 21 May 2001 as an international business company, governed by the International Business Companies Act (Cap 291) and was automatically re-registered as a BVI business company with limited liability on 1 January 2007 under the BVI Companies Act, and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, BVI, VG1110 and 25/F, Millennium City 3, 370 Kwun Tong Road, Kowloon, Hong Kong, respectively.

The ultimate holding company of the Company is Jangho Group Co., Ltd. ("Jangho Co"), a joint stock company incorporated in the PRC and listed on the Shanghai Stock Exchange. The Company's ultimate controlling party is Mr. Liu Zaiwang, the chairman of Jangho Co.

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 46.

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

Basis of presentation

Sundart Beijing had been a wholly-owned subsidiary of the Company and its subsidiaries (collectively referred to as the "Group") since its establishment until 26 November 2012 when Sundart Beijing increased its registered capital by HK$26,700,000, representing approximately 25% of its enlarged registered capital after such capital was increased. Such increased capital was subscribed and fully contributed by Jangho Co. Since then, Sundart Beijing was beneficially owned as to 75% and 25% by the Group and Jangho Co, respectively. On 24 April 2015, the Group disposed of 50% equity interest it held in Sundart Beijing to Jangho Hong Kong Holdings Limited ("Jangho HK"), an intermediate holding company of the Company. Further, the Group disposed of the remaining 25% equity interest it held in Sundart Beijing to Jangho HK on 25 June 2015. Upon the change of the shareholding which was effective on 25 June 2015, the Group ceased to have any interest in Sundart Beijing.

On 17 May 2017, Sundart Engineering Investments Limited ("Sundart Engineering"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Jangho HK and Jangho Co, pursuant to which Sundart Engineering has agreed to acquire, and Jangho HK and Jangho Co have agreed to transfer, in aggregate 100% equity interest in Sundart Beijing at a total consideration of HK$520,000,000. The acquisition was completed on 10 August 2017. The principal activity of Sundart Beijing is provision of fitting-out works in the PRC.

The Group applied merger accounting to the acquisition of Sundart Beijing, being a business combination involving entities under common control, under Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Group and the entities acquired are regarded as continuing entities.

The consolidated financial statements of the Group have been restated for the prior period as if the Group had not disposed of any equity interest of Sundart Beijing to its holding companies.

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 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

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 accumulated profits 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 arising from contracts with customers:

- Contract revenue from fitting-out works
- Contract revenue from alteration and addition and construction works
- Manufacturing, sourcing and distribution of interior decorative materials

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.

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				
Contract assets	*(a)*	–	1,790,045	1,790,045
Retentions receivable from related companies	*(a)*	2,562	(2,562)	–
Retentions receivable from a fellow subsidiary	*(a)*	305	(305)	–
Amounts due from customers for contract work	*(a)*	1,077,085	(1,077,085)	–
Retentions receivable	*(a)*	710,093	(710,093)	–
Current liabilities				
Contract liabilities	*(a)*	–	248,059	248,059
Amounts due to customers for contract work	*(a)*	197,258	(197,258)	–
Advances received	*(b)*	50,801	(50,801)	–

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Notes:

(a) In relation to construction contracts previously accounted 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. Retentions receivable from related companies of HK$2,562,000 and retentions receivable from a fellow subsidiary of HK$305,000 previously included in amounts due from related companies and amount due from a fellow subsidiary, respectively, amounts due from customers for contract work of HK$1,077,085,000 and retentions receivable of HK$710,093,000 were reclassified to contract assets, whilst amounts due to customers for contract work of HK$197,258,000 were reclassified to contract liabilities.

(b) As at 1 January 2018, advances received from customers of HK$50,801,000 previously included in trade and other payables were reclassified to contract liabilities.

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 and its consolidated statement of profit or loss and other comprehensive income for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
Current assets			
Contract assets	1,775,883	(1,775,883)	–
Retentions receivable from related companies	–	2,444	2,444
Retentions receivable from a fellow subsidiary	–	175	175
Amounts due from customers for contract work	–	1,083,864	1,083,864
Retentions receivable	–	689,400	689,400
Current liabilities			
Contract liabilities	110,001	(110,001)	–
Amounts due to customers for contract work	–	71,418	71,418
Advances received	–	38,583	38,583

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)*

Impact on the consolidated statement of cash flows

	As reported *HK$'000*	Adjustments *HK$'000*	Amounts without application of HKFRS 15 *HK$'000*
OPERATING ACTIVITIES			
Decrease in amounts due from related companies	39,114	118	39,232
Decrease in amount due from a fellow subsidiary	610	130	740
Increase in contract assets	(11,811)	11,811	–
Increase in amounts due from customers for contract work	–	(19,206)	(19,206)
Decrease in retentions receivable	–	7,147	7,147
Increase in trade and other payables	63,242	(12,218)	51,024
Decrease in contract liabilities	(135,382)	135,382	–
Decrease in amounts due to customers for contract work	–	(123,164)	(123,164)

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these consolidated financial statements.

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 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 accumulated 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

The table below illustrates the classification and measurement of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale ("AFS") investments *HK$'000*	Financial assets at fair value through profit or loss ("FVTPL") required by HKFRS 9 *HK$'000*	Investment revaluation reserve *HK$'000*	Accumulated profits *HK$'000*
Closing balance at 31 December 2017 – HKAS 39	252,229	–	6,921	995,334
Effect arising from initial application of HKFRS 9:				
Reclassification				
From AFS investments *(note a)*	(252,229)	252,229	(6,921)	6,921
Opening balance at 1 January 2018	–	252,229	–	1,002,255

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)*

Summary of effects arising from initial application of HKFRS 9 *(Continued)*

Notes:

(a) *AFS investments*

At the date of initial application of HKFRS 9, the Group's equity investments of HK$252,229,000 were reclassified from AFS investments to financial assets at FVTPL. The fair value gain of HK$6,921,000 relating to those equity investments previously carried at fair value were transferred from investment revaluation reserve to accumulated profits.

(b) *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 with significant balances and/or collectively using a provision matrix with appropriate groupings based on its 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 other receivables and bills receivable, amounts due from related companies, pledged bank deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No impairment allowance was recognised as at 1 January 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)*

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) *HK$'000*	HKFRS 15 *HK$'000*	HKFRS 9 *HK$'000*	1 January 2018 (Restated) *HK$'000*
Non-current assets				
Financial assets at FVTPL	–	–	252,229	252,229
AFS investments	252,229	–	(252,229)	–
Current assets				
Amounts due from related companies	49,334	(2,562)	–	46,772
Amount due from a fellow subsidiary	915	(305)	–	610
Contract assets	–	1,790,045	–	1,790,045
Amounts due from customers for contract work	1,077,085	(1,077,085)	–	–
Retentions receivable	710,093	(710,093)	–	–
Current liabilities				
Trade and other payables	2,024,842	(50,801)	–	1,974,041
Contract liabilities	–	248,059	–	248,059
Amounts due to customers for contract work	197,258	(197,258)	–	–

Note: 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(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 combination 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 HKFRS 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.

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, HKFRS16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS16 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 upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of 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.

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

New and amendments to HKFRSs in issue but not yet effective *(Continued)*

HKFRS 16 *Leases* *(Continued)*

Other than certain requirements which are 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 had non-cancellable operating lease commitments of HK$39,231,000 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$4,974,000 and refundable rental deposits received of HK$91,000 as rights and obligations 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 amounts 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. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to 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 will 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, if any, to opening accumulated 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 of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair value 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 *Leases*, 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)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and total comprehensive income of subsidiaries are attributed to the owners of the Company.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business 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 groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represents the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

A cash-generating unit (or groups 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 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 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 on a pro-rata basis based on the carrying amount of each asset in the unit (or groups of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Interests in a joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interests in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 and 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. Trading income from manufacturing, sourcing and distribution of interior decorative materials 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 a contract are accounted for and presented on a net basis.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 allowance.

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.

Revenue from fixed price supply and installation contracts including fitting-out works and alteration and addition and construction works is recognised on the percentage of completion method, measured by reference to the value of work performed during the year. 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 goods are delivered and title has been passed.

Service income is recognised when services are provided.

Interest income is accrued on a time apportionment 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.

The Group's accounting policy for recognition of revenue from operating lease is described in the accounting policy for leasing below.

Supply and installation contracts including fitting-out works and alteration and addition and construction works (prior to 1 January 2018)

Where the outcome of a supply and installation contract including fitting-out works and alteration and addition and construction works 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. 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 supply and installation contract including fitting-out works and alteration and addition and construction works 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 customers are included in the consolidated statement of financial position under trade receivables.

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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

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.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Group as lessee

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees 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.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and other defined contribution 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 taxation' 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, 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 and interests 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.

The carrying amount of deferred tax assets is reviewed at the end of the 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 rates (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.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interests in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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.

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.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interest held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Impairment on tangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those 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 assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where 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 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 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.

When an impairment loss subsequently reverses, the carrying amount of the asset (or 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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contract with customers which are initially measured in a accordance with HKFRS15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; 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, except that at the date of initial application/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

– it has been acquired principally for the purpose of selling in the near term; or

– on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) 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.

(ii) Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

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)

The Group recognises a loss allowance for ECL on financial assets and other assets which are subject to impairment under HKFRS 9 (including trade and other receivables and bills receivable, amounts due from related companies, pledged bank deposits, 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, 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.

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 based on its historical default rates which are adjusted for forward-looking estimates.

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;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- 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; and/or
- 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.

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.

(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 three 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.

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

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.

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 shared risk characteristics basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

(i) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bills receivable, amounts due from related companies and a fellow subsidiary, retentions receivable, note receivable, pledged bank deposits 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.

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.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a 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 or observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the 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.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

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.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, bills payable, amount due to a fellow subsidiary, bank borrowings and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

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 judgments, 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 on-going 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 may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimation uncertainty on supply and installation contracts including fitting-out works and alteration and addition and construction works

As detailed in notes 3 and 5, the Group recognises contract 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. If the price of contract costs varied significantly in the coming months from the budgets, the contract profit for each of the individual projects would differ significantly from the estimated contract profit. Accordingly, revenue recognition on contract revenue involves a significant degree of management estimates and judgement, with estimates being made to assess the total contract costs and stage of completion of the contract.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Fair value measurement of financial instruments

The Group's unlisted equity fund amounting to HK$128,760,000 as at 31 December 2018 (2017: HK$125,800,000) are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. Further disclosures are set out in note 39.

Estimated provision of ECL for trade receivables (included unbilled receivable) and contract assets

The Group has considered all the possible default events over the expected life of the 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.

The provision of ECL is sensitive to changes in estimates. The information about the Group's assessment of ECL and the Group's trade receivables and contract assets are disclosed in notes 22, 25A and 39, respectively.

Estimated impairment and allowance for inventories

The management of the Group reviews an aging analysis at the end of the reporting period and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sale. The management estimates the net realisable value for such finished goods and raw materials based primarily on the latest selling and purchase prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for slowing-moving inventory. If the market condition was to deteriorate, resulting in a lower net realisable value for such finished goods and raw materials, additional allowances may be required.

As at 31 December 2018, the carrying amount of inventories was HK$43,345,000 (2017: HK$69,722,000), whereas the reversal of allowance for inventories amounting to nil (2017: HK$19,000) was recognised during the year.

5. REVENUE

An analysis of the Group's revenue for the year was as follows:

	2018 **HK$'000**	2017 HK$'000
Contract revenue from fitting-out works *(note a)*	**4,204,593**	4,206,268
Contract revenue from alteration and addition and construction works *(note a)*	**1,128,832**	764,038
Manufacturing, sourcing and distribution of interior decorative materials *(note b)*	**57,329**	12,642
	5,390,754	4,982,948

5. REVENUE *(Continued)*

For the year ended 31 December 2018

	Fitting-out works *HK$'000*	Alteration and addition and construction works *HK$'000*	Manufacturing, sourcing and distribution of interior decorative materials *HK$'000*
Geographical markets			
Hong Kong	**1,679,418**	**1,128,832**	**12,361**
Macau	**1,127,173**	**–**	**20,071**
The PRC	**1,398,002**	**–**	**3,541**
Others	**–**	**–**	**21,356**
Total	**4,204,593**	**1,128,832**	**57,329**
Timing of revenue recognition			
A point in time	**–**	**–**	**57,329**
Over time	**4,204,593**	**1,128,832**	**–**
Total	**4,204,593**	**1,128,832**	**57,329**

Notes:

(a) The Group provides fitting-out works and alteration and addition and construction works to its customers. Under the terms of contracts, the Group's performance creates and enhances the properties which the customers control during the course of work by the Group. Revenue from provision of contracting services is therefore recognised based on the stage of completion of contract over time using input method. The Group normally receives progress payment from customers on a monthly basis with reference to the value of works done. The Group requires certain customers to provide upfront deposits range from 5% to 20% of total contract sum, when the Group receives a deposit before the project commences, this will give rise to contract liabilities at the start of a contract, until the full amount of deposit is deducted proportionately from monthly progress payment.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the construction services are performed representing the Group's right to consideration for the services performed and not billed because the rights are conditioned on the Group's future performance accepted by the customers. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers its contract assets to trade receivables when progress certificate/ invoice is issued.

Retentions receivable, prior to expiration of maintenance period, are classified as contract assets, which usually ranges from one to two years from the date of the practical completion of the project. The relevant amount of contract assets is reclassified to trade receivables when the maintenance period expires, and/or the maintenance/payment certificate is issued, and/or the final account is issued. The maintenance period serves as an assurance that the construction services performed comply with agreed upon specifications and such assurance cannot be purchased separately.

(b) The Group also generates revenue from manufacturing, sourcing and distribution of interior decorative materials business. This revenue is recognised at a point in time when the goods have been delivered to specific location and customers obtain control of the materials.

(c) The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Construction contracts *HK$'000*
Within one year	**3,505,166**
More than one year but not more than two years	**313,471**
	3,818,637

Certain construction services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. OPERATING SEGMENTS

The Company's executive directors are the chief operating decision makers. Information reported to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance focuses on three principal business activities.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

(a) Fitting-out works in Hong Kong;

(b) Fitting-out works in Macau;

(c) Fitting-out works in the PRC;

(d) Alteration and addition and construction works in Hong Kong; and

(e) Manufacturing, sourcing and distribution of interior decorative materials.

Information regarding the above segments was reported below:

Segment revenue and results

For the year ended 31 December 2018

	Fitting-out works in Hong Kong *HK$'000*	Fitting-out works in Macau *HK$'000*	Fitting-out works in the PRC *HK$'000*	Alteration and addition and construction works in Hong Kong *HK$'000*	Manufacturing, sourcing and distribution of interior decorative materials *HK$'000*	Segment total *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
Revenue								
External revenue	1,679,418	1,127,173	1,398,002	1,128,832	57,329	5,390,754	–	5,390,754
Inter-segment revenue	–	–	–	88	317,624	317,712	(317,712)	–
Segment revenue	1,679,418	1,127,173	1,398,002	1,128,920	374,953	5,708,466	(317,712)	5,390,754
Segment profit	138,875	172,620	102,070	22,286	83,053	518,904	–	518,904
Corporate expenses								(89,341)
Corporate income								7,085
Share of profits of associates								17,732
Finance costs								(9,166)
Profit before taxation								445,214

6. OPERATING SEGMENTS *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31 December 2017

	Fitting-out works in Hong Kong *HK$'000*	Fitting-out works in Macau *HK$'000*	Fitting-out works in the PRC *HK$'000*	Alteration and addition and construction works in Hong Kong *HK$'000*	Manufacturing, sourcing and distribution of interior decorative materials *HK$'000*	Segment total *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
Revenue								
External revenue	1,514,374	1,186,439	1,505,455	764,038	12,642	4,982,948	–	4,982,948
Inter-segment revenue	(66)	–	–	–	227,544	227,478	(227,478)	–
Segment revenue	1,514,308	1,186,439	1,505,455	764,038	240,186	5,210,426	(227,478)	4,982,948
Segment profit	115,932	212,766	116,388	15,107	40,401	500,594	–	500,594
Corporate expenses								(45,759)
Corporate income								18,244
Share of profits of associates								14,329
Finance costs								(1,864)
Profit before taxation								485,544

Inter-segment revenue was charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3.

Segment profit represented the profit earned by each segment, excluding income and expenses of the corporate function, which included certain other income, certain selling expenses, certain administrative expenses, certain other expenses, share of profits of associates and finance costs. This was the measure reported to the Company's executive directors for the purposes of resource allocation and assessment of segment performance.

6. OPERATING SEGMENTS *(Continued)*

Segment assets and liabilities

The following was an analysis of the Group's assets and liabilities by reportable and operating segments:

	2018 HK$'000	2017 HK$'000
Segment assets		
Fitting-out works in Hong Kong	**1,172,886**	1,042,582
Fitting-out works in Macau	**603,897**	747,074
Fitting-out works in the PRC	**1,319,515**	1,404,382
Alteration and addition and construction works in Hong Kong	**440,888**	350,070
Manufacturing, sourcing and distribution of interior decorative materials	**93,535**	148,379
Total segment assets	**3,630,721**	3,692,487
Unallocated corporate assets		
Property, plant and equipment	**444**	461
Investment properties	**10,171**	10,545
Financial assets at FVTPL	**236,329**	–
AFS investments	**–**	252,229
Interests in associates	**129,876**	133,216
Other receivables, prepayments and deposits	**2,104**	48,282
Tax recoverable	**82**	65
Note receivable	**–**	50,000
Pledged bank deposits	**48,633**	63,273
Bank balances and cash	**887,829**	627,658
Total consolidated assets of the Group	**4,946,189**	4,878,216

6. OPERATING SEGMENTS *(Continued)*

Segment assets and liabilities *(Continued)*

	2018 **HK$'000**	2017 HK$'000
Segment liabilities		
Fitting-out works in Hong Kong	**445,513**	400,226
Fitting-out works in Macau	**144,915**	337,513
Fitting-out works in the PRC	**1,360,024**	1,391,177
Alteration and addition and construction works in Hong Kong	**324,998**	260,011
Manufacturing, sourcing and distribution of interior decorative materials	**29,443**	64,596
Total segment liabilities	**2,304,893**	2,453,523
Unallocated corporate liabilities		
Other payables	**5,212**	4,943
Tax payable	**41,953**	45,274
Bank borrowings	**294,539**	307,557
Other borrowings	**–**	34,139
Deferred tax liabilities	**963**	1,009
Total consolidated liabilities of the Group	**2,647,560**	2,846,445

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

- all assets are allocated to operating segments other than certain property, plant and equipment, investment properties, financial assets at FVTPL, AFS investments, interests in associates, certain other receivables, prepayments and deposits, tax recoverable, note receivable, pledged bank deposits and bank balances and cash.

- all liabilities are allocated to operating segments other than certain other payables, tax payable, bank borrowings, other borrowings and deferred tax liabilities.

6. OPERATING SEGMENTS *(Continued)*

Other segment information

For the year ended 31 December 2018

	Fitting-out works in Hong Kong *HK$'000*	Fitting-out works in Macau *HK$'000*	Fitting-out works in the PRC *HK$'000*	Alteration and addition and construction works in Hong Kong *HK$'000*	Manufacturing, sourcing and distribution of interior decorative materials *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment results or segment assets:								
Additions of property, plant and equipment	106,133	–	7,292	8	3,901	117,334	257	117,591
Depreciation of property, plant and equipment	1,545	34	1,736	289	4,680	8,284	274	8,558
Impairment loss on trade receivables recognised in profit or loss	266	12,852	2,604	1,250	–	16,972	–	16,972
Impairment loss on contract assets recognised in profit or loss	350	10,407	–	40	–	10,797	–	10,797
Loss on disposal of property, plant and equipment	–	–	1,920	–	1,546	3,466	–	3,466

6. OPERATING SEGMENTS *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2017

	Fitting-out works in Hong Kong *HK$'000*	Fitting-out works in Macau *HK$'000*	Fitting-out works in the PRC *HK$'000*	Alteration and addition and construction works in Hong Kong *HK$'000*	Manufacturing, sourcing and distribution of interior decorative materials *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment results or segment assets:								
Additions of property, plant and equipment	–	2	939	85	15,796	16,822	316	17,138
Depreciation of property, plant and equipment	14	48	2,089	277	3,128	5,556	313	5,869
Reversal of allowance for inventories	–	–	–	–	(19)	(19)	–	(19)
Loss (gain) on disposal of property, plant and equipment	–	–	1	–	(50)	(49)	–	(49)

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

6. OPERATING SEGMENTS *(Continued)*

Geographical information

The Group's operations are mainly located in Hong Kong, Macau and the PRC.

Information about the Group's revenue from external customers is presented based on the location of the operations. Information about the Group's non-current assets (excluding financial instruments) is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Hong Kong	**2,820,611**	2,282,780	**239,045**	138,295
Macau	**1,147,244**	1,187,385	**5**	39
The PRC	**1,401,543**	1,507,384	**40,029**	40,455
Others	**21,356**	5,399	**–**	–
	5,390,754	4,982,948	**279,079**	178,789

All non-current assets of the Group are located in the respective group entities' country of domicile.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2018 HK$'000	2017 HK$'000
Customer A *(note a)*	**706,544**	N/A(Note c)
Customer B *(note b)*	**N/A(Note c)**	576,283
Customer C *(note a)*	**N/A(Note c)**	534,419

Notes:

(a) The revenue was from fitting-out works in Macau.

(b) The revenue was from fitting-out works in Hong Kong, Macau and the PRC.

(c) The corresponding revenue did not contribute over 10% of the total revenue of the Group for the relevant year.

7. OTHER INCOME, OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Other income		
Dividend from financial assets at FVTPL	**578**	–
Interest income	**5,380**	3,754
Consultancy fee, design fee and entrustment fee income	**1,147**	8,879
Rental income	**541**	861
Relocation compensation income *(note)*	**16,259**	–
Others	**7,484**	2,569
	31,389	16,063
Other gains and losses		
Net foreign exchange (losses) gain	**(1,605)**	136
Recovery from written off of trade receivables	**393**	–
Gain from change in fair value of investment property	**–**	115
Loss from changes in fair value of financial assets at FVTPL	**(36,481)**	–
Gain reclassified from investment revaluation reserve upon disposal of AFS investments	**–**	6,568
Impairment loss on AFS investments	**–**	(8,676)
(Loss) gain on disposal of property, plant and equipment	**(3,466)**	49
Loss on deregistration of a subsidiary	**–**	(23)
	(41,159)	(1,831)
	(9,770)	14,232

Note: In accordance with the requirements of the urban development plans in Yongdeng Road, Putuo District, Shanghai, China, Shanghai branch of Sundart Beijing entered into a relocation compensation agreement with its landlord on 9 May 2018 in order to cooperate with the planning arrangements of the Shanghai Municipal People's Government. The landlord agreed to pay Shanghai branch of Sundart Beijing a relocation compensation amounting to Renminbi ("RMB") 13,229,000 (approximately HK$16,259,000) in relation to the expenses of removal to new office and interruptions to the operations during relocation.

8. FINANCE COSTS

The amounts represented interest on bank borrowings and other borrowings.

9. IMPAIRMENT LOSSES

	2018 **HK$'000**	2017 *HK$'000*
Impairment losses recognised on:		
Trade receivables	**16,972**	–
Contract assets	**10,797**	–
	27,769	–

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

10. INCOME TAX EXPENSE

	2018 **HK$'000**	2017 *HK$'000*
Current tax		
Hong Kong Profits Tax	**22,652**	18,565
Macau Complementary Tax	**25,606**	27,052
PRC Enterprise Income Tax	**16,561**	21,666
	64,819	67,283
(Over) under provision in prior years		
Hong Kong Profits Tax	**(1,388)**	(359)
Macau Complementary Tax	**(133)**	(1,044)
PRC Enterprise Income Tax	**714**	(1,469)
	(807)	(2,872)
Deferred tax		
Current year *(note 32)*	**–**	40
	64,012	64,451

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

Macau Complementary Tax was calculated at 12% of the estimated assessable profits for both years.

10. INCOME TAX EXPENSE *(Continued)*

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 was 25% for both years. Two PRC subsidiaries obtained approval from the relevant tax bureaus and are qualified as High and New Technology Enterprises which are entitled to a tax reduction from 25% to 15%, since 2014 (renewed in 2017) and 2018, respectively.

The income tax expense for the year can be reconciled to 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	**445,214**	485,544
Tax at the weighted average tax rate *(note a)*	**76,306**	82,238
Tax effect of expenses not deductible for tax purpose	**13,240**	4,126
Tax effect of income not taxable for tax purpose	**(1,814)**	(373)
Tax effect of share of profits of associates	**(2,926)**	(2,364)
Over provision in prior years	**(807)**	(2,872)
Tax effect of tax losses not recognised	**2,712**	2,361
Income tax on concession rate	**(13,976)**	(14,006)
Additional tax allowance for research and development expenses *(note b)*	**(7,502)**	(3,415)
Others	**(1,221)**	(1,244)
Income tax expense for the year	**64,012**	64,451

Notes:

(a) The weighted average applicable tax rate for different jurisdictions for the year ended 31 December 2018 is 17.1% (2017: 16.9%). The weighted average applicable tax rate represents the weighted average tax rate in different jurisdictions in which the Group operates and is calculated on the basis of the profit or loss before taxation arising in these jurisdictions and the applicable statutory tax rates.

(b) A further tax deduction of 75% (2017: 50%) on the qualifying expenses for research and development activities were granted to two PRC subsidiaries (2017: one PRC subsidiary).

11. PROFIT FOR THE YEAR

	2018 HK$'000	2017 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**1,800**	1,730
Depreciation of property, plant and equipment	**8,558**	5,869
Gross rental income from investment property	**(541)**	(861)
Less: Direct operating expenses incurred for investment property that generated rental income during the year	**63**	62
	(478)	(799)
Cost of inventories recognised as expense	**39,499**	6,106
Reversal of allowance for inventories (included in cost of sales)	**–**	(19)
Contract costs recognised as expense		
Fitting-out works	**3,508,296**	3,581,904
Alteration and addition and construction works	**1,091,396**	735,714
	4,599,692	4,317,618
Operating lease payments in respect of rented properties	**33,894**	28,118
Staff costs		
Gross staff costs (including directors' emoluments)	**379,011**	345,245
Less: Staff costs capitalised to contract costs	**(211,532)**	(206,133)
	167,479	139,112

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, was as follows:

	2018				
Name of directors	**Fees** *HK$'000*	**Salaries and other benefits** *HK$'000*	**Discretionary incentive payments** *HK$'000*	**Retirement benefit scheme contributions** *HK$'000*	**Total** *HK$'000*
Executive directors:					
Mr. Ng Tak Kwan	–	2,190	7,803	18	10,011
Mr. Leung Kai Ming	–	2,185	5,000	13	7,198
Mr. Xie Jianyu	–	1,568	800	18	2,386
Mr. Ng Chi Hang	–	1,371	1,000	18	2,389
Mr. Pong Kam Keung *(note)*	–	1,203	500	13	1,716
Non-executive director:					
Mr. Liu Zaiwang	600	–	–	–	600
Independent non-executive directors:					
Mr. Tam Anthony Chun Hung	290	–	–	–	290
Mr. Huang Pu	290	–	–	–	290
Mr. Li Zheng	290	–	–	–	290
	1,470	8,517	15,103	80	25,170

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

	2017				
Name of directors	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Discretionary incentive payments *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Total *HK$'000*
Executive directors:					
Mr. Ng Tak Kwan	–	2,040	7,051	18	9,109
Mr. Leung Kai Ming	–	2,019	4,000	18	6,037
Mr. Xie Jianyu	–	1,471	500	18	1,989
Mr. Ng Chi Hang	–	1,285	800	18	2,103
Mr. Pong Kam Keung *(note)*	–	1,704	660	18	2,382
Non-executive director:					
Mr. Liu Zaiwang	600	–	–	–	600
Independent non-executive directors:					
Mr. Tam Anthony Chun Hung	240	–	–	–	240
Mr. Huang Pu	240	–	–	–	240
Mr. Li Zheng	240	–	–	–	240
	1,320	8,519	13,011	90	22,940

Note: Resigned on 1 February 2018

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive director's emolument shown above was for his services as a director of the Company and the independent non-executive directors' emoluments shown above were for the services as directors of the Company.

The discretionary incentive payments were discretionary and were determined with reference to the performance of individuals and the Group.

Mr. Ng Tak Kwan is also the chief executive officer of the Company (the "Chief Executive") and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included four directors (2017: four directors), details of whose emoluments were disclosed in note 12 above. Details of the remuneration for the year of the remaining one (2017: one) highest paid employee who was neither a director nor chief executive of the Company was as follows:

	2018 **_HK$'000_**	2017 _HK$'000_
Salaries and other benefits	**1,585**	1,537
Discretionary incentive payments	**1,500**	1,004
Contributions to retirement benefit scheme	**18**	18
	3,103	2,559

The number of the highest paid employees who were not the directors of the Company whose remuneration fell within the following bands was as follows:

	2018	2017
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–

No emolument was paid to the directors of the Company and the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office and no directors waived any of their emoluments for both years.

14. DIVIDENDS

	2018 **HK$'000**	2017 HK$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
Final dividend for the year ended 31 December 2017: HK2 cents (2016: HK3 cents) per share	**43,164**	64,746
Interim dividend for the year ended 31 December 2018: HK2 cents (2017: HK7 cents) per share	**43,164**	151,075
	86,328	215,821
Dividend declared by Sundart Beijing *(note)*	**–**	100,000
	86,328	315,821

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK5 cents (2017: final dividend in respect of the year ended 31 December 2017 of HK2 cents) per share, amounting to HK$107,911,000 (2017: HK$43,164,000) in aggregate, has been proposed by the directors of the Company and is subject to the approval of the shareholders at the forthcoming annual general meeting.

Note: On 22 June 2017, the dividend in a sum of HK$100,000,000 was declared by Sundart Beijing to Jangho HK and Jangho Co, the then shareholders of Sundart Beijing, before the completion of the combination of entities under common control by the Group on 10 August 2017 as described in note 1. Sundart Beijing paid the dividend on 27 July 2017.

15. EARNINGS PER SHARE

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

	2018 **HK$'000**	2017 HK$'000
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**381,202**	421,093

	Number of shares	
	2018 **'000**	2017 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,158,210**	2,158,210

No diluted earnings per share were presented for both years as there were no potential ordinary shares in issue.

16. PROPERTY, PLANT AND EQUIPMENT

	Land and building *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
COST						
At 1 January 2017	–	22,634	23,525	14,833	3,122	64,114
Exchange adjustments	–	1,868	1,381	609	90	3,948
Additions	–	11,263	3,378	786	1,711	17,138
Disposals	–	–	(150)	(227)	(991)	(1,368)
At 31 December 2017	–	35,765	28,134	16,001	3,932	83,832
Exchange adjustments	–	(1,613)	(955)	(394)	(67)	(3,029)
Additions	–	9,065	1,372	1,054	–	11,491
Acquired on acquisition of a subsidiary *(note 35)*	106,100	–	–	–	–	106,100
Disposals	–	(8,067)	(4,301)	(2,625)	(342)	(15,335)
At 31 December 2018	106,100	35,150	24,250	14,036	3,523	183,059
DEPRECIATION						
At 1 January 2017	–	14,190	15,333	11,566	2,397	43,486
Exchange adjustments	–	1,013	717	472	35	2,237
Provided for the year	–	3,275	561	1,642	391	5,869
Eliminated on disposals	–	–	(119)	(222)	(937)	(1,278)
At 31 December 2017	–	18,478	16,492	13,458	1,886	50,314
Exchange adjustments	–	(685)	(489)	(326)	(25)	(1,525)
Provided for the year	1,529	3,302	2,069	1,254	404	8,558
Eliminated on disposals	–	(6,215)	(3,081)	(2,172)	(342)	(11,810)
At 31 December 2018	1,529	14,880	14,991	12,214	1,923	45,537
CARRYING VALUES						
At 31 December 2018	104,571	20,270	9,259	1,822	1,600	137,522
At 31 December 2017	–	17,287	11,642	2,543	2,046	33,518

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Land and building	The remaining term of lease
Leasehold improvements	10%–50% or over the remaining term of lease, if shorter
Plant and machinery	9%–30%
Furniture, fixtures and equipment	10%–50% or over the remaining term of lease, if shorter
Motor vehicles	18%–$33^1/_3$%

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2017	7,503
Addition	2,410
Exchange adjustments	517
Unrealised gain on fair value recognised in profit or loss	115
At 31 December 2017	10,545
Exchange adjustments	(374)
At 31 December 2018	10,171

During the year ended 31 December 2017, the Group had acquired a piece or parcel of ground situated in Hong Kong at a consideration in cash of HK$2,410,000 which is held for capital appreciation.

As at 31 December 2018 and 31 December 2017, the Group's property interests (i) located in the PRC which is a commercial property held under operating leases to earn rental income; and (ii) situated in Hong Kong which is a piece or parcel of ground held for capital appreciation. They are measured using the fair value model and are classified and accounted for as investment properties. There is no fair value change (2017: HK$115,000) recognised for the year ended 31 December 2018.

The fair values of the Group's investment properties as at 31 December 2018 and 31 December 2017 has been arrived at on the basis of a valuation carried out on the respective dates by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group.

The valuations have been arrived at using direct comparison method by reference to market evidence of transaction prices for similar properties in the same locations and conditions or, where appropriate, by capitalising the market rentals of all lettable units of the properties by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuer for the similar properties in the locality and adjusted based on the valuer's knowledge of the factors specific to the respective properties.

In estimating the fair values of the properties, the highest and best use of the properties is their current use.

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categories (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Investment property in Hong Kong with carrying amount of HK$2,410,000 (2017: HK$2,410,000)	Level 3	Direct comparison method The key input is		

17. INVESTMENT PROPERTIES *(Continued)*

Investment properties held by the Group in the consolidated statement of financial position	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
		(1) Unit sale rate	Unit sale rate, taking into account the size, location, and character, between the comparable and the property, ranging from HK$344 to HK$550 (2017: HK$328 to HK$459) per square feet on gross floor area basis for the property.	An increase in the unit sale rate used would result in an increase in the fair value measurement of the investment property by the same percentage increase, and vice versa.
Investment property in the PRC with carrying amount of HK$7,761,000 (2017: HK$8,135,000)	Level 3	Direct comparison method The key input is		
		(1) Unit sale rate	Unit sale rate, taking into account the size, location, and character, between the comparable and the property, ranging from RMB41,000 to RMB46,000 (2017: RMB41,000 to RMB47,000) per square meter on gross floor area basis for the property.	An increase in the unit sale rate used would result in an increase in the fair value measurement of the investment property by the same percentage increase, and vice versa.

The fair values of all investment properties as at 31 December 2018 and 31 December 2017 were measured using valuation techniques with significant unobservable inputs and hence were classified as Level 3 of the fair value hierarchy. There were no transfers into or out of Level 3 during the year.

18. GOODWILL

	HK$'000
Carrying amount as at 1 January 2017, 31 December 2017 and 31 December 2018	1,510

Amount represented the excess of consideration paid over the fair value of net assets taken over on the acquisition of subsidiaries, Sundart Timber Products Company Limited ("Sundart Timber") and Sundart Living Limited ("Sundart Living"). For the purpose of impairment test, the carrying amount of goodwill had been allocated to the cash-generating unit of Sundart Timber and Sundart Living under the fitting-out works in Hong Kong segment, and the manufacturing, sourcing and distribution of interior decorative materials segment, amounting to HK$746,000 and HK$764,000, respectively. The recoverable amounts of cash-generating units of Sundart Timber and Sundart Living have been determined based on a value in use calculation.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS

	2018 **HK$'000**	2017 HK$'000
Financial assets at FVTPL		
Listed equity securities	**107,569**	–
Unlisted equity fund	**128,760**	–
	236,329	–

	2017 HK$'000
AFS investments	
Listed equity securities	126,429
Unlisted equity fund	125,800
	252,229

As at 31 December 2017, the AFS investments were carried at fair value at the end of the reporting period and the changes in the fair value was recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. At the date of initial application of HKFRS 9, the Group's equity investments of HK$252,229,000 were reclassified from AFS investments to financial assets at FVTPL. The fair value gain of HK$6,921,000 relating to those investments previously carried at fair value were transferred from investment revaluation reserve to accumulated profits as at 1 January 2018. During the current year, loss from changes in fair value of financial assets at FVTPL of HK$36,481,000 was recognised in the profit or loss. For the year ended 31 December 2017, an impairment loss of HK$8,676,000 was recognised in the profit or loss due to the prolonged decline in the market price of the investment below cost.

During the year, the Group further injected to the equity fund at a consideration of HK$2,960,000 in fulfilling capital commitment (2017: HK$125,800,000) in capacity as a limited partnership. As at 31 December 2018, the Group's interest in the equity fund remained at 18.71% (2017: 18.71%). The general partner of the equity fund is a subsidiary of a related company listed in Hong Kong. The unlisted equity fund was in relation to commercial buildings development in Hong Kong. It was measured at fair value at the end of the reporting period. The equity fund with more than 12 months operation period from the end of reporting period was classified as non-current assets in the consolidated statement of financial position. The Group has committed to contribute a pre-determined capital amount in the equity fund and the realised gain or loss of the fund was recognised in the profit or loss. The equity fund may call upon further capital contribution if required up to the pre-determined capital amount. There was no capital returned to the Group from the equity fund during the year ended 31 December 2018.

At the end of the reporting period, the listed equity securities of HK$107,569,000 (2017: HK$126,429,000) were pledged to secure other borrowings as set out in note 31.

20. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Unlisted shares, at cost	–	–
Deemed contribution to an associate	80,800	100,000
Share of post-acquisition profits and other comprehensive income, net of dividends received	49,076	33,216
	129,876	133,216

Deemed contribution to an associate represents loan advanced to an associate which is unsecured, interest free and has no fixed repayment terms. In the opinion of the directors of the Company, the loan is in substance formed part of investment in an associate. During the year ended 31 December 2018, HK$19,200,000 (2017: nil) of the loan advanced to an associate was repaid.

As at 31 December 2018 and 31 December 2017, the Group had interests in the following associates:

Name of entity	Form of business structure	Country of incorporation	Principal place of operation	Class of share held	Proportion of issued capital and voting rights held by the Group		Principal activities
					2018 %	2017 %	
EAGLE VISION DEVELOPMENT LIMITED ("Eagle Vision")	Incorporated	BVI	Hong Kong	Ordinary	28.57	28.57	Investment holding
FORTUNE MARVEL LIMITED ("FML")	Incorporated	BVI	Hong Kong	Ordinary	30	30	Investment holding

20. INTERESTS IN ASSOCIATES *(Continued)*

The summarised consolidated financial information of Eagle Vision and FML and which is prepared in accordance with HKFRSs, was set out below:

	2018			2017		
	Eagle Vision ***HK$'000***	**FML** ***HK$'000***	**Total** ***HK$'000***	Eagle Vision *HK$'000*	FML *HK$'000*	Total *HK$'000*
Current assets	**573,741**	**–**	**573,741**	375,677	–	375,677
Non-current assets	**394,205**	**–**	**394,205**	392,399	–	392,399
Current liabilities	**(421,013)**	**(45)**	**(421,058)**	(483,875)	(24)	(483,899)
Non-current liabilities	**(15,427)**	**–**	**(15,427)**	(16,418)	–	(16,418)
Net assets (liabilities) attributable to:						
Shareholders	**171,823**	**(45)**	**171,778**	116,288	(24)	116,264
Non-controlling interests	**359,683**	**–**	**359,683**	151,495	–	151,495
	531,506	**(45)**	**531,461**	267,783	(24)	267,759
Revenue	**503,957**	**–**	**503,957**	450,209	–	450,209
Profit (loss) for the year	**42,876**	**(20)**	**42,856**	72,817	(12)	72,805
Attributable to:						
Shareholders	**26,026**	**(20)**	**26,006**	50,003	(12)	49,991
Non-controlling interests	**16,850**	**–**	**16,850**	22,814	–	22,814
	42,876	**(20)**	**42,856**	72,817	(12)	72,805
Other comprehensive (expense) income for the year	**(11,904)**	**–**	**(11,904)**	10,596	–	10,596
Attributable to:						
Shareholders	**(6,552)**	**–**	**(6,552)**	7,334	–	7,334
Non-controlling interests	**(5,352)**	**–**	**(5,352)**	3,262	–	3,262
	(11,904)	**–**	**(11,904)**	10,596	–	10,596

20. INTERESTS IN ASSOCIATES *(Continued)*

	2018			2017		
	Eagle Vision	**FML**	**Total**	Eagle Vision	FML	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Total comprehensive income (expense) for the year	**30,972**	**(20)**	**30,952**	83,413	(12)	83,401
Attributable to:						
Shareholders	**19,474**	**(20)**	**19,454**	57,337	(12)	57,325
Non-controlling interests	**11,498**	**–**	**11,498**	26,076	–	26,076
	30,972	**(20)**	**30,952**	83,413	(12)	83,401

Reconciliation of the above summarised consolidated financial information of Eagle Vision and FML to the carrying amounts of the interests in the associates recognised in the consolidated financial statements:

	2018			2017		
	Eagle Vision	**FML**	**Total**	Eagle Vision	FML	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Net assets (liabilities) attributable to shareholders	**171,823**	**(45)**	**171,778**	116,288	(24)	116,264
Proportion of the Group's ownership interests	**28.57%**	**30%**	**N/A**	28.57%	30%	N/A
	49,089	**(13)**	**49,076**	33,223	(7)	33,216
Deemed investments	**80,800**	**–**	**80,800**	100,000	–	100,000
Carrying amount of the Group's interests	**129,889**	**(13)**	**129,876**	133,223	(7)	133,216

21. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
At net realisable value:		
Raw materials	**16,797**	23,756
Work-in-progress	**26,451**	45,748
Finished goods	**97**	218
	43,345	69,722

22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE AND RETENTIONS RECEIVABLE

Trade and other receivables, bills receivable and retentions receivable at the end of each reporting period comprised receivables from third parties as follows:

Trade and other receivables and bills receivable

	2018 **HK$'000**	2017 HK$'000
Trade receivables		
– fitting-out works	**410,048**	446,326
– alteration and addition and construction works	**94,030**	97,270
– manufacturing, sourcing and distribution of interior decorative materials	**2,582**	3,048
	506,660	546,644
Less: Allowance for credit losses	**(16,878)**	–
	489,782	546,644
Unbilled receivable *(note)*	**782,189**	779,785
Prepayments and deposits	**346,777**	449,083
Other receivables	**4,701**	10,548
Bills receivable	**44,639**	12,993
	1,668,088	1,799,053

Note: Unbilled receivable represented the remaining balances of contract receivable to be billed for completed portion of construction contracts according to the contract terms.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$489,782,000 and HK$546,644,000, respectively.

Trade receivables

The Group allows an average credit period of 7 to 90 days to its trade customers. The following was an aged analysis of trade receivables, net of allowance for credit losses, presented based on invoice date at the end of each reporting period.

	2018 **HK$'000**	2017 HK$'000
1–30 days	**318,289**	272,401
31–60 days	**42,076**	90,908
61–90 days	**5,596**	8,295
Over 90 days	**123,821**	175,040
	489,782	546,644

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Recoverability of the existing customers is reviewed by the Group regularly.

22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE AND RETENTIONS RECEIVABLE *(Continued)*

Trade and other receivables and bills receivable *(Continued)*

Trade receivables *(Continued)*

As at 31 December 2018, included in the Group's trade receivable balances were customers with an aggregate carrying amount of HK$148,746,000 which were past due as at the reporting date. Out of the past due balances, HK$121,286,000 has been past due more than 90 days and was not considered as in default. The Group rebutted the presumption of default under expected credit losses mode for trade receivables over 90 days past due based on no significant change in credit quality after understood these customers' background as well as the good payment records of and continuous business relationship with those customers. Further, such long outstanding balances were primarily due to overdue payment was a common practice in construction industry and prolonged internal procedures of the relevant customers. These customers were assessed individually and/or collectively using a provision matrix with appropriate groupings for the credit risk based on their historical default rate, probability of default and exposure of default and were adjusted for forward-looking information that was available without undue cost or effort. Other than bills received, the Group did not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivable balances were receivables with an aggregate carrying amount of HK$222,235,000 which was past due at the end of the reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and the amounts were still considered recoverable. Accordingly, the directors of the Company believed that no impairment was required. The Group did not hold any collateral over these balances.

Ageing of trade receivables which were past due but not impaired:

	2017 *HK$'000*
Overdue	
1–30 days	41,331
31–60 days	7,357
61–90 days	15,331
Over 90 days	158,216
	222,235

22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE AND RETENTIONS RECEIVABLE *(Continued)*

Trade and other receivables and bills receivable *(Continued)*

Bills receivable

As at 31 December 2018, total bills receivable amounting to HK$44,639,000 (2017: HK$12,993,000) were held by the Group for future settlement of trade receivables. The Group continued to recognise their full carrying amounts at the end of the reporting period. All bills receivable held by the Group was with a maturity period of less than one year.

Ageing of bills receivable was as follows:

	2018 **HK$'000**	2017 HK$'000
1-30 days	**36,914** (Note)	8,380
31-60 days	**–**	4,613
61-90 days	**2,805**	–
Over 90 days	**4,920**	–
	44,639	12,993

Note: The relevant bills receivable was issued by a related company in which Mr. Liu Zaiwang, the non-executive director of the Company, and his spouse have 95% beneficial interest.

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

Retentions receivable

As at 31 December 2017, retentions receivable of HK$710,093,000, of which HK$260,386,000 was expected to be recovered after one year. Upon application of HKFRS 15, the retentions receivable was reclassified to contract assets.

23. AMOUNTS DUE FROM RELATED COMPANIES

	2018 ***HK$'000***	2017 *HK$'000*
Trade receivable	**6,921** ***(Note a)***	45,949 *(Note a)*
Retentions receivable	**–**	2,562 *(Note a and b)*
Other receivable	**–**	823 *(Note c)*
	6,921	49,334

Notes:

(a) The amount due from a related company in which Mr. Liu Zaiwang and his spouse have 95% beneficial interest.

(b) The amount due from an associate of Jangho Co in which Jangho Co has 30% beneficial interest.

(c) The amount due from a subsidiary of Rykadan Capital Limited, of which the Chief Executive is the substantial shareholder.

Trade receivable from a related company

The Group allows a credit period of 30 days to its trade receivable due from a related company. As at 31 December 2018 and 31 December 2017, the trade receivable due from a related company was aged within 30 days based on invoice date and not past due.

Retentions receivable from related companies

As at 31 December 2017, retentions receivable due from related companies was expected to be recovered after one year. Upon application of HKFRS 15, the retentions receivable was reclassified to contract assets.

Other receivable from a related company

Other receivable from a related company as at 31 December 2017 represented deposits paid to the related company.

Details of impairment assessment of amounts due from related companies for the year ended 31 December 2018 were set out in note 39.

24. AMOUNT DUE FROM/TO A FELLOW SUBSIDIARY

Amount due from a fellow subsidiary

	2018 HK$'000	2017 HK$'000
Trade receivable	–	610
Retentions receivable	–	305
	–	915

The Group allows a credit period of 30 days to its trade receivable due from a fellow subsidiary. As at 31 December 2017, the trade receivable due from a fellow subsidiary was aged within 60 days based on invoice date and past due within 30 days at 31 December 2017 for which the Group has not provided for impairment loss as this balance was subsequently settled. The Group did not hold any collateral over this balance.

As at 31 December 2017, retentions receivable due from a fellow subsidiary was expected to be recovered after one year. Upon application of HKFRS 15, the retentions receivable was reclassified to contract assets.

Amount due to a fellow subsidiary

	2018 HK$'000	2017 HK$'000
Trade payable	–	1,756
Retentions payable	–	857
	–	2,613

The fellow subsidiary allows a credit period of 30 days to the Group.

As at 31 December 2017, trade payable due to a fellow subsidiary was aged within 30 days based on invoice date.

As at 31 December 2017, retentions payable due to a fellow subsidiary was expected to be paid after one year.

25A. CONTRACT ASSETS

	31.12.2018 *HK$'000*	1.1.2018* *HK$'000*
Fitting-out works	**1,468,093**	1,589,971
Alteration and addition and construction works	**307,285**	196,412
Manufacturing, sourcing and distribution of interior decorative materials	**505**	3,662
Shown under current assets	**1,775,883**	1,790,045

* The amounts in this column are after the adjustment from the application of HKFRS 15.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the construction services are performed representing the Group's right to consideration for the services performed and not billed because the rights are conditioned on the Group's future performance accepted by the customers. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers its contract assets to trade receivables when progress certificate/invoice is issued. As at 31 December 2018, contract assets included retentions receivable of HK$692,019,000 which comprised HK$689,400,000, HK$2,444,000 and HK$175,000 from external customers, related companies and a fellow subsidiary, respectively. The Group generally provides their customers with one to two years maintenance period from the date of the practical completion of the project. Upon the expiration of maintenance period, the customers will provide a maintenance certificate and pay the retentions within the term specified in the contract. The details of the typical payment terms which impact on the amount of contract assets recognised are set out in note 5.

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

The Group applies the simplified approach to provide the ECL prescribed by HKFRS 9. Impairment loss of HK$10,797,000 was recognised during the year. Details of the impairment assessment were set out in note 39.

25B. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2017 *HK$'000*
Contracts in progress at the end of the reporting period:	
Contract costs incurred plus recognised profits less recognised losses	14,929,415
Less: Progress billings	(14,049,588)
	879,827
Analysed for reporting purposes as:	
Amounts due from contract customers	1,077,085
Amounts due to contract customers	(197,258)
	879,827

The Group's retentions held by customers and advances received from customers for contract work were as follows:

	2017 *HK$'000*
Retentions receivable for contract work	
External customers (included in retentions receivable and amounts due from related companies and a fellow subsidiary)	712,960
Advances received for contract work	
External customers (included in trade and other payables)	46,685

26. NOTE RECEIVABLE

During the year, the Group subscribed for a short term note (the "Note") from an independent third party matured on 18 October 2018 (2017: 18 September 2018) with a fixed interest rate of 3.0% (2017: 3.0%) per annum at a consideration of HK$30,000,000 (2017: HK$50,000,000). The maturity dates of the Notes of HK$30,000,000 and HK$50,000,000 were extended to 21 December 2018 and 28 December 2018, respectively, with the interest rate increased to fixed rate of 4.2% and were redeemed accordingly.

The Notes were measured at amortised cost using the effective interest method, less any impairment and guaranteed by a director who was the sole shareholder of the issuer.

27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits carried interest at market rates which ranged from 0.30% to 0.35% (2017: 0.30% to 0.39%) per annum.

As at 31 December 2018, the bank balances included a sum of HK$16,393,000 (2017: nil) deposits carried fixed interest rate at 2.05% per annum. The remaining balances carried interest at market rates which ranged from 0.001% to 1% (2017: 0.001% to 0.35%) per annum as at 31 December 2018.

Pledged bank deposits represented deposits pledged to secure certain bills payable, certain performance bonds, certain advance payment bonds and tender bonds and were therefore classified as current assets.

As at 31 December 2018, the Group's pledged bank deposits amounting to HK$48,633,000 (2017: HK$63,273,000) and bank balances amounting to HK$499,635,000 (2017: HK$334,443,000), respectively, were denominated in RMB.

Details of impairment assessment of pledged bank deposits and bank balances for the year ended 31 December 2018 were set out in note 39.

28. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

Trade and other payables

Trade and other payables at the end of the reporting period comprised amounts outstanding for trade purposes and daily operating costs. The average credit period taken for trade purchase is 7 to 90 days.

	2018 HK$'000	2017 HK$'000
Contract creditors and suppliers	**1,508,411**	1,550,152
Retentions payable	**346,981**	286,698
	1,855,392	1,836,850
Advances received	**–**	50,801
Other tax payable	**55,977**	61,964
Other payables and accruals	**73,855**	75,227
Total	**1,985,224**	2,024,842

The aged analysis of contract creditors and suppliers was stated based on invoice date as follows:

	2018 HK$'000	2017 HK$'000
1–30 days	**1,089,414**	1,156,003
31–60 days	**130,861**	126,115
61–90 days	**38,165**	82,823
Over 90 days	**249,971**	185,211
	1,508,411	1,550,152

As at 31 December 2018, the Group's retentions payable of HK$145,334,000 (2017: HK$111,401,000) was expected to be paid after one year.

Bills payable

As at 31 December 2018 and 31 December 2017, certain bills payable were secured by pledged bank deposits as set out in note 27 and were repayable as follows:

	2018 HK$'000	2017 HK$'000
1–30 days	**43,567**	25,889
31–60 days	**23,651**	77,906
61–90 days	**33,572**	49,825
Over 90 days	**114,090**	80,133
	214,880	233,753

29. CONTRACT LIABILITIES

	31.12.2018 ***HK$'000***	1.1.2018* *HK$'000*
Fitting-out works	**101,599**	240,542
Alteration and addition and construction works	**7,788**	3,454
Manufacturing, sourcing and distribution of interior decorative materials	**614**	4,063
Shown under current liabilities	**110,001**	248,059

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

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

	Construction contracts *HK$'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year	231,953

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

The Group requires certain customers to provide upfront deposits range from 5% to 20% of total contract sum, when the Group receives a deposit before the project commences, this will give rise to contract liabilities at the start of a contract, until the full amount of deposit is deducted proportionately from monthly progress payment.

30. BANK BORROWINGS

	2018 ***HK$'000***	2017 *HK$'000*
Bank borrowings – unsecured *(note a)*	**294,539**	307,557
Carrying amount of the above bank borrowings that contain a repayment on demand clause (shown under current liabilities) but repayable as follows *(note b)*:		
– within one year	**199,539**	187,557
– more than one year but not exceeding two years	**80,000**	60,000
– more than two years but not exceeding five years	**15,000**	60,000
	294,539	307,557

30. BANK BORROWINGS *(Continued)*

Notes:

(a) As at 31 December 2018 and 31 December 2017, all of the Group's bank borrowings were unsecured. The bank borrowings bore interest at 1.35% to 2% over Hong Kong Interbank Offered Rate per annum (2017: 1.35% to 1.50% over Hong Kong Interbank Offered Rate per annum; or 1.50% over London Interbank offered Rate per annum) and interest was repriced from one month to four months (2017: from two weeks to five months). As at 31 December 2018, the average and the ranges of effective interest rate (which is also equal to contracted interest rate) on the Group's bank borrowings was 3.96% and 3.54% to 4.48% per annum, respectively (2017: 2.61% and 1.50% to 2.95% per annum, respectively).

(b) The amounts due are based on scheduled repayment dates as set out in the banking facility letters.

31. OTHER BORROWINGS

	2018 **HK$'000**	2017 *HK$'000*
Carrying amount of secured other borrowings that contain a repayment on demand clause (shown under current liabilities)	–	34,139

As at 31 December 2017, the Group had fixed rate other borrowings which bore interest at 8% per annum and secured by certain AFS investments as set out in note 19. All of the other borrowings were repaid during the year.

32. DEFERRED TAXATION

The following were the major deferred tax liabilities recognised and movements thereon during the years:

	HK$'000
At 1 January 2017	906
Exchange adjustments	63
Charged to profit or loss *(note 10)*	40
At 31 December 2017	1,009
Exchange adjustments	(46)
At 31 December 2018	963

Deferred taxation represented the temporary differences between the carrying amounts of the investment property situated in the PRC and the corresponding tax bases.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the forseeable future.

At the end of the reporting period, the Group's unused estimated tax losses of HK$30,413,000 (2017: HK$18,523,000) were available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to unpredictability of future profit streams. Included in unrecognised tax losses were HK$9,187,000 and HK$7,789,000 (2017: HK$9,283,000 and nil) that will expire in 2022 and 2023, respectively. The remaining losses of HK$13,437,000 (2017: HK$9,240,000) may be carried forward indefinitely.

33. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Issued and fully paid ordinary shares with no par value		
At 1 January 2017, 31 December 2017 and 31 December 2018	2,158,210	1,246,815

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Investments in subsidiaries	**1,468,385**	1,454,327
Property, plant and equipment	**444**	462
	1,468,829	1,454,789
Current assets		
Other receivables, prepayments and deposits	**2,101**	2,184
Tax recoverable	**75**	65
Bank balances and cash	**7,962**	3,109
	10,138	5,358
Current liabilities		
Other payables	**5,132**	4,926
Bank borrowings	**170,000**	150,000
	175,132	154,926
Net current liabilities	**(164,994)**	(149,568)
Total assets less current liabilities	**1,303,835**	1,305,221
Capital and reserves		
Share capital	**1,246,815**	1,246,815
Reserves	**57,020**	58,406
	1,303,835	1,305,221

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Movements in the Company's reserves

	Share premium *HK$'000*	Other reserve *HK$'000*	Accumulated profits *HK$'000*	Total *HK$'000*
At 1 January 2017	19,700	33,600	6,982	60,282
Profit for the year	–	–	213,945	213,945
Dividends paid	–	–	(215,821)	(215,821)
At 31 December 2017	19,700	33,600	5,106	58,406
Profit for the year	–	–	84,942	84,942
Dividends paid	–	–	(86,328)	(86,328)
At 31 December 2018	19,700	33,600	3,720	57,020

35. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

On 10 August 2018, the Group entered into a share purchase agreement with an independent third party, pursuant to which the Group purchased 100% equity interest in In Wave Limited at a consideration of HK$106,006,000. The Group acquired a commercial property through acquisition of In Wave Limited. The transaction was completed on 31 August 2018.

Assets acquired and liabilities recognised at the date of acquisition were as follow:

	HK$'000
Property, plant and equipment *(note 16)*	106,100
Other receivables	124
Bank balance	1
Tax payable	(219)
Net assets acquired	106,006

35. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY *(Continued)*

Net cash outflow on acquisition of In Wave Limited

	HK$'000
Cash consideration paid	106,006
Less: Bank balance acquired	(1)
	106,005

No material acquisition related costs were incurred in the acquisition of In Wave Limited.

36. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises for factory, warehouses, office premises and staff quarters which fall due as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**17,633**	17,543
In the second to fifth year inclusive	**21,598**	33,968
	39,231	51,511

Leases for rented premises are negotiated for a period of 1 to 5 years with fixed rental.

The Group as lessor

Property rental income earned during the year ended 31 December 2018 was HK$541,000 (2017: HK$861,000). The investment property with a carrying amount of HK$7,761,000 (2017: HK$8,135,000) as at 31 December 2018 was held for rental purposes. The property held has been leased to a tenant for three years. The lease was cancellable and the tenant was required to give a one-month notice for the termination of the agreement.

At the end of the reporting period, the Group as lessor had contracted with a tenant for the following future minimum lease payments:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**142**	138

37. CAPITAL COMMITMENTS

	2018 **HK$'000**	2017 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– Property, plant and equipment	**1,038**	2,108
– Contribution to the capital of equity fund	**19,240**	22,200

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which includes bank borrowings and other borrowings disclosed in notes 30 and 31, respectively, net of cash and cash equivalents and pledged bank deposits and equity attributable to the owners of the Company, comprising issued share capital, reserves and accumulated 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, 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	**2,326,769**	–
Loans and receivables (including cash and cash equivalents)	**–**	2,929,545
Financial assets at FVTPL	**236,329**	–
AFS investments	**–**	252,229
	2,563,098	3,181,774
Financial liabilities		
Amortised cost	**2,481,791**	2,538,673

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

The Group's financial instruments include financial assets at FVTPL/AFS investments, trade and other receivables and bills receivable, amounts due from related companies/a fellow subsidiary, retentions receivable, note receivable, pledged bank deposits, bank balances and cash, trade and other payables, bills payable, amount due to a fellow subsidiary, bank borrowings and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, fair value interest rate risk, cash flow interest rate risk and equity price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

The group entities collect most of the revenue and incur most of the expenditures in their respective functional currencies. The directors of the Company consider that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of each individual group entity.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and liabilities that are denominated in currencies other than functional currency of its respective group entities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
HK$ against Macau Pataca ("MOP")	**87,071**	292,632	**31,902**	17,598
United States dollars ("USD") against HK$	**17,299**	65,304	**677**	392
USD against MOP	**90**	5,426	**79**	2,130
Australian dollars ("AUD") against HK$	**–**	5,152	**–**	–
RMB against MOP and HK$	**315**	550	**2,107**	2,158
HK$ against RMB	**12**	146	**–**	–
Euro against MOP and HK$	**6,817**	102	**527**	28,720
British Pound Sterling against HK$	**–**	3	**–**	–
Intra-group balances MOP and HK$ against RMB	**37,900**	36,054	**28,985**	21,652

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) *Currency risk (Continued)*

Sensitivity analysis

As HK$ is pegged to USD and the exchange rate of HK$/MOP and USD/MOP is relatively stable, the Group does not expect any significant foreign currency exposure arising from the fluctuation of the HK$/MOP, USD/HK$ and USD/MOP exchange rates. As a result, the directors of the Company consider that the sensitivity of the Group's exposure towards the change in foreign exchange rates between HK$/MOP, USD/HK$ and USD/MOP is minimal.

The following table details the Group's sensitivity to a 5% increase and decrease in AUD against HK$, RMB against MOP and HK$, Euro against MOP and HK$, and MOP and HK$ against RMB. 5% represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis of the Group's exposure to foreign currency risk at the end of the reporting period includes only outstanding foreign currency denominated monetary items.

A positive number below indicates an increase in post-tax profit for the current year where a 5% strengthening of AUD against HK$, RMB against MOP and HK$, Euro against MOP and HK$, or MOP and HK$ against RMB. For a 5% weakening of AUD against HK$, RMB against MOP and HK$, Euro against MOP and HK$, or MOP and HK$ against RMB, there would be an equal and opposite impact on the post-tax profit for the year as set out below:

	Increase (decrease) in post-tax profit	
	2018	2017
	HK$'000	*HK$'000*
AUD against HK$	**–**	215
RMB against MOP and HK$	**(79)**	(72)
Euro against MOP and HK$	**263**	(1,259)
MOP and HK$ against RMB	**379**	546

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) *Fair value interest rate risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group's fair value interest rate risk relates to fixed-rate of certain bank deposits and other borrowings (see note 31 for details of other borrowings). The management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(iii) Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's cash flow interest rate risk relates primarily to variable-rate pledged bank deposits, bank balances and bank borrowings (see note 27 for details of the pledged bank deposits and bank balances and note 30 for details of bank borrowings). The Group currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of each reporting period. For variable-rate pledged bank deposits, bank balances and bank borrowings, the analysis is prepared assuming the pledged bank deposits, bank balances and bank borrowings outstanding at the end of each reporting period were outstanding for the whole year. A 10 basis points increase or decrease in variable-rate pledged bank deposits and bank balances represents management's assessment of the reasonably possible change in interest rates. If interest rate increases/decreases by the aforesaid basis point, and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would increase/decrease by HK$823,000 (2017: HK$612,000). A 50 basis points increase or decrease in variable-rate bank borrowings represents management's assessment of the reasonably possible change in interest rates. If interest rate increases/decreases by the aforesaid basis point, and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease/increase by HK$1,233,000 (2017: HK$1,437,000).

(iv) Equity price risk

The Group's equity price risk mainly concentrated on financial assets at FVTPL/AFS investments. In addition, the Group has appointed a special team to monitor the equity price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the reporting date.

If the prices of the equity shares and fund had been 30% higher/lower:

- the profit for the year ended 31 December 2018 would increase/decrease by HK$70,899,000 as a result of the changes in fair value of financial assets at FVTPL;
- the investments revaluation reserve and profit for the year ended 31 December 2017 would increase/decrease by HK$27,039,000, respectively, as a result of the changes in fair value of AFS investments which have been impaired; and
- investments revaluation reserve for the year ended 31 December 2017 would increase/decrease by HK$48,630,000 for the Group as a result of the changes in fair value of other AFS investments.

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk 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. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables and contract assets arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Recoverability of the existing customers is reviewed by the Group regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other receivables and bills receivable

The management of the Group regularly reviews and assesses the credit quality of the counterparties. The Group uses 12m ECL to assess the loss allowance of other receivables and bills receivable since these receivables are not past due and there has not been a significant increase in credit risk since initial recognition. In this regard, the directors of the Company consider that the Group's credit risk is not significant.

Pledged bank deposits and bank balances

The credit risks on pledged bank deposits and bank balances are limited because the counterparties are financial institutions with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

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 and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	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 and policies *(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	12-month or lifetime ECL	Gross carrying amount *HK$'000*
Amounts due from related companies	*23*	Low risk	12m ECL (not credit-impaired)	6,921
Pledged bank deposits	*27*	Low risk	12m ECL (not credit-impaired)	48,633
Bank balances	*27*	Low risk	12m ECL (not credit-impaired)	887,419
Bills receivable	*22*	Low risk	12m ECL (not credit-impaired)	44,639
Other receivables (including certain deposits paid)	*22*	Low risk	12m ECL (not credit-impaired)	66,776
Trade receivables	*22*	*(Note)*	Lifetime ECL (not credit-impaired)	1,230,779
		Loss	Lifetime ECL (credit-impaired)	58,070
				1,288,849
Contract assets	*25A*	*(Note)*	Lifetime ECL (not credit-impaired)	1,741,431
		Loss	Lifetime ECL (credit-impaired)	45,249
				1,786,680

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Note:

For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors and contract assets with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. 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). Debtors and contract assets with credit-impaired with gross carrying amounts of HK$58,070,000 and HK$45,249,000, respectively as at 31 December 2018 were assessed individually.

Gross carrying amount

Internal credit rating	Trade receivables *HK$'000*	Contract assets *HK$'000*
Low risk	**1,027,210**	**1,680,106**
Watch list	**203,569**	**61,325**
	1,230,779	**1,741,431**

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$1,398,000 and nil impairment allowance for trade receivables and contract assets, respectively, based on the provision matrix. Impairment allowance of HK$15,574,000 and HK$10,797,000 were made on debtors and contract assets with credit-impaired debtors, respectively.

The following table shows the movement in lifetime ECL 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	–	–	–
– Impairment losses recognised	**1,398**	**15,574**	**16,972**
– Exchange adjustments	**(94)**	–	**(94)**
As at 31 December 2018	**1,304**	**15,574**	**16,878**

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivable is over three years past due, whichever occurs earlier.

The following tables show reconciliation of loss allowances that has been recognised for contract assets.

	Lifetime ECL (not credit-impaired) *HK$'000*	Lifetime ECL (credit-impaired) *HK$'000*	Total *HK$'000*
As at 1 January 2018	–	–	–
– Impairment losses recognised	–	10,797	10,797
As at 31 December 2018	–	10,797	10,797

Changes in the loss allowance for trade receivables and contract assets are mainly due to two debtors with gross carrying amounts of HK$58,070,000 and contract assets of HK$45,249,000 defaulted the payment during the year and determined as credit-impaired.

On 17 August 2017, Sundart Engineering Services (Macau) Limited ("Sundart Macau"), an indirectly wholly-owned subsidiary of the Company, served two notices of arbitration to a main contractor of two fitting-out projects undertaken by the Group for a hotel in Macau, seeking outstanding payments. It was agreed by the parties that the main contractor would make payment of the agreed amount (the "Agreed Amount") to Sundart Macau in relation to the subject fitting-out projects. Sundart Macau resumed the arbitration proceedings in December 2018 (the "Resumed Arbitration") as the main contractor has failed to settle the Agreed Amount after two instalments of payment since August 2018. The directors of the Company are of the opinion that the Resumed Arbitration will not materially affect the Group's operating and financial performance. No further impairment loss is made.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

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39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The table included both interest and principal cash flows. To the extent that interest flows were floating rate, the undiscounted amount was derived from contracted interest rate curve at the end of each reporting period.

	Weighted average interest rate *%*	Less than 4 months or on demand *HK$'000*	Between 4 to 6 months *HK$'000*	Between 7 to 12 months *HK$'000*	Between 1 to 5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Total carrying amount *HK$'000*
2018							
Non-derivative financial liabilities							
Trade and other payables	**N/A**	**1,750,128**	**42,370**	**34,540**	**145,334**	**1,972,372**	**1,972,372**
Bills payable	**N/A**	**100,790**	**106,910**	**7,180**	**–**	**214,880**	**214,880**
Bank borrowings	**N/A**	**294,539**	**–**	**–**	**–**	**294,539**	**294,539**
		2,145,457	**149,280**	**41,720**	**145,334**	**2,481,791**	**2,481,791**
2017							
Non-derivative financial liabilities							
Trade and other payables	N/A	1,777,889	32,139	39,182	111,401	1,960,611	1,960,611
Bills payable	N/A	153,619	80,134	–	–	233,753	233,753
Amount due to a fellow subsidiary	N/A	–	1,756	–	857	2,613	2,613
Bank borrowings	N/A	307,557	–	–	–	307,557	307,557
Other borrowings	8.00	683	34,531	–	–	35,214	34,139
		2,239,748	148,560	39,182	112,258	2,539,748	2,538,673

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Bank borrowings with a repayment on demand clause were included in the "Less than 4 months or on demand" time band in the above maturity analysis. As at 31 December 2018, the aggregate undiscounted principal amounts of the bank borrowings amounted to HK$294,539,000 (2017: HK$307,557,000). Taking into account the Group's financial position, the director of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such outstanding bank borrowings as at 31 December 2018 will be fully repaid by August 2021 (2017: November 2020) in accordance with the scheduled repayment dates set out in the banking facility letter, details of which are set out in the table below:

	Maturity analysis – Bank borrowings with a repayment on demand clause based on scheduled repayments						
	Weighted average interest rate %	Less than 1 year HK$'000	Between 1–2 years HK$'000	Between 3–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash outflows HK$'000	Carrying amount HK$'000
At 31 December 2018	**3.96**	**205,461**	**82,250**	**15,223**	**–**	**302,934**	**294,539**
At 31 December 2017	2.61	191,711	62,564	60,853	–	315,128	307,557

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. The management of the Group determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages an independent qualified professional valuer to perform the valuation. The management of the Group works closely with the valuer to establish the appropriate valuation techniques and inputs to the model. The respective management team reports the findings to the directors of the Company regularly to explain the cause of fluctuations in the fair value of the assets.

	2018 HK$'000	2017 HK$'000	Fair value hierarchy
Financial assets at FVTPL/ AFS investments			
Listed equity securities	**107,569**	126,429	Level 1
Unlisted equity fund	**128,760**	125,800	Level 3
Total	**236,329**	252,229	

39. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements of financial instruments *(Continued)*

There were no transfers between Levels 1, 2 and 3 during the year.

The fair values of listed equity securities are determined with reference to quoted market bid prices from relevant stock exchanges.

The fair value of unlisted equity fund is determined with reference to market values of underlying asset, which mainly comprise investment property located in Hong Kong held by the investee fund and take into account the discount for lack of marketability. The valuation of the property was principally arrived at using the comparison method, in which property is valued on the assumption that the property can be sold with the benefit of vacant possession. Comparison based on prices realised on actual sales of comparable properties is made for similar properties in the similar location. The significant unobservable inputs include the discount for lack of marketability for the underlying asset. An increase in the rate to discounting for lack of marketability used in the valuation would result in a decrease in the fair value measurement of the unlisted equity fund and vice versa.

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at FVTPL/AFS investments *HK$'000*
At 1 January 2017	–
Addition	125,800
At 31 December 2017	125,800
Addition	2,960
At 31 December 2018	128,760

No fair value change of the unlisted equity fund was recognised in profit or loss during the year.

The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Except as detailed in above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

40. PERFORMANCE BONDS, ADVANCE PAYMENT BONDS AND TENDER BONDS

As at 31 December 2018, the Group has issued performance bonds, advance payment bonds and tender bonds in respect of certain supply and installation contracts and a supply contract through the banks amounting to HK$628,562,000 (2017: HK$876,201,000).

As at 31 December 2018 and 31 December 2017, certain performance bonds, advance payment bonds and tender bonds were secured by certain pledged bank deposits as set out in note 27.

41. RETIREMENT BENEFIT PLANS

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of a specified amount or 5% of the relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the subsidiaries operated in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. These subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits.

Eligible employees in Macau currently participate in a defined contribution pension scheme operated by the local government which is a fixed amount for each employee.

The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the Group has made contributions to retirement benefit schemes as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Contributions paid and payable	**15,537**	13,695
Less: Capitalised to contract costs	**(6,593)**	(6,223)
	8,944	7,472

42. SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to a resolution passed on 1 December 2015 (the "Share Option Scheme") for the purpose of providing incentives or rewards to any executives, any employee (including proposed, full-time or part-time employee), a director or proposed director (including an independent non-executive director), a direct or indirect shareholder of any member of the Company and its subsidiaries and an associate of any of the aforementioned persons ("Eligible Persons") who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group. Under the Share Option Scheme, the board of directors of the Company may grant options to Eligible Persons, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at 29 December 2015, being the date of the listing of ordinary shares of the Company (i.e. 200,000,000 shares). The maximum number of shares issued and to be issued upon exercise of the options granted to each Eligible Persons (including both exercised and outstanding options), in any 12-month period shall not exceed 1% of the shares of the Company in issue for the time.

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

No share options were granted, exercised, cancelled, lapsed, forfeited or expired during the year.

43. 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 changes. 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.

	Borrowings *HK$'000*	**Dividend payable** *HK$'000*	**Total** *HK$'000*
At 1 January 2018	**341,696**	**–**	**341,696**
Financing cash flows	**(47,157)**	**(86,328)**	**(133,485)**
Dividends recognised as distribution	**–**	**86,328**	**86,328**
At 31 December 2018	**294,539**	**–**	**294,539**
At 1 January 2017	–	–	–
Financing cash flows	341,696	(315,821)	25,875
Dividends recognised as distribution	–	315,821	315,821
At 31 December 2017	341,696	–	341,696

44. RELATED PARTY TRANSACTIONS

Apart from amounts due from related companies and amount due from/to a fellow subsidiary as set out in notes 23 and 24, respectively, the Group had entered into the following significant transactions with its related companies and group companies:

Relationship	Transaction	2018 HK$'000	2017 HK$'000
An intermediate holding company	Acquisition of 75% equity interest in Sundart Beijing	–	390,000
Ultimate holding company	Acquisition of 25% equity interest in Sundart Beijing	–	130,000
	Entrustment fee income	93	42
Fellow subsidiaries	Specialised works subcontracting costs	38	17,616
	Technical advisory services fee expenses	5,870	2,215
	Agency services and entrustment fee income	242	10,224
	Revenue from fitting-out works	4,340	5,299
An associate of ultimate holding company	Revenue from fitting-out works	–	2,494
Subsidiaries of an associate	Design and consultancy fee income	–	219
	Revenue from fitting-out works	–	164
A related company *(note a)*	Revenue from fitting-out works	–	45,270
A subsidiary of a related company *(note b)*	Materials purchased	3,040	–

Notes:

(a) This related company in which Mr. Liu Zaiwang and his spouse have 95% beneficial interest.

(b) The related company refers to Rykadan Capital Limited, of which the Chief Executive is the substantial shareholder.

44. RELATED PARTY TRANSACTIONS *(Continued)*

In addition,

(a) as at 31 December 2018, the ultimate holding company had outstanding performance bonds, advance payment bonds and a tender bond amounting to HK$107,683,000 (2017: HK$125,491,000) issued in favour of customers of Sundart Beijing through a bank.

(b) as at 31 December 2018, one (2017: all) of Sundart Beijing's banking facilities was guaranteed by Jangho Co. Sundart Beijing did not pay any charges for the guarantee granted.

Compensation of key management personnel

The remuneration of key management personnel of the Group during the year was as follows:

	2018 HK$'000	2017 HK$'000
Salaries and short-term benefits	**41,915**	36,468
Post-employment benefits	**455**	396
	42,370	36,864

The remuneration of key management personnel was determined by the directors of the Company having regard to the performance of individuals and the Group.

Save as materials purchased and compensation of key management personnel, the above related party transactions for the year ended 31 December 2018 constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Continuing connected transactions" in the Directors' Report.

45. JOINT OPERATION

The Group has a joint operation, namely Sundart APG Consortium. The Group has shared its portion of scope of works in the business to operate construction project, building design and consulting, related activities for the supply and installation of construction materials and products. The Group is entitled to the project income received nil (2017: HK$14,317,000) for the year ended 31 December 2018 and bears a 50% share of the administrative expenses of the joint operation. The joint operation was deregistered on 31 August 2018.

46. PARTICULARS OF THE SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2018 and 31 December 2017 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operations	Issued and fully paid capital/ registered capital/ quota capital	Equity interests attributable to the Group		Principal activities
			2018	2017	
Direct subsidiaries:					
Sundart Investments Limited	Hong Kong	HK$1,000	100%	100%	Investment holding
HONEST PARK LIMITED	BVI/Hong Kong	USD1	100%	100%	Investment holding
Sundart Products Limited	BVI/Hong Kong	USD1	100%	100%	Investment holding and leasing of intellectual properties
GLORYEILD ENTERPRISES LIMITED	BVI/Hong Kong	USD1	100%	100%	Investment holding
GROW PATH INTERNATIONAL LIMITED	BVI/Hong Kong	USD1	100%	100%	Investment holding
Indirect subsidiaries:					
Sundart Timber	Hong Kong	HK$46,510,000	100%	100%	Investment holding and fitting-out works
Sundart Engineering Services (Macau) Limited	Macau	MOP100,000	100%	100%	Fitting-out works
Elite Base Engineering Limited	Hong Kong	HK$1	100%	100%	Fitting-out works
Sundart Engineering Investments Limited	Hong Kong	HK$1	100%	100%	Investment holding
Sundart Beijing *(note a)*	The PRC	HK$182,270,000	100%	100%	Fitting-out works
上海承達企業發展有限公司 *(note b)*	The PRC	RMB50,000,000	100%	100%	Fitting-out works
GLORY SPRING INVESTMENTS LIMITED	BVI/Hong Kong	USD1	100%	100%	Investment holding
Kin Shing (Leung's) General Contractors Limited	Hong Kong	HK$17,800,000	100%	100%	Construction and civil engineering works
Sundart Project Management & Consultancy Limited	Hong Kong	HK$1	100%	100%	Project management and consultancy services
Sundart Living	Hong Kong	HK$100	100%	100%	Investment holding

46. PARTICULARS OF THE SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or establishment/ operations	Issued and fully paid capital/ registered capital/ quota capital	Equity interests attributable to the Group		Principal activities
			2018	2017	
Dongguan Sundart Home Furnishing Co., Ltd. *(note c)*	The PRC	HK$86,570,000	**100%**	100%	Manufacturing and distribution of interior decorative materials
Sundart International Supply Limited	Hong Kong	HK$10,000	**100%**	100%	Sourcing and distribution of interior decorative materials
Sundart International Supply (Macau) Limited	Macau	MOP25,000	**100%**	100%	Sourcing and distribution of interior decorative materials
EASY GLORY HOLDINGS LIMITED	BVI/Hong Kong	USD1	**100%**	100%	Investment holding
PROPER WEALTH GROUP LIMITED	BVI/Hong Kong	USD1	**100%**	100%	Investment holding
PEAK GAIN DEVELOPMENT LIMITED	BVI/Hong Kong	USD1	**100%**	100%	Investment holding
Glory One Investments Limited	Hong Kong	HK$1	**100%**	100%	Investment holding
GOOD ENCORE LIMITED	BVI/Hong Kong	USD1	**100%**	100%	Investment holding
Good Encore Development Limited	Hong Kong	HK$100	**100%**	100%	Leasing of property
In Wave Limited	Hong Kong	HK$1	**100%**	–	Inactive

Notes:

(a) This is a sino-foreign joint venture established in the PRC.

(b) This is a wholly domestic owned enterprise established in the PRC.

(c) This is a wholly foreign-owned enterprise in the PRC.

None of the subsidiaries had issued any debt securities during the year.

Five-Year Financial Summary

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)	(Restated)	(Restated)
RESULTS					
Revenue	**5,390,754**	4,982,948	5,114,876	5,560,071	3,449,036
Profit before taxation	**445,214**	485,544	609,166	487,057	203,078
Income tax expense	**(64,012)**	(64,451)	(85,999)	(66,381)	(31,713)
Profit for the year attributable to owners of the Company	**381,202**	421,093	523,167	420,676	171,365
Earnings per share					
Basic *(HK cents)*	**17.66**	19.51	25.30	27.97	11.42

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Restated)	(Restated)	(Restated)
ASSETS AND LIABILITIES					
Total assets	**4,946,189**	4,878,216	4,938,506	4,340,628	2,613,283
Total liabilities	**(2,647,560)**	(2,846,445)	(2,527,479)	(2,710,140)	(1,755,896)
Equity attributable to owners of the Company	**2,298,629**	2,031,771	2,411,027	1,630,488	857,387