SLD

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

ANNUAL REPORT 2019

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

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

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

AUDIT COMMITTEE

TSANG Ho Ka Eugene (Chairman)
LIU Yi
SUN Yansheng

REMUNERATION COMMITTEE

SUN Yansheng (Chairman)
XU Xingli
TSANG Ho Ka Eugene

NOMINATION COMMITTEE

XU Xingli (Chairman)
SUN Yansheng
TSANG Ho Ka Eugene

RISK MANAGEMENT COMMITTEE

TSANG Ho Ka Eugene (Chairman)
YIP Kwok Hung Kevin (Chief Financial Officer)
CHEUNG Henry (Resigned on 30 March 2020)
SIU Man Hei (Chief Executive Officer)
(Appointed on 30 March 2020)

COMPANY SECRETARIES

CHEUNG Henry (Resigned on 30 March 2020)
YIP Kwok Hung Kevin (Chief Financial Officer)
(Appointed on 30 March 2020)
CHOI Mei Bik (Appointed on 30 March 2020)

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Link Market Services (Hong Kong) Pty Limited
Suite 1601, 16/F., Central Tower
28 Queen's Road Central
Hong Kong
(with effect from 1 January 2020)

CORPORATE INFORMATION (CONTINUED)

AUTHORISED REPRESENTATIVES

YIP Kwok Hung Kevin (Chief Financial Officer)
CHEUNG Henry (Resigned on 30 March 2020)
SIU Man Hei (Chief Executive Officer)
(Appointed on 30 March 2020)

INDEPENDENT EXTERNAL AUDITOR

Deloitte Touche Tohmatsu

INTERNAL AUDITOR

BT Corporate Governance Limited

COMPLIANCE ADVISOR

Dongxing Securities (Hong Kong) Company Limited

LEGAL ADVISOR

Pinsent Masons

PRINCIPAL BANKERS

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

STOCK CODE

2262

COMPANY'S WEBSITE

www.sldgroup.com

INVESTOR RELATIONS CONTACT

Strategic Financial Relations Limited
SLD@sprg.com.hk

CHAIRMAN AND FOUNDER'S STATEMENT

CHAIRMAN'S STATEMENT

XU XINGLI

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Steve Leung Design Group Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present you the annual report for the year ended 31 December 2019 (the "**Year**").

2019 was a year nothing short of challenge, as the macro environment was overshadowed by severe externalities, with the intensifying trade dispute between China and the US also exerting significant downward pressure on the China and Hong Kong economy. Rooted in the Chinese mainland area, the Group was inevitably embroiled in the turmoil, and the operational headwinds have subsequently led to a slowdown in the Group's revenue growth.

The same applies to the market, as local real estate regulatory measures continued to be in place, and the tightening monetary policy on bank loans for real estate developers have further restricted the capital flow in the market.

Despite such market circumstances, the Group endeavors to strive for sustainable growth by strategically locating opportunities in cities where property market regulations have been loosened as a result of improving local conditions. Supported by the introduction our new design line, "SL2.0", in these targeted areas, the Group was able to form an intricate network of designers, allowing us to derive collaboration opportunities while radiating our stylish and functional design services to other areas.

CHAIRMAN'S STATEMENT (CONTINUED)

Looking forward to 2020, the economic uncertainties could further disquiet market sentiment, as China is expected to continue its long-term regulatory policies to cope with the unstable international relations, whereas the outbreak of the coronavirus will potentially deliver far greater shock to the global economy. The combined adverse effect could have just merely started to reflect. In response to the uncertainties ahead and to safeguard cash flow, we have already seen major property developers which significantly lower property prices in order to speed up cash conversion, which may lead to unforeseeable challenges in the property, construction and interior design markets.

The Group aspires to maintain a steady business development by upholding the consistent standard of its premium interior design services and interior decorating and furnishing services. To counter the macro development, the Group will look to further diversify its business portfolio, expand its revenue stream, prudently manage its expenses, maintain its healthy financial position, and eventually, create greater values for its clients, investors and all stakeholders. The Group will remain cautious of future market development, and will make decisive calls judiciously to cope with forthcoming challenges.

Lastly, on behalf of the Board, I would like to send our heartfelt gratitude to our shareholders, clients, business partners and our professional team for their full support. I would also like to express my sincere appreciation to our staffs for their commitment and support.

Design Without Limits!

XU Xingli
Chairman
30 March 2020

FOUNDER'S STATEMENT

STEVE LEUNG

Dear Shareholders and Colleagues,

2020 sets the milestone for the next decade, and the question concerning sustainable development, as well as the passing on of a legacy across generations when faced with challenging landscapes have thus become a subject that is critical to every industry and enterprise under this change of an era.

Our Group keeps abreast of changes and development in the society through continuous learning, in such a manner to fulfill boundless creativity and to ensure the integration of new inspirations into our work. Meanwhile, the Group strives to innovate within the fluctuating economic cycles in order to enhance our brand value and pursue sustainable growth for our business.

It is not wise for one to tackle the formidable challenges with his own might alone. Only by making accurate assessment of the situation, maintaining flexible maneuverability, and converging the power and thinking of individuals, will we be able to wield much greater power and gain a firm foothold in face of headwinds and sail against the currents. This philosophical mindset gave birth to our new design line, "SL2.0", which has a principle purpose of building a platform for designers in addition to our already solid foundation, as an attempt to accommodate new ideas on interior design to cater the ever-changing need from the society. The platform should become a collective of conceptual ideas, inviting better and more sophisticated visions and bring life to unique and functional designs that could be enjoyed between clients and designers.

FOUNDER'S STATEMENT (CONTINUED)

We strongly believe that it is essential for a brand to not only gain firm grip on timeless and classical designs, but also to uphold the contemporaries, and innovate along with the changes in the society, in order to build long-lasting core values and achieve balanced development to maximise returns for shareholders.

The strength of team collaboration shines especially during tough times. I, on behalf of the Group, would like to express my sincere gratitude to all our designers and staffs for their commitment, which has collectively led the business through challenges, and gave impetus to the Company, the industry and the society as a whole. The Group will continue to advocate the idea of "DESIGN WITHOUT LIMITS", and overcome any forthcoming challenges to march into the future and create greater values for our shareholders.

Steve Leung
Founder
30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

2019 was inevitably a very challenging year for real estate industry in the People's Republic of China (the "**PRC**") as a result of the slowing economy, the Sino-US trade war, increasing government intervention and financing difficulties for private enterprises.

According to the latest data released by National Bureau of Statistics of China, China's economic growth in 2019 fell to its lowest level in 30 years, as the 6.1% Gross Domestic Product ("**GDP**") growth also represented the largest decline in growth rate in recent years. The contribution of private consumption and investment to overall GDP growth have respectively fallen from 5.0 and 2.1 percentage points in 2018, to 3.5 and 1.9 percentage points in 2019. Such slowing economy has led to additional volatility and tensions over the capital markets in the PRC, which was then translated to a change in consumption habit and user preference for homebuyers, as they now prefer a downsized living space with lesser emphasis on luxurious design as a result of the budget constraint. In view of the unpredictable macroeconomic environment across the globe, homebuyers also tended to hold extra reservations on purchase and investment decisions as they remained cautious in the short run. This has adversely and inevitably added to the prevailing conservativism, with both developers and homebuyers all having a shrinking budget for services such as premium interior design.

Meanwhile, in order to make property more accessible to the influx of people to top-tier cities such as Beijing and Shenzhen, the PRC Central Government has also implemented various regulatory measures with the aim of maintaining the long-term stability of the property market while cooling down property prices. According to the statistics of the Centaline Property Research Center, in the whole year of 2019, the number of real estate regulatory measures issued across the country reached 620 times, setting a new historical record, and a 38% increase compared to that of 2018. Such tightening of government policies has restricted transacted volume, and has directly affected the number of apartments requiring design services, as demand for property is not being fully realised.

In addition, control over mortgage loans to homebuyers and lending to developers has continued to limit purchase and investment, and that has particularly weakened developers' liquidity to fast tract growth through leverage. As a result of the credit restriction, real estate developers have intentionally lowered the sales price of properties in order to speed up cash conversion cycle. With the budget for interior design usually behaves as a percentage to the sales price, this has led to a shrinking budget for design services, whereas the number of show flats required also suffered due to the need of speeding up sales turnover.

Sustained tight regulatory controls on home purchases, restricted access to credit for developers and homebuyers, and weaker sentiment among homebuyers, amid slowing economic growth have altogether weighted pressure on the PRC property sector. Being one of the major players in the interior design industry with 80% of its revenue coming from premium PRC residential properties, compounded by the fact that the Group recognises revenue from same year projects, the Group has thus inevitably taken a hit in its financial performance during the financial year. Nevertheless, the Group's strong brand equity and best-in-class services continued to yield encouraging performance in its combat with the economic downturn.

BUSINESS AND OPERATIONAL REVIEW

The Group never stopped its effort on mitigating the impact from economic downturn, and was able to achieve few operational improvements amid this difficult year. Despite the downsized contracting volume and budget for interior design services, there was an increasing emphasis on interior decorating and furnishing services, as clients became more budget-conscious over interior design but were willing to spend more on decorating and furnishing in order to uplift the overall living standard. After seeing such opportunity, the Group has since increased its efforts and resources on the segment. During the Year, revenue contribution from the interior decorating and furnishing services segment has significantly increased from approximately HK$119.1 million to HK$176.7 million, or from approximately 23.6% to 35.0% of the Group's total revenue, successfully offsetting the reduction in revenue from interior design services.

To manage its focus of projects in top tier-cities, in the second half of 2019, the Group launched the new design line of "SL2.0" which aimed to target mid-end property market in lower-tier cities by offering quality interior design and interior decorating and furnishing services at competitive prices, while promoting the ideas of innovative, energetic and life-oriented design to growing younger class. Through this alternative channel, the Group was able to further penetrate its geographical footprints into third-and-forth-tier cities in complement to its existing service portfolio, achieving a revenue of approximately HK$6.7 million for the Year even though SL2.0 is still in a starting phase.

Not only did the Group place efforts on diversifying income streams to mitigate the economic downturn, it also paid extra attention to prudent cost measures in order to enhance efficiency. During the Year, the Group adopted a stringent cost control policy to closely monitor its administrative and direct labor costs. This helped to maximise the Group's margins and to survive in the toughest situation, while gearing up for upcoming opportunities.

The Group also managed to maintain a healthy net cash position despite unfavourable investment sentiment and volatile external operating environment. As at 31 December 2019, cash and cash equivalents stood at approximately HK$273.6 million (2018: HK$284.2 million), whereas its debt-to-equity ratio maintained at a low level. The cash conversion cycle stayed healthy at 112 days. Such healthy financial position and flexibility will be critical for the Group to prevail in the volatile global economy and pursue future business opportunities.

OVERALL PERFORMANCE

During the Year, the Group has recorded a total revenue of approximately HK$504.7 million (Previous Year: HK$503.9 million), representing a modest increase of approximately 0.2%. Gross profit dropped by approximately 14.1% from HK$226.5 million to HK$194.6 million, whereas gross profit margin declined by 6.3 percentage point to 38.6% (Previous Year: 44.9%), attributable to the increase in contribution from interior decorating and furnishing services and the decrease of revenue from interior design services. As a result of the above, profit attributable to owners of the Company decreased from approximately HK$56.7 million to HK$38.6 million.

Net profit for the Year was approximately HK$40.1 million (Previous Year: HK$58.0 million). Basic earnings per share for the Year was approximately HK3.39 cents (Previous Year: HK5.70 cents). The Board proposed a final dividend of HK1.30 cents per share for the Year (Previous Year: final dividend of HK2.50 cents per share and a special dividend of HK2.50 cents per share).

As at 31 December 2019, the Group's total assets were valued at approximately HK$677.8 million (Previous Year: HK$622.2 million), of which current assets were approximately HK$556.8 million (Previous Year: HK$570.7 million), being 3.2 times (Previous year: 4.2 times) of the current liabilities. Equity attributable to the owners of the Company was approximately HK$452.8 million (Previous Year: HK$476.4 million).

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

	2019					2018				
	Revenue from Interior Design Services HK$ million	**Revenue from Interior Decorating and Furnishing Services HK$ million**	**Revenue from Product Design Services HK$ million**	**Total HK$ million**	**% of total revenue**	Revenue from Interior Design Services HK$ million	Revenue from Interior Decorating and Furnishing Services HK$ million	Revenue from Product Design Services HK$ million	Total HK$ million	% of total revenue
Residential project	**206.9**	**157.2**	**–**	**364.1**	**72.1**	220.7	106.2	–	326.9	64.9
Private residence project	**32.0**	**6.2**	**–**	**38.2**	**7.6**	53.3	1.4	–	54.7	10.9
Hospitality	**31.0**	**5.5**	**–**	**36.5**	**7.2**	51.3	9.6	–	60.9	12.1
Commercial project	**36.0**	**2.7**	**–**	**38.7**	**7.7**	31.5	0.6	–	32.1	6.3
Others	**19.2**	**5.1**	**2.9**	**27.2**	**5.4**	23.5	1.3	4.5	29.3	5.8
Total	**325.1**	**176.7**	**2.9**	**504.7**	**100**	380.3	119.1	4.5	503.9	100

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

INTERIOR DESIGN SERVICES

The Group delivered quality interior design works throughout the Year, signature projects include Raffles Residences One Shenzhen Bay, The One Lake, Sichuan, Address Harbour Point, Dubai, Club Cubic, Zhuhai, Sixa, Hong Kong, etc. "Shades in Ascent", light Installation work cross-over with Swarovski presented in Hong Kong Art Central enjoyed resounding applause.

Revenue of interior design services decreased from approximately HK$380.3 million for the Previous Year, to approximately HK$325.1 million for the Year, accounting for 64.4% of total revenue during the Year (Previous Year: 75.5%). The decrease was mainly attributable to the decrease in newly awarded projects and slowing down of project progress as a consequence of market downturn. In-line with the decrease in revenue, segment profit stood at approximately HK$134.6 million (Previous Year: HK$191.9 million).

As at 31 December 2019, the segment has a remaining contract sum of approximately HK$290.3 million, which is expected to be realised based on the stage of completion of projects.

INTERIOR DECORATING AND FURNISHING SERVICES

The interior decorating and furnishing services business commenced operation in 2016, and has achieved notable growth during the past two years. During the Year, the segment accounted for 35.0% of total revenue (Previous Year: 23.6%), and achieved a year-on-year top line growth of 48.4% to approximately HK$176.7 million (Previous Year: HK$119.1 million). The exciting performance was due to increasing demand of such services. Segment profit also rose significantly from approximately HK$34.2 million to HK$60.0 million, as a result of economies of scale and the improvement of overall gross profit by tightening control on procurement cost.

As at 31 December 2019, the segment has a remaining contract sum of approximately HK$142.1 million, which is expected to be realised based on the stage of completion of projects and the delivery of interior decorative products.

PRODUCT DESIGN SERVICES

Another important facet of the Group's operation is product design services, which can elevate the overall interior design, decorating and furnishing layout to increase customer satisfaction, and at the same time, acting as an important channel for the Group's marketing and branding strategies.

Design products released in 2019 include Yin & Yang for RIVA 1920, Luxury of Serenity for Theodore Alexander, Taizu for Victoria + Albert, Anniversary for Visionnaire, etc. These design products have successfully added brand value to the clients.

During the Year, the segment continued to perform with revenue amounted to approximately HK$2.9 million (Previous Year: HK$4.5 million). The segment's revenue and profit fluctuation depends on the royalties arising from the sales of the Group's design products by its clients and the time cost incurred for designing the product.

AWARDS AND ACCREDITATIONS FOR YEAR 2019

The Group won numerous prestigious awards over the years. Its interior design projects and the corporate performance have continuously delivered award-winning quality.

CORPORATE HONOURS:

Andrew Martin International Interior Design Awards
Awarded as one of the Best Interior Designers Worldwide for the 15th time

China Real Estate Association and E-house China R&D Institute
Top 500 China Real Estate Enterprises Award
Best Interior Design Firm

Asia Pacific Eldercare Innovation Awards
Interior Design Firm of the Year

International Well Building Institute™ (IWBI™)
WELL Certified™ Gold – SLD Hong Kong Headquarters office

《Architectural Digest》Awards
100 Top Architecture and Design Talents in China

2019 INTERNI Global Design Power List
The 50 Most Influential Person of the Year

China National Interior Design Association (CIDA)
China Top 10 Interior Design Organizations

The Architectural Society of China – Institute of Interior Design
1980-2019 Thirty Years of China Interior Design – National Outstanding Interior Architect

Interior Design Magazine (China edition) "Top 100 Giants 2019"
Top 4 position in overall ranking

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

INTERIOR DESIGN AWARDS:

Restaurant & Bar Design Awards
Finalist – International Biophilic Design – Ta-ke

Hospitality Design Awards
Winner – Upscale Restaurant – Ta-ke

Design Anthology Awards
Finalist – Hospitality Spaces, Dining – Ta-ke

FRAME Awards
Finalist – Restaurant of the Year – Ta-ke

iF Design Award
Winner – Hotels/Spas/Restaurants/Bars – Ta-ke
Winner – Shop/Showrooms – Steve Leung's Prototype Room at Easyhome Top Design Centre, Tianjin

FINANCIAL REVIEW

REVENUE AND GROSS PROFIT

During the Year, the Group's revenue increased by HK$0.8 million or 0.2% to approximately HK$504.7 million (Previous Year: HK$503.9 million). The revenue from interior decorating and furnishing services segment increased significantly from approximately HK$119.1 million during the Previous Year to HK$176.7 million during the Year, representing 23.6% and 35.0% of the total revenue respectively. While the revenue from the Group's interior design services segment decreased from approximately HK$380.3 million to HK$325.1 million, representing 75.5% and 64.4% of the total revenue respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

GROSS PROFIT BY SEGMENT

	2019			2018		
	Revenue HK$ million	Gross profit HK$ million	Gross profit margin %	Revenue HK$ million	Gross profit HK$ million	Gross profit margin %
Interior Design Services	**325.1**	**134.6**	**41.4**	380.3	191.9	50.5
Interior Decorating and Furnishing Services	**176.7**	**60.0**	**34.0**	119.1	34.2	28.7
Product Design Services	**2.9**	**0.0**	**0.1**	4.5	0.4	8.9
Overall	**504.7**	**194.6**	**38.6**	503.9	226.5	44.9

The Group's gross profit decreased by HK$31.9 million or 14.1% to approximately HK$194.6 million (Previous Year: HK$226.5 million), while gross profit margin decreased to approximately 38.6% (Previous Year: 44.9%). The decline was primarily due to the significant increase in contributions from the interior decorating and furnishing services segment and increase in average salaries.

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

REMAINING CONTRACT SUM MOVEMENT:

	Interior Design Services HK$ million	Interior Decorating and Furnishing Services HK$ million	Total HK$ million
Remaining contract sum as at beginning of 2018	368.6	54.0	422.6
Add: New contract sum awarded during the year	389.6	150.7	540.3
Less: VAT for newly awarded contracts	(19.2)	(11.9)	(31.1)
Less: Revenue recognised during the year	(380.3)	(119.1)	(499.4)
Less: Purchase made	-	(2.0)	(2.0)
(Less)/ Add: Variation order	(63.4)	11.1	(52.3)
Add / (Less): Exchange realignment	11.4	(3.4)	8.0
Remaining contract sum as at 31 December 2018	306.7	79.4	386.1
Add: New contract sum awarded during the Year	375.4	269.7	645.1
Less: VAT for newly awarded contracts	(19.0)	(19.6)	(38.6)
Less: Revenue recognised during the Year	(325.1)	(176.7)	(501.8)
Less: Purchase made	–	(4.7)	(4.7)
Less: Variation order	(30.1)	(0.7)	(30.8)
Less: Exchange realignment	(17.6)	(5.3)	(22.9)
Remaining contract sum as at 31 December 2019	**290.3**	**142.1**	**432.4**

Due to the prompt conversion of contract sum to revenue subsequent to the Group's expansion plan and the reduction of newly awarded contract sum during the Year, the remaining contract sum for the interior design services reduced from approximately HK$306.7 million as at 31 December 2018 to HK$290.3 million as at the current year end, while the remaining contract sum for the interior decorating and furnishing services increased from approximately HK$79.4 million as at 31 December 2018 to HK$142.1 million as at the current year end.

OTHER GAINS AND LOSSES

The Group recorded other losses of approximately HK$3.1 million for the Year (Previous Year: other gains of HK$4.7 million), which were primarily derived from an exchange loss resulting from the depreciation of Renminbi during the Year.

OTHER INCOME

The other income includes the interest income from bank deposits, note receivables, government grants and PRC tax rebates. The increase from approximately HK$2.5 million to HK$13.7 million during the Year was mainly contributed from the interest income from the note receivables, increase in PRC government grants and PRC tax rebates during the Year. For details, please refer to note 8 of the consolidated financial statements of this report.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased from approximately HK$129.8 million to HK$137.3 million, representing an increase of 5.8% during the Year. Other than the increase in the average salaries of the Group, as a result of the Group's expansion strategy after its initial public offering in 2018, the increase in administrative expenses were also due to the increase in rental expenses, average headcount and marketing expenses during the Year.

FINANCE COSTS

The finance costs are arising from the bank borrowings for financing the Group's operations and interest in lease liabilities arising from the application of Hong Kong Financial Reporting Standard ("**HKFRS**") 16. The increase in finance costs was mainly due to the effect for the adoption of HKFRS 16. For details, please refer to note 9 to the consolidated financial statements of this report.

PROFIT FOR THE YEAR

The Group's profit for the Year amounted to approximately HK$40.1 million (Previous Year: HK$58.0 million), representing a decrease of HK$17.9 million or 30.9%, and was the result of the constant total revenue, decrease in gross profit margin due to the significant increase in contribution from interior decorating and furnishing services and increase in several expenses as abovementioned.

BASIC EARNINGS PER SHARE

The Company's basic earnings per share for the Year was HK3.39 cents (Previous Year: HK5.70 cents), representing a decrease of HK2.31 cents or 40.5% which was in line with the decrease in profit for the Year. In addition, the basic earnings per share for the Year was calculated based on the weighted average number of 1,140,021,584 shares in issue during the Year, whilst basic earnings per share for the Previous Year was calculated based on the weighted average number of 995,547,945 shares then in issue. As such, the basic earnings per share for the Year was relatively lower than those for the Previous Year. Details of earnings per share are set out in note 15 to the consolidated financial statements of this report.

DIVIDEND

The Board proposed a final dividend of HK1.30 cents per share for the Year (Previous Year: a final dividend of HK2.50 cents per share and a special dividend of HK2.50 cents per share) subject to the approval of the shareholders at the forthcoming annual general meeting (the "**AGM**").

OUTLOOK AND PROSPECT

2020 unfortunately has not started off as smooth as the market expected with the pandemic of Coronavirus disease 2019 ("**COVID-19**"), and the real estate developers should therefore continue with the strategy of fast-selling in order to further secure liquidity and cash conversion. Meanwhile, as a preventive measure to avoid the widespread of COVID-19, far and few open house events were arranged by property developers, further eliminating the need of show flats which are one of the main interior design projects the Company involves. As such, in 2020, developers could face even tougher test, as most of the players are still reaping the financial benefits from previous period's projects. Nonetheless, the Group will continue to ride on the strong growth in its interior decorating and furnishing services, while actively looking for channel expansion and penetration for its interior design services, in order to navigate the uncertain market. The Group will closely monitor the development of COVID-19 and make in time necessary adjustments accordingly.

Positioned as an integrated one-stop interior design services provider, the Group's commitment to upholding high-quality services, as well as advancing its portfolio sophistication has gained reputation and trust from real estate developers in the PRC. It was consecutively honoured as the first place of "Top Interior Design Firm" among the Evaluation of Top 500 China Real Estate Enterprises, a roster considered as an important indicator for the industry position of real estate developers nationwide. The evaluation has recently added the category of Interior Design Firms to the above list where the Group has been named as the first place in the preferred brand for two consecutive years, solid testimony to its industry leadership and capability. Leveraging this advantage, the Group will look to promote "SL2.0" in order to increase contribution and penetration into third-and-fourth-tier cities. To support the development of this alternative channel, the Group is actively expanding its design team, and at the same time, exploring the opportunity to collaborate with local boutique design firms to expand its regional network. Under such arrangement, the Company intends to be responsible for the key interior design component, whereas the local partners will be utilising their local sales channels, resources and strategies to facilitate the construction plans at later stages.

In addition to lower-tier cities, the Group will also look to expand its coverage into the Greater Bay Area, an area that contributed GDP of US$1.6 trillion to the Chinese economy in 2018 with total population of over 71 million. In an attempt to further realise the synergies from the development of the area, the PRC Central Government further announced 16 policies in November 2019, including the exemption on Hong Kong residents from purchasing properties in nine cities, together with the continuous release of corporate supportive measures, tax benefit and lenient measures by the PRC Central Government for the purpose of smoothen the impact from the COVID-19 on the PRC economy, we believe this should speed up the influx of businesses and talents, create a stronger demand in premium interior design services in the area and positive to the business of the Group. The Group will also explore other business opportunities through upstream and downstream joint ventures or collaborations, in order to integrate network and resources along the value chain to provide best-in-class services.

The Group remains cautiously optimistic about its long-term development, and will remain prudent over its corporate strategies with the aim of delivering long-term values to stakeholders. Despite the well-documented challenges ahead, the Group will continue to stand on this principle and stay competitive in the ever-changing business environment, supported by its solid project pipeline and strong brand equity.

CORPORATE FINANCE AND RISK MANAGEMENT

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2019, the Group's total debt (representing total interest-bearing borrowings excluding lease liabilities arising from the adoption of HKFRS 16) to total asset ratio was approximately 5.0% (Previous Year: 3.4%). The gearing ratio (net debt excluding lease liabilities arising from the adoption of HKFRS 16 to equity attributable to owners of the Company) was approximately 7.4% (Previous Year: 4.4%) and the Group has net cash (i.e. bank balances and cash (including pledged bank deposit) less total debt) of approximately HK$243.1 million as at 31 December 2019 (Previous Year: HK$263.3 million).

The bank borrowings of the Group were mainly comprised the bank borrowings for financing the Group's daily operation and its equity capital raising expenses. The bank borrowings of approximately HK$3.6 million as at 31 December 2019 were secured by a pledged bank deposit and HK$10.0 million unsecured bank borrowings were guaranteed by the Company as disclosed in note 28 to the consolidated financial statements of this report. The bank borrowings of HK$20.0 million as at 31 December 2018 were secured by corporate guarantee of the Company, with one-year term from drawdown date and fully repaid in January 2019 by net proceeds from the Global Offering as stated in the prospects of the Company dated 22 June 2018 (the "**Prospectus**") and operating cash. Further costs for operations and expansion will be partially financed by the Group's unutilised bank facilities. As at 31 December 2019 and up to this report date, the bank borrowings are mainly for financing the Group's daily operation only.

The liquidity of the Group remains positive as the current ratio (i.e. current assets/current liabilities) of the Group as at the end of the Year was 3.2 (Previous Year: 4.2). The Group also has sufficient committed and unutilised loan and working capital facility and guarantee facilities to meet the needs of the Group's business development. The Group will cautiously seek for development opportunities with a view to balancing the risk and opportunity in maximising shareholders' value.

As at 31 December 2019, the share capital and equity attributable to owners of the Company amounted to HK$11.4 million and HK$452.8 million, respectively (Previous Year: HK$11.4 million and HK$476.4 million, respectively).

PLEDGE OF ASSETS

As at 31 December 2019, a bank borrowing of the Group was secured by pledged bank deposit of approximately HK$3.1 million as disclosed in note 28 to the consolidated financial statements of this report. Other bank borrowings of the Group were unsecured in which HK$10.0 million were guaranteed by the Company.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The Group did not have any significant contingent liabilities as at 31 December 2019 and 31 December 2018. For capital commitments, please refer to note 35 to the consolidated financial statements of this report. The Group intends to meet its capital commitments by internally generated funds.

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

The Group's bank borrowings as at 31 December 2019 were in Hong Kong dollars and Renminbi and have been made at floating rates. The Group operates in various regions with different foreign currencies including Renminbi and United States Dollars. The exchange rates of United States Dollar was relatively stable while Renminbi was more volatile during the Year. The Group currently has no hedging arrangements for foreign currencies or interest rates. The Group reviews the exchange risk regularly and closely monitors the fluctuation of foreign currencies and will make proper adjustments and consider hedging if necessary.

CREDIT RISK EXPOSURE

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

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

The Group complies with the requirements of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensuring that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the year ended 31 December 2019, the Group subscribed one short-term note which will be matured on 31 March 2020 with a fixed interest rate of 6.0% per annum at a consideration of HK$60.0 million.

Moreover, COVID-19 outbroke worldwide in the first quarter of 2020, the impact of which on the overall market is unpredictable yet, the Board will closely monitor the development of COVID-19 for any impact on the Group's performance.

Save as aforesaid, there were no other significant events subsequent to 31 December 2019 which may materially affect the Group's operating and financial performance as at the date of this report.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had approximately 563 (Previous Year: 587) full-time employees. The total remuneration of the employees (including the directors' remuneration) were approximately HK$211.1 million for the Year (Previous Year: HK$204.0 million). The increase in total remuneration of the employees was mainly due to the increase in number of the employees and average salary of the staff of the Group. The Group offers attractive remuneration policy, discretionary bonus and may also grant share options to eligible staff based on individual performance in recognition of their contribution and hard work. The Group also provides external training programmes which are complementary to certain job functions.

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITIONS AND DISPOSALS

For the purpose of obtaining a better interest rate on surplus funds, the Group subscribed two short-term notes with six-month maturity during the Year which were matured and redeemed on 30 December 2019 with a fixed interest rate of 6.0% per annum at a consideration of HK$30.0 million each, amounting to a total consideration of HK$60.0 million. As at 31 December 2019, the Group did not hold any significant investment. Subsequent to the year ended 31 December 2019, the Group subscribed one short-term note which will be matured on 31 March 2020 with a fixed interest rate of 6.0% per annum at a consideration of HK$60.0 million.

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

No material acquisition and disposal of subsidiaries, associates or joint ventures was carried out by the Group during the Year.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have other plans for material investments and capital assets as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

USE OF PROCEED FROM THE GLOBAL OFFERING

The shares of the Company have been listed and traded on the Main Board of the Stock Exchange since 5 July 2018. The net proceeds from the Global Offering amounted to HK$195.0 million (after deducting underwriting fees and commissions and all related expenses) (the "**Net Proceeds**"). The Net Proceeds are intended to be applied in accordance with the proposed application as disclosed in the Prospectus and the announcement regarding the change in use of proceeds dated 6 June 2019. During the Year, in view of, among others, the declining demand for high-end property interior design and the change in market trend in the PRC and the development of the new brand "SL2.0" by the Group, the Board has resolved to reallocate the use of part of the unutilised Net Proceeds. For details, please refer to the announcement of the Company dated 6 June 2019. During the Year, the Net Proceeds received were applied as follows:

	Original allocation of Net Proceeds HK$ million	Utilised Net Proceeds up to 6 June 2019 HK$ million	Unutilised Net Proceeds up to 6 June 2019 (before the Change) HK$ million	Reallocation of Unutilised Net Proceeds HK$ million	Revised allocation of Unutilised Net Proceeds (after the Change) HK$ million	Utilised Net Proceeds since the Change up to 31 December 2019 HK$ million	Unutilised Net Proceeds up to 31 December 2019 HK$ million
Strengthening the Group's Interior Design Services and developing specialisation	67.0	(24.1)	42.9	(28.1)	14.8	(5.9)	8.9
Further developing the Group's Interior Decorating and Furnishing Services	31.1	(19.9)	11.2	7.2	18.4	(16.8)	1.6
Pursuing growth through selective mergers and acquisitions	28.4	–	28.4	11.6	40.0	–	40.0
Improving the Group's information technology systems	22.1	(13.7)	8.4	(5.7)	2.7	(2.7)	–
Repaying existing bank borrowings	19.0	(19.0)	–	–	–	–	–
Enhancing the Group's brand recognition	11.0	(4.2)	6.8	–	6.8	(1.7)	5.1
Further developing the Group's Product Design Services	3.1	(1.9)	1.2	–	1.2	(1.2)	–
Working capital and other general corporate purposes	13.3	(13.3)	–	–	–	–	–
Developing a new brand (i.e. SL2.0) and teams for middle-end and specialised interior design services market	–	–	–	15.0	15.0	(2.5)	12.5
Total	195.0	(96.1)	98.9	–	98.9	(30.8)	68.1

The unutilised Net Proceeds are expected to be fully utilised according to the intended allocation by the second quarter of 2021.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Siu Man Hei (蕭文熙先生), aged 64, is an executive Director and the Chief Executive Officer of the Company. He is also appointed as a member of the risk management committee of the Board on 30 March 2020. Mr. Siu joined the Group in February 2007 and is mainly responsible for the business development, operation and management. He also holds other directorships in the Group's subsidiaries.

Mr. Siu has over 28 years of experience in the architecture and interior design and decorating services and building industries. In July 1991, he established IE, SIU & CHUNG ARCHITECTS LIMITED, a private company in Hong Kong with limited liability which was principally engaged in architecture and design services with other partners. From July 1999 to February 2006, he was the assistant general manager of property division of Emperor Investment (Management) Limited, an investment management company, and was principally responsible for the overall management of the development projects.

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

Mr. Yip Kwok Hung Kevin (葉珏鴻先生), aged 41, is an executive Director, the Chief Financial Officer of the Company and a member of the risk management committee of the Board. He is also appointed as Joint Company Secretary on 30 March 2020. Mr. Yip joined the Group in January 2014 and is mainly responsible for overseeing the financing, accounting and internal control, human resource and administrative management. He is also currently a director of Eagle Vision Development Limited, a controlling shareholder of the Company and each of its subsidiaries.

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

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Ding Chunya (丁春亞先生), aged 37, is an executive Director of the Company. He is mainly responsible for overseeing the operation of Gangyuan Design and the business in the PRC. Mr. Ding joined Gangyuan Design in September 2010, which became a subsidiary of the Company since September 2016. From April 2013 to December 2014, he was appointed as the general manager of the Xiamen branch of Gangyuan Decoration, the then sole shareholder of Gangyuan Design and a company principally engaged in the business of decoration engineering, and was responsible for the marketing, manufacture and operation of such branch. Mr. Ding is also the principal of Gangyuan Design.

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

Ms. Kau Wai Fun (裘慧芬女士), aged 59, is an executive Director of the Company and the Director of Administration of the Group. Ms. Kau joined the Group as Administrative Manager of Steve Leung Architects Limited ("**SLA**") in November 2005. She is mainly responsible for the management of administration and human resources.

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

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

NON-EXECUTIVE DIRECTORS

Mr. Xu Xingli (許興利先生), aged 49, is a non-executive Director and the chairman of the Board of the Company. Mr. Xu joined the group in February 2014 and is mainly responsible for the overall strategy, investment planning and human resource strategy of the Group and serving as a member of the remuneration committee and the chairman of the nomination committee of the Board. He is a director of each of the Company's subsidiaries (other than SLD Group Holdings and Gangyuan Design). He joined Jangho Group Co., Ltd. and its subsidiaries (the "**Jangho Group**") in December 2006 and is currently the chief executive officer and the general manager of Jangho Co., Ltd. one of the Company's Controlling Shareholders and the A shares of which are listed on the Shanghai Stock Exchange (stock code: 601886), responsible for the overall strategy, investment planning, management and operations of Jangho Group.

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

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

Mr. Huang Jianhong (黃劍虹先生), aged 44, has been appointed as a non-executive Director of the Company on 23 January 2019.

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

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Xie Jianyu (謝健瑜先生), aged 40, was a non-executive director of the Company and resigned on 23 January 2019. Mr. Xie joined the Group in February 2014 and is mainly responsible for the overall strategy, investment planning and human resource strategy of the Group. He also holds directorship in Jangho Group. Since 2012, Mr. Xie has been a chief financial officer and an executive director of Sundart Holdings, a company listed on the Main Board of the Stock Exchange (stock code: 1568), the principal business activities of which include providing fitting-out work for residential property and hotel projects in Hong Kong and Macau, and is responsible for overseeing the financing, accounting and internal control, human resources and administrative management of Sundart Holdings and its subsidiaries.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Yi (劉珝先生), aged 71, is an independent non-executive Director of the Company since 11 June 2018. Mr. Liu is also a member of the audit committee of the Board and responsible for advising on corporate governance of the Group.

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

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Sun Yansheng (孫延生先生), aged 56, is an independent non-executive Director of the Company since 11 June 2018. Mr. Sun also serves as the chairman of the remuneration committee and a member of each of the audit and nomination committees of the Board. He is responsible for advising on corporate governance of the Group.

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

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

Mr. Tsang Ho Ka Eugene (曾浩嘉先生), aged 38, is an independent non-executive Director of the Company since 11 June 2018. Mr. Tsang also serves as chairman of each of the audit committee and the risk management committee and a member of the remuneration and nomination committee of the Board. He is responsible for advising on corporate governance of the Group.

Mr. Tsang has been a founder of Gattaca Company Limited (a company principally engaged in the business of corporate restructuring, financial reengineering, business advisory and consulting) since May 2011, a consultant of GenNex Financial Media Limited (a company principally engaged in the business of the provision of financial printing services for the financial sector in Hong Kong) since January 2012, and the managing director of New Horizon Capital (Group) Limited (a company principally engaged in the business of which include private equity in Hong Kong, the PRC and overseas and the money lending business in Hong Kong) since March 2015. Mr. Tsang was an independent non-executive director of Winto Group (Holdings) Limited, a company listed on the GEM of the Stock Exchange (stock code: 8238) and was principally engaged in the business of outdoor advertising and print media from January 2015 to 2 March 2018. Mr. Tsang was appointed as an Honorary Financial Advisor of the Smart Education Charitable Foundation Limited (the "**Foundation**") in June 2017, a leading provider of high quality and innovative e-learning solutions which organises and sponsors various charitable events and programmes to the students in Hong Kong, Macau and the PRC. The Foundation is a charitable institution and is exempt from tax under section 88 of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong).

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

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

Mr. Tsang completed an accounting extension course in Australian Taxation Law and an accounting extension course in Australian Corporations Law in the Centre for Continuing Education of the University of Sydney, Australia in 2002 and subsequently obtained a Bachelor of Commerce degree in accounting and finance from the University of New South Wales, Australia in 2003. Mr. Tsang became a certified practicing accountant and a fellow of CPA Australia in 2006 and 2018 and a member and a fellow of the Hong Kong Institute of Certified Public Accountants in 2006 and 2014, respectively. He also became an associate and a fellow member of the Institute of Certified Management Accountants, Australia in 2007 and 2020, respectively, a member and a fellow of the Hong Kong Institute of Directors in 2008 and 2018, respectively, an associate, a certified tax adviser and a fellow of the Taxation Institute of Hong Kong in 2008, January 2014 and July 2014 respectively, and an international associate of the American Institute of Certified Public Accountants in 2013.

SENIOR MANAGEMENT

Mr. Leung Chi Tien Steve (梁志天先生), aged 62, is the founder of the Company. He also holds other directorships in the Group's subsidiaries. Mr. Leung is mainly responsible for the brand building, market development and strategic planning of the Group, as well as creative design of the Group's key projects. Mr. Leung does not hold any directorship or senior management position in the Company.

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

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

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

Mr. Chong Chiu Fung (莊超峰先生), aged 47, the Chief Creative Officer of the Group. Mr. Chong first joined us in November 2003. In February 2008, Mr. Chong left the Group and re-joined us in May 2011 as Design Director. He is mainly responsible for the design quality control and development of the new design style of the Group.

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

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

Mr. Zhang Xiao (張曉女士), aged 32, is the Chief Operation Officer of Steve Leung Lifestyle ("**SLL**"). Ms. Zhang joined the Group in July 2017 as Operations Director. She was promoted to Director of Project of SLL in June 2018. She is mainly responsible for take charges of the daily operation management of FF&E.

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

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Ng Chung Kwan (吳仲君先生), aged 45, is the Director of Projects of the Group. Mr. Ng joined the Group in August 2002. He is mainly responsible for the management and implementation of the Interior Design Services projects undertaken by the Group's design team in Hong Kong.

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

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

Mr. Pang Hoi Fung (彭凱峯先生), aged 46, is the Director of Projects of the Group. Mr. Pang joined the Group in June 2006. He is mainly responsible for the management and implementation of the Interior Design Services projects undertaken by the Group's design teams in the PRC.

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

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Chongchaiyo, Soraphong (張培成先生), aged 38, is the Director of Design of the Group. Mr. Chongchaiyo joined the Group in February 2016 as Design Director. He was promoted to Director of Design in April 2018. He is mainly responsible takes charge of hospitality and F&B projects in the PRC and overseas.

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

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

Mr. Hu Wei (胡偉先生), aged 37, is the Director of Design of the Group. Mr. Hu joined the Group in August 2007 as Interior Designer. He was subsequently promoted to Senior Interior Designer, Associate Design Director, Design Director and Director of Design in October 2009, April 2011, January 2014 and October 2018. He is mainly responsible takes charge of residential and commercial property development projects in the PRC.

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

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

Mr. Cai Qianming (蔡乾明先生), aged 40, is the Director of Design of the Group. Mr. Cai joined the Group in August 2008 as Associate Director. He was subsequently promoted to Design Director and Director of Design in April 2011 and July 2019, respectively. He is mainly responsible for the real estate development and hotel projects in Hong Kong, Mainland China and overseas.

In addition to his experience with us, from May 2005 to July 2008, Mr. Cai worked for Grand Ghost Canyon Design Limited as design manager.

Mr. Cai obtained a Bachelor Degree in Interior Design and Building Material Science from the South China University of Technology, China 2002.

Ms. Chwe Shuk Fong (徐淑芳女士), aged 56, is the Director of Design of SLL. Ms. Chwe joined the Group in January 2001. She is mainly responsible for the management and implementation of the Group's Interior Decorating and Furnishing Services projects carried out in the PRC, Hong Kong and overseas.

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Cheung Henry (張樂庭先生), aged 35, is the Financial Controller of finance and accounting department and Financial Controller of the Group. He also served as Company Secretary of the Company, a member of the risk management committee of the Board and resigned as Company Secretary on 30 March 2020. Mr. Cheung joined us in May 2016 and is mainly responsible for assisting the Chief Financial Officer in processing and reviewing financial affairs of the Group.

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

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

Ms. Choi Mei Bik (蔡美碧女士), aged 38, has been appointed as the Joint Company Secretary of the Company from 30 March 2020. Ms. Choi is currently practising as a certified public accountant and the sole proprietor of Choi Mei Bik Certified Public Accountant (Practising). She has also served as the company secretary of Aeso Holding Limited (a company listed on the GEM of the Stock Exchange (stock code: 8341)), which is principally engaged in the provision of fitting-out and renovation (including alteration and addition) contracting services of Hong Kong premises, since May 2019.

Ms. Choi has over 16 years of experience in corporate governance, corporate finance, auditing and financial reporting and possesses company secretarial experience. She jointed Deloitte Touche Tohmatsu as a staff accountant in September 2003 and last served as a senior consultant of enterprise risk service department until July 2011. From July 2011 to October 2011, she served as an assistant manager of Mazars CPA Limited. From October 2011 to January 2015, she joined Crown Horwath (HK) Corporate Consultancy Limited as a deputy manager and last served as senior manager of internal control review department. From February 2015 to May 2016, Ms. Choi served as the financial controller of Uni-China Management Limited. From June 2016 to June 2019, she last served as an audit manager of Union Alpha C.P.A Limited.

Ms. Choi graduated from the City University of Hong Kong with a Bachelor of Business Administration (Honour) in Accountancy since 2003 and is a member of the Hong Kong Institute of Certified Public Accountants since 2008.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICE

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

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

In the opinion of the Directors, the Company has complied, to the extent applicable and permissible with the code provisions as set out in the CG Code during the Year and up to the date of this report, except for the following deviations:

Paragraph A.6.7 of the CG Code specifies that the independent non-executive Directors and other non-executive Directors should attend general meetings of the Company and develop a balanced understanding of the views of the shareholders. Two non-executive Directors and one independent non-executive Director were absent from the annual general meeting of the Company held on 3 June 2019 due to other important business commitments.

Code provision A.1.1 of the CG Code specifies that regular Board meetings should be held at least four times a year at approximately quarterly internals. The Company has held two regular Board meetings only as it is not required under the Listing Rules to publish quarterly results.

The Company regularly reviews its corporate governance practices to ensure on-going compliance with the requirements of the Code, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and SFO.

BOARD OF DIRECTORS

RESPONSIBILITIES AND ROLE OF THE BOARD

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

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

DELEGATION BY THE BOARD

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

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

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

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

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

COMPOSITION OF THE BOARD

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

Executive Directors
Mr. SIU Man Hei
(Chief Executive Officer) (member of the Risk Management Committee since 30 March 2020)
Mr. YIP Kwok Hung Kevin
(Member of the Risk Management Committee, Chief Financial Officer) (Joint Company Secretary since 30 March 2020)
Mr. DING Chunya
Ms. KAU Wai Fun

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

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

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

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

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

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

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

During the Year, the record of the trainings of the Directors, on a named basis, is set out in the table below.

Name of 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			
SIU Man Hei	✓	✓	✓
YIP Kwok Hung Kevin	✓	✓	✓
DING Chunya	✓	✓	✓
KAU Wai Fun	✓	✓	✓
Non-executive Directors			
XU Xingli	✓	✓	✓
HUANG Jianhong (appointed on 23 January 2019)	✓	✓	✓
XIE Jianyu (resigned on 23 January 2019)	✓	×	×
Independent Non-executive Directors			
LIU Yi	✓	✓	✓
SUN Yansheng	✓	✓	✓
TSANG Ho Ka Eugene	✓	✓	✓

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.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

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

BOARD COMMITTEES

BOARD PRACTICES AND CONDUCT OF MEETINGS

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

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

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

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

COMMITTEES

The Board has established four committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Management Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are in line with the CG Code. The terms of reference for the Audit Committee and the Nomination Committee were amended on 15 April 2019 to reflect amendments made to the Listing Rules. These terms of reference are posted on the Company's website and are available to shareholders upon request. Board committees are provided with sufficient resources to discharge their duties and are required to report back to the Board on their decisions or recommendation.

AUDIT COMMITTEE

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

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

The Audit Committee is also responsible for the following duties: (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of Directors and senior management of the Company; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company; and (e) to review the Company's compliance with the Code and disclosures in the Corporate Governance Report.

There were two Audit Committee meetings held during the Year. The Audit Committee has performed the following work during the Year and up to the date of this report:

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

– to review, inter alia, the audited annual results for the Previous Year and the Year, and the unaudited interim results for the six-month period ended 30 June 2019;

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

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

– to review findings in the internal control report;

– to review the continuing connected transactions of the Group;

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

– to consider the re-appointment of external auditors.

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

REMUNERATION COMMITTEE

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

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

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

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

– to assess the performance of executive Directors;

– to approve the terms of executive Directors' service contract; and

– to approve the proposed remuneration of executive Directors and senior management with effective from January 2020.

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

NOMINATION COMMITTEE

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

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

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

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

– to review the structure and composition of the Board and policy concerning the diversity of member of the Board;

– to assess the independence of the independent non-executive Directors;

– to review the policy concerning nomination of Directors;

– to review the policy concerning selection and recommendation of senior management of the Company; and

– to determine the rotation of the Directors at the 2019 annual general meeting.

BOARD DIVERSITY POLICY

MEASURABLE OBJECTIVES AND MONITORING

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

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

DIVERSITY OF THE BOARD

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

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

RISK MANAGEMENT COMMITTEE

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

Mr. CHEUNG Henry resigned and another executive Director , Mr. Siu Man Hei (Chief Executive Officer) was appointed as a member of the Risk Management Committee, both effective from 30 March 2020.

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

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

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

– to review the credit risk measures of the Company;

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

– to review any market and operational risk; and

– to review the Group's risk management and internal control system, and the effectiveness of the internal audit function of the Company.

DIRECTORS' ATTENDANCE RECORDS

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

Pursuant to Code provision A.1.1. of the CG Code, regular Board meetings should be held at least four times a year at approximately quarterly intervals. There were ten Board meetings held during the Year, two of which were regular meetings held for approving the final results for the year ended 31 December 2018 and the interim results for the six-month period ended 30 June 2019. The Company has not held the other two regular Board meetings as it is not required under the Listing Rules to publish quarterly results. The Board has also performed the following work during the Year and up to this report date:

– to approve the amendment of the terms of references of the Audit Committee and the Nomination Committee;

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

– to approve the subscription of short-term notes;

- to review financial performance and approve the profit warning announcement;
- to approve the change in the use of proceeds;
- to approve the allotment of share pursuant to the Share Option Scheme;
- to approve the change of Hong Kong Branch share registrar;
- to review the financial performance for the nine-month period ended 30 September 2019 and approve the issue of voluntary announcement; and
- to approve the appointment and resignation of non-executive director.

Attendance records of each Director at the Board meetings and Board committee meetings are as follows: -

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

DIRECTORS' SECURITIES TRANSACTIONS

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

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

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements that give a true and fair view of the Company for the Year and to review such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors have assessed the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

A statement by auditor about their reporting responsibilities on the consolidated financial statements is set out in the independent auditor's report. The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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

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

EXTERNAL AUDITOR AND AUDITORS' REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities for the financial statements is set out in the Section headed "Independent Auditor's Report" on page 83 to 88 of this annual report.

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

Category of Services	Fee paid/ Payable 2019 (HK$)
Audit Service	**1,430,000**
Non-audit Services	
– Service fee as the reporting accountant in relation to the IPO	**–**
– Tax services fee	**97,788**
– Other services	**423,230**
TOTAL	**1,951,018**

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

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

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

There is no change in the Company's constitutional documents during the Year. Up-to-date version of the Company's constitutional documents are also available on the Company's website and the Stock Exchange's website.

SHAREHOLDERS' RIGHTS

The Board and management shall ensure shareholders' rights and all shareholders are treated equally and fairly. Pursuant to the articles of association, any shareholder entitled to attend and vote at a general meeting of the Company is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. Shareholders holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Shareholders of the Company may at any time send their enquiries and concerns to the Board in writing with contact information of the requisitionists and deposited to the Company Secretary at the principal place of business of the Company in Hong Kong at 30/F, Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Kowloon, Hong Kong or to the Group's email at ir@steveleung.com.

COMPANY SECRETARY

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

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

Throughout the Year, Mr. Cheung Henry was the Company Secretary. On 30 March 2020, he has resigned as the Company Secretary due to other personal career development. Mr. Yip Kwok Hung Kevin (Chief Financial Officer) and Ms. Choi Mei Bik have been appointed as Joint Company Secretaries of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

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

SCOPE OF THE REPORT

This report has been prepared in accordance with Appendix 27 of the Listing Rules, "Environmental, Social and Governance Reporting Guide". The report summarises the Group's ESG performance of its major operations in Hong Kong, Shanghai and Guangzhou, where these operations take up most of the Group's headcount during the Year, and covers its management policies, mechanisms and measures in place during the financial year 2019 with respect to environmental protection, emission reduction, safe workplace, personnel training and drills, supply chain management and community investment and engagement. Focuses are placed on certain aspects closely relevant to its shareholders and stakeholders, and its full commitment to sustainable development of the Group as a whole.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SECTION A: ENVIRONMENTAL

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

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

EMISSIONS

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

AIR EMISSIONS

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

GREENHOUSE GAS EMISSIONS

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

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

In the Year, the total greenhouse gas emissions amounted to approximately 786,000 kilograms (2018: 752,000 kilograms), with a slightly increase of 5% due to more frequent business. The corresponding intensity of greenhouse gas emissions was approximately 1,700 kilograms per employee (2018: 1,680 kilograms).

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

Source	Emissions in 2018 (in kilogram)	Emissions in 2019 (in kilogram)	Variance
Emissions from Electricity Consumption	473,608	**516,560**	+9%
Emissions from Disposal of Paper Waste	53,184	**46,992**	-12%
Emissions from Business Travel by Employees	225,229	**222,857**	-1%
Total	752,021	**786,409**	+5%

WASTE MANAGEMENT

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

The only measurable output of the Group's non-hazardous waste in the Year was mainly paper waste, which amounted to approximately 9,800 kilograms (2018: 11,000 kilograms), with a remarkable reduction of approximately 11% compared to last year. With an average number of 464 employees during the Year, the paper waste produced by each of the Group's employees was approximately 21 kilograms (2018: 25 kilograms). Double-sided printing was encouraged, and so, single-side-printed paper was collected for re-use. The Group recycled the used toner and parts of copiers to reduce wastage. To further reduce printed documents, electronic documents are encouraged during daily business communications and operations. With effective waste reduction and results achieved, the Group is confident to further reduce its waste produced in the coming future.

The table below summaries the total paper waste produced by the three geographical regions.

Geographic Region	Paper Waste in 2018 (in kilogram)	Paper Waste in 2019 (in kilogram)	Variance
Hong Kong	3,982	**4,127**	+4%
Shanghai	3,063	**2,138**	-30%
Guangzhou	4,035	**3,526**	-13%
Total	11,080	**9,791**	-12%

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

USE OF RESOURCES

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

ENERGY CONSUMPTION

The total energy consumption during the Year was approximately 898,000 kWh (2018: 772,000 kWh), with an inevitable increase of approximately 16% due to more frequent business. The electricity consumption intensity was around 1,936 kWh (2018: 1,725 kWh) per employee for the Year.

The Group has emphasised the essentialness of energy conservation. The Group spurs every employee to switch off all idle appliances, and ensure that all electronic equipment is switched off after work hours. In the office and workshops, the Group has encouraged its staff to develop an energy-saving habit by using natural light whenever possible instead of electric lighting. In the foreseeable future, we promise to make more efforts on the topic of energy conservation to further reduce the Group's carbon footprint.

WATER CONSUMPTION

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

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

Since the water supply is centrally managed and sourced from governmental bodies, there was no water sourcing issue during the Year.

PACKAGING MATERIAL

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

THE ENVIRONMENT AND NATURAL RESOURCES

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

For the sake of raising employees' awareness of environmental protection, the Group initiates different advocacy means on non-business-related issues. A display screen is placed in office area to remind employees about the topic of over-fishing. Moreover, providing green food such as vegetables and fruits in the pantry provokes employees with a sense that reducing meat intake could also help alleviate the critical climate disaster caused by global warming.

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

SECTION B: SOCIAL – EMPLOYMENT AND LABOUR PRACTICES

EMPLOYMENT

The Group consisted of 442 members in Hong Kong, Shanghai and Guangzhou as at 31 December 2019 (2018: 486):

Employment	Percentage in 2018	Percentage in 2019
Employment type		
Full time	97%	**99%**
Part time	1%	**–**
Temporary	2%	**1%**
Gender		
Male	43%	**41%**
Female	57%	**59%**
Age Group		
18-25	25%	**17%**
26-35	54%	**57%**
36-45	16%	**20%**
46-55	3%	**3%**
56-65	2%	**3%**
Years of serving the Group		
Under 1 year	41%	**24%**
1-3 years	29%	**40%**
3-5 years	12%	**14%**
5-10 years	11%	**13%**
Over 10 years	7%	**9%**

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

EMPLOYEE BENEFITS

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

The Group provides employees with various insurance coverage in respect to their working location. For staff working in Hong Kong, contribution to Mandatory Provident Fund and employees' compensation insurance according to the Employment Ordinance of Hong Kong (Chapter 57 of the Laws of Hong Kong). Meanwhile for staff working in Mainland, Social Insurance and Housing Provident Fund regarding to the local ordinance are provided. In addition, Hong Kong employees are covered by the Group Health Insurance Scheme subscribed by the Group for catering their basic healthcare needs.

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

For recruitment and dismissal process, the Group will go through the procedures according to the policies stated internally. For recruitment, equal opportunities are provided to all applicants with regards of the considerations of their experience, knowledge and skills only. The Human Resources Department will strictly process every application. For compensation and dismissal, those employees acting improperly or breaching of contract terms and code of conduct will be warned or even terminated. Compensations are provided to those dismissed employees when applicable according to the relevant laws and regulations.

HARMONIOUS WORKSPACE

A harmonious and inclusive work environment, free from any harassment and discrimination is promoted in the Group. The Group hires people regardless of their race, colour, religion, age, gender, sexual orientation, national origin, citizenship, disability, marital status or any other characteristics protected by law. As at 31 December 2019, there were 16 foreign staff (2018: 15) working in the Group. The Group would help to arrange working visa for successful foreign recruitment applicants if applicable.

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

WORK-LIFE BALANCE OF EMPLOYEES

The Group encourages work-life balance. Employees are entitled for 9 to 24 days annual leave per year and enjoy 1 day of birthday leave in the month of birth. Marriage leave, compassionate leave, maternity leave and paternity leave are also provided to employees to meet their families' needs.

Although 5 working days with 40 working hours per week is fixed, the Group allows employees to pick any one out of five flexible working timeslot options.

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

The Group has also offered a public leisure area in the Hong Kong and Shanghai offices for employees to take rest or have casual meetings. The Group believes that under a comfortable work environment, it can help stimulate its employees' ideas and enhance the productivity.

TALENT RETENTION

With all the above benefits and welfare for employees, we successfully achieved a low turnover rate of 4% (2018: 4%) in the Year.

HEALTH AND SAFETY

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

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

The Group understands that preventive measures are way more important than reactive measures. Therefore, sufficient first-aid boxes and fire extinguishers have been equipped in the office area in case any emergencies happen. Moreover, all employees are encouraged to participate in the fire drilling session to familiarise themselves with the evacuation procedures.

In the Year, there was no case of work injury or fatalities (2018: 1 case of work injury) reported in the Group. Looking ahead, the Group would continue to promote occupational health and safety to its employees, and avoid any work injury or accident by all means.

The Group strictly complied with the Employees' Compensation Ordinance in Hong Kong (Chapter 282 of the Laws of Hong Kong) to report any accident to the Commissioner for Labor, as well as the Law of Social Insurance in the PRC to contribution sufficient social insurance of work injuries of the Group's employees. The Group also strictly complied with others relevant health and safety laws and regulations, such as the local fire services regulations, to provide a safe working environment to its employees by protecting them from occupational hazards.

DEVELOPMENT AND TRAINING

The Group underlines the indispensableness of employee improvement. The Group promises to provide sufficient and efficient training to its employees. The Group also focuses on the ability requirements of each level of employees to ensure that its employees are growing with the Group at the same time. Both employee initial performance assessment and annual performance assessment are conducted to help facilitate two-way communication between management and employees, as well as to help management better understand employees' training and development needs. All employees are subjected to new staff orientation to familiarise the daily operations of the Group. From time to time, there are internal trainings held to improve the employees' skills and knowledge, as well as to keep them updated on the recent design trends. Moreover, external seminars and exhibitions will be sponsored in order to stimulate their ideas as well as consolidate their knowledge. Apart from internal training, employees are entitled to examination leave for three times per year to prepare and sit for examinations related to their work duties. During the Year, there were 11 internal training sessions provided to a total number of 335 attendants in all employment level, with an average of 1.5 hours trainings per attendant.

LABOUR STANDARDS

The Group complies with all immigration laws and regulations. During our recruitment process, documentation of being legally eligible to work in Hong Kong, Shanghai or Guangzhou is obtained and verified. Respecting human rights has been an integral part of the Group's approach to sustainability. The Group fully complies with labour laws and other relevant legislation that prohibits child labour and forced labour. The Group does not employ any person below the age of eighteen at its workplace. Any violence, with the purpose of deliberately causing difficulties, threats and/or corporal punishment, forcing employees to work is prohibited. Through the whistle-blowing mechanism, all employees are welcomed to voice out injustice they faced. The management will investigate into any reported cases immediately, and take further follow-up actions if necessary.

During the Year, there was no material non-compliance (2018: nil) with applicable laws and regulations in relation to labour standards.

SECTION B: SOCIAL – OPERATING PRACTICES

SUPPLY CHAIN MANAGEMENT

The Group implements rigorous management of its suppliers. In this regard, the Group maintains an approved list of suppliers which meet the Group's procurement requirements, and purchase orders are only made to the suppliers on the list, so as to ensure product quality and mitigate the risk of any supply chain disruptions. If the Group locates any potential new suppliers, initial assessment, including quality checks of the products and supplies, will be conducted upon the new suppliers. Only those with satisfactory results will be added into the list. Moreover, the Group conducts regular performance assessment for its suppliers over the quality and time of delivery of products or materials to ensure that the requirements of the Group are met. As at 31 December 2019, there were a total of 88 approved suppliers, in which 6, 32 and 50 located in Hong Kong, Guangzhou and Shanghai respectively.

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

PRODUCT RESPONSIBILITY

QUALITY CONTROL

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

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

Moreover, being honored as the top 2 position in the "Residential Design Category" and the top 27 position in global ranking in 2019 by the interior design magazine of the US "Top 100 Giants Research" has proven the Group's commitment on service quality.

Not only does the Group focus on the service quality, the Group also places huge importance on the clients' health and safety issue. The Group has incorporated health concerns, such as design with natural lighting and green environment, as well as safety concerns, such as safe design in projects for elderly.

In addition, the Group's advertisements are mainly based on its actual finished projects and word-of-mouth. Not only do them help provide clients with confidence towards the Group's professional design teams, they also help clients familiarise with the Group's design style.

During the Year, there was no material non-compliance (2018: nil) with applicable laws and regulations relating to product responsibility.

CLIENT SERVICE MANAGEMENT

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

CONFIDENTIALITY

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

INTELLECTUAL PROPERTY RIGHTS

The Group recognised the importance of the protection of intellectual property rights. To protect the Group's own intellectual properties and trademark, regular checks and observations is conducted to oversee any infringement from other parties occurs.

ANTI-CORRUPTION

All forms of bribery and corruption are prohibited. Employees should not solicit or accept any advantage in connection with their work without the permission of the Group. Advantages include both monetary and non-monetary gifts, loans, fee, reward, employment, contract, service, favor, etc. It is the Group's rule that no director nor employee may solicit or accept any advantage from any person having business dealings with the Group, including clients, suppliers and contractors. Moreover, under no circumstances may a director or employee offer an advantage to any person or company for the purpose of influencing such person or company in any business dealings.

Seminars with topics on anti-corruption will be provided to the employees from time to time to update their knowledge about the latest regulations.

A Code of Conduct has been established for enabling the directors and employees to perform at the highest level of integrity, commitment and professionalism. Through the whistle-blowing mechanism, employees are encouraged to report any suspected cases of bribery or corruption. The management will investigate into any reported cases immediately, and take further follow-up actions if necessary.

In addition to bribery and corruption, according to the established Code of Conduct, the Group's employees are strictly prohibited from engaging in any illegal acts, including extortion, fraud, money laundering, etc. Identified cases will be followed-up with applicable legal actions. It is the Group's core values for reminding its employees to uphold their integrity and professionalism as aforementioned.

During the Year, there was no concluded legal case (2018: nil) regarding corrupt practices brought against the Group or its employees.

SECTION B: SOCIAL – COMMUNITY INVESTMENT

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

Steve Leung Travelling Scholarship was set up in 2008 to cultivate young interior designers in Hong Kong and the Mainland China. During the Year, the scholarship program has bestowed HK$160,000 (2018: HK$100,000) in total to 5 interior design student winners.

In addition, during the Year, the Group has sponsored HK$27,000 to the Awards Presentation of Hong Kong Interior Design Association ("**HKIDA**") as well as HK$ 5,000 to Hong Kong Polytechnic University Environment and Interior Design End of Year Show to support the creative interior designs.

REGULATORY COMPLIANCE

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

DIRECTORS' REPORT

DIRECTORS' REPORT

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

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 43 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 89.

No interim dividend had been declared to the shareholders during the Year. The Board proposed a final dividend for the Year in the amount of HK1.30 cents per share, which amounts to approximately HK$14.8 million in total. The payment of such final dividend will be subject to the approval of the shareholders at the forthcoming AGM. Subject to the approval of the shareholders at the AGM, it is expected that proposed final dividend will be paid on 30 November 2020. Notice of the AGM will be published on the Company's website and despatched to the shareholders in the manner required by the Listing Rules in due course.

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

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

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

BUSINESS REVIEW

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

PRINCIPAL RISK AND UNCERTAINTIES

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

RELATIONSHIP WITH KEY STAKEHOLDERS

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

EMPLOYEES

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

CLIENTS

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

CONSULTANTS, SUBCONTRACTORS AND VENDORS

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is the Group's corporate and social responsibility in promoting a sustainable and environmentally friendly environment. The Group strives to minimise its environmental impact by saving electricity and to build the Group in a sustainable way. The Group has adopted a set of environmental friendly policy to minimise its impact on the environment. 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 provides services and trading business in Hong Kong and the PRC. The Directors confirmed that, during the Year and up to this annual report date, the Group had obtained all the registrations and certifications required for its business and operations and had complied with the applicable laws and regulations in Hong Kong and the PRC in all material and relevant aspects.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the Year and the past four financial years are set out on page 168.

SHARE CAPITAL

Details of movements in share capital of the Company during the Year are set out in note 32 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the Year ended 31 December 2019 are set out in the consolidated statement of changes in equity on page 91 to 92 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands and the Company's articles of association, amounted to approximately HK$313.2 million (Previous Year: HK$294.1 million).

DIRECTORS

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

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

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

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

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

Mr. SIU Man Hei, Mr. XU Xingli and Mr. LIU Yi, shall retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "**AGM**") pursuant to the Company's articles of association.

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

DIRECTORS' PROFILES

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

CONFIRMATION OF INDEPENDENCE

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

As at the date of this annual report, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or (b) to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, are set out as follows:

Long position in the shares and underlying shares of the Company

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

Save as disclosed in the foregoing, as at the date of this report, having sufficient enquiry to and with the best knowledge of the Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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

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

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

Name of Shareholder	Long/ Short position	Capacity/ Nature of interest	Number of shares	Approximate percentage of shareholding in issued shares
Sundart Holdings Limited (Note 11)	Long	Interest in controlled corporation	171,000,000	15.00%
Reach Glory International Limited (Note 12)	Long	Interest in controlled corporation	90,339,510	7.92%
Health Capital Enterprises Limited (Note 13)	Long	Beneficial owner	171,000,000	15.00%
Gangyuan Architectural Decoration Hongkong Limited (Note 14)	Long	Interest in controlled corporation	171,000,000	15.00%
北京港源建築裝飾工程有限公司 (Gangyuan Architectural Decoration Engineering Co., Ltd.) (Note 15)	Long	Interest in controlled corporation	171,000,000	15.00%
北京江河創展管理諮詢有限公司 (Beijing Jangho Chuangzhan Management Consulting Company Limited) (Note 16)	Long	Interest in controlled corporation	117,562,500	10.31%

Notes:

1. On the basis of 1,140,039,000 share capital in issue as at 31 December 2019.

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

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

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

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

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

DIRECTORS' REPORT (CONTINUED)

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

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

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

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

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

12. Sundart Holdings is beneficially owned as to approximately 52.83% by Reach Glory International Limited ("**Reach Glory**"). As such, the Company is indirectly owned as to approximately 7.92% by Reach Glory as at the date of this report.

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

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

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

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

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

PRE-IPO SHARE OPTION SCHEME

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

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

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

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

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

The shares which may be issued upon exercise of all options to be granted under the Pre-IPO Share Option Scheme shall not exceed 10% of the Shares in issue as at the Listing Date, i.e. 5 July 2018 (i.e. 114,000,000 Shares, representing approximately 10.00% of the total number of issued shares of the Company as at the date of this report).

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

DIRECTORS' REPORT (CONTINUED)

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

Category of grantees	Date of Grant	Exercise period	As at 1 January 2019	Granted during the Year	Exercised during the Year (Note 1)	Cancelled during the Year (Note 2)	Lapsed during the Year	As at 31 December 2019
Executive director								
Mr. Siu Man Hei	15/06/2018	05/07/2018 – 30/06/2024	2,006,400	–	–	–	–	2,006,400
		05/07/2019 – 30/06/2024	2,006,400	–	–	–	–	2,006,400
		05/07/2020 – 30/06/2024	2,006,400	–	–	–	–	2,006,400
		05/07/2021 – 30/06/2024	2,006,400	–	–	–	–	2,006,400
		05/07/2022 – 30/06/2024	2,006,400	–	–	–	–	2,006,400
Senior management and other employees	15/06/2018	05/07/2018 – 30/06/2024	4,090,320	–	(39,000)	(2,040)	–	4,049,280
		05/07/2019 – 30/06/2024	4,090,320	–	–	(41,040)	–	4,049,280
		05/07/2020 – 30/06/2024	4,090,320	–	–	(41,040)	–	4,049,280
		05/07/2021 – 30/06/2024	4,090,320	–	–	(41,040)	–	4,049,280
		05/07/2022 – 30/06/2024	4,090,320	–	–	(41,040)	–	4,049,280
			30,483,600	–	(39,000)	(166,200)	–	30,278,400

Notes:

1. 39,000 ordinary shares of the Company were issued to an employee of the Group at the exercise price of HK$0.44 per share on 13 June 2019. The Group received a total consideration of HK$17,160 for the issue. The weighted average closing price of the shares immediately before the date on which the options were exercised was HK$0.72.

2. These are in respect of options granted to some employees under continuous contracts who have subsequently resigned. Such options have cancelled during the period.

3. For further details, please refer to note 41 to the consolidated financial statements.

Except as set out above, no other options were outstanding, granted, exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme during the Year.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

DIRECTORS' REPORT (CONTINUED)

The Board shall set out in the offer the terms on which the option is to be granted. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 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. 114,000,000 shares, representing approximately 10.00% of the total number of issued shares of the Company as at the date of this report). The Company may seek approval of its shareholders in general meeting for refreshing such 10% limit.

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. Share 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 11 June 2018. No share options were granted, exercised, cancelled or lapsed under the Share Option Scheme during the Year. No share options were outstanding under the Share Option Scheme as at the beginning or end of the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

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

EQUITY-LINKED AGREEMENTS

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

CONNECTED TRANSACTIONS

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

CONTINUING CONNECTED TRANSACTIONS

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

Jangho Chuangxin is owned, directly and indirectly, by Mr. Liu, a controlling shareholder of the Company. Accordingly, Jangho Chuangxin is an associate of Mr. Liu and is regarded as a connected person of the Company. Mr. Xu Xingli, a non-executive Director and the chairman of the Board, is a director of Jangho Chuangxin.

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

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

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

Gangyuan Decoration was a substantial shareholder of Gangyuan Design and a non-wholly owned subsidiary of Jangho Co., one of the Controlling Shareholders. Gangyuan Decoration constitutes a substantial shareholder of the Company's subsidiary and an associate of Jangho Co. under the Listing Rules and is therefore a connected person of the Company under the Listing Rules. Mr. Xu Xingli, a non-executive Director and chairman of the Board, is a director and the chief executive officer of Jangho Co. and a director of Gangyuan Decoration.

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

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

CONFIRMATION FROM THE DIRECTORS

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the continuing connected transactions and have confirmed that the above continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the relevant agreements governing them on terms that are fair and reasonable and are in the interests of the Shareholders as a whole.

Deloitte Touche Tohmatsu, the independent auditor of the Company, has issued a letter to the Board under Rule 14A.56 of the Listing Rules, confirming that nothing has come to their attention that causes them to believe the continuing connected transactions disclosed in this report: (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and (iv) have exceeded the relevant annual caps.

A copy of the independent auditor's letter has been provided by the Company to the Stock Exchange.

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

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

For particulars of the contracts of significance between the Group and the controlling shareholders or their respective subsidiaries or the contracts of significance for the provision of services to the Group by the controlling shareholders of their respective subsidiaries, please see "CONNECTED TRANSACTIONS" and note 37 to the consolidated financial statements.

MANAGEMENT CONTRACTS

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

COMPETING BUSINESS

During the Year, none of the Directors or the controlling shareholders of the Company and their respective associates had any interest in a business, apart from the business of the Group, which competes or is likely to compete, whether directly or indirectly, 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(2) of the Listing Rules.

NON-COMPETITION UNDERTAKING

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

PERMITTED INDEMNITY PROVISIONS

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

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

EMOLUMENT POLICY

The emolument policy of the employees of the Group was set up by the Remuneration Committee. The Group offers remuneration, discretionary bonus and share options will also be granted to eligible staff based on individual performance in recognition of their contribution and hard work. The Group also provides external training programmes which are complementary to certain job functions. The emolument of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market trend.

RETIREMENT BENEFIT SCHEME

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

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CHARITABLE DONATIONS

Donations made by the Company during the Year for charity amounted to nil (Previous Year: HK$1,232,660).

MAJOR CUSTOMERS, SUBCONTRACTORS AND SUPPLIERS

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

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

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

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

CORPORATE GOVERNANCE

The Company has complied with the code provisions and certain recommended best practices set out in the CG Code. Details of the corporate governance report are set out on pages 38 to 51 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the year ended 31 December 2019, the Group subscribed one short-term note which will be matured on 31 March 2020 with a fixed interest rate of 6.0% per annum at a consideration of HK$60.0 million.

Moreover, COVID-19 outbreak worldwide in the first quarter of 2020, the financial impact of which on the overall market is unpredictable yet, the Board will closely monitor the development of COVID-19 for any financial impact on the Group's performance.

Save as aforesaid, there were no other significant events subsequent to 31 December 2019 which may materially affect the Group's operating and financial performance as at the date of this report.

AUDITOR

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

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

Hong Kong, 30 March 2020

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Steve Leung Design Group Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 89 to 167, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on service contracts from interior design services, interior decorating and furnishing services and product design services	
We identified the revenue recognition on service contracts from interior design services, interior decorating and furnishing services and product design services as a key audit matter due to the significant judgements exercised by the management in determining the total contract costs and contract costs incurred for work performed to date. As set out in note 4 to the consolidated financial statements, the Group recognises service revenue by reference to the progress towards complete satisfaction of the relevant performance obligation using input method, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Accordingly, revenue recognition on service contracts involves a significant degree of management estimates and judgment, with estimates being made to assess the total contract costs and stage of completion of the contract. The details of the accounting policies and estimation uncertainty in relation to revenue recognition on service contracts from interior design services, interior decorating and furnishing services and product design services are set out in notes 3 and 4 to the consolidated financial statements. As disclosed in note 5 to the consolidated financial statements, the service revenue amounted to HK$350,700,000 for the year ended 31 December 2019.	Our procedures in relation to revenue recognition on service contracts from interior design services, interior decorating and furnishing services and product design services included: • Understanding the management's process relating to the estimation of total contract costs and recording of costs; • Obtaining an understanding from the Group's project team including project managers, about the contract terms, performance and status of selected contracts to evaluate the reasonableness of the basis of estimation of the total contract costs, and contract costs incurred for work performed to date; • Comparing the staff costs incurred on selected contracts extracted from the timesheet recording system to the estimated total contract costs with the percentage of completion of individual contracts and evaluating the reasonableness of the estimated total contract costs; and • Performing comparisons between the percentage of completion and the percentage of progress billing on selected contracts to identify and investigate any significant differences by obtaining an understanding from project team and checking correspondence with customers of the Group.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Estimated provision of expected credit losses ("ECL") for trade receivables and contract assets	
We identified the estimated provision of ECL for trade receivables and contract assets as a key audit matter due to their significance to the consolidated financial statements as a whole and the use of judgment and estimates by the management in determining the allowance for credit losses and write-offs. As shown in notes 23 and 25 to the consolidated financial statements, as at 31 December 2019, the carrying amounts of trade receivables and contract assets are HK$198,946,000 (net of allowance for credit losses of HK$17,755,000) and HK$51,935,000, respectively. As disclosed in note 4 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables and contract assets individually for debtors with significant balances and/or collectively based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is reasonable and supportable available without undue costs or effort. In addition, trade receivables and contract assets that are credit impaired are assessed for ECL individually. The loss allowance amount of the credit impaired trade receivables and contract assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 39 to the consolidated financial statements, a net impairment loss of HK$4,124,000 in respect of the trade receivables was recognised in profit or loss by the Group for the year ended 31 December 2019.	Our procedures in relation to the estimated provision of ECL for trade receivables and contract assets included: • Obtaining an understanding of key controls on how the management estimates the ECL of trade receivables and contract assets including the individual assessment on significant balances and the credit impaired trade receivables and contract assets and the use of provision matrix for collective assessment; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables and contract assets ageing analysis as at 31 December 2019, on a sample basis, by comparing individual items in the analysis with the relevant invoices/progress certificates and other supporting documents; and • Challenging management's basis and judgement in determining credit loss allowance on trade receivables and contract assets as at 31 December 2019, 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).

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is MAN Ka Lai.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTES	**2019 HK$'000**	2018 HK$'000
Revenue	5	**504,686**	503,890
Cost of sales		**(310,049)**	(277,388)
Gross profit		**194,637**	226,502
Other gains and losses	7	**(3,059)**	4,707
Impairment losses under expected credit loss model		**(4,124)**	(1,388)
Other income	8	**13,672**	2,539
Administrative expenses		**(137,329)**	(129,811)
Listing expenses		**–**	(13,412)
Finance costs	9	**(2,662)**	(916)
Profit before taxation		**61,135**	88,221
Income tax expense	10	**(21,009)**	(30,208)
Profit for the year	11	**40,126**	58,013
Other comprehensive expense that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(6,896)**	(11,573)
Total comprehensive income for the year		**33,230**	46,440
Profit for the year attributable to:			
– Owners of the Company		**38,648**	56,727
– Non-controlling interests		**1,478**	1,286
		40,126	58,013
Total comprehensive income for the year attributable to:			
– Owners of the Company		**31,923**	44,937
– Non-controlling interests		**1,307**	1,503
		33,230	46,440
Earnings per share (expressed in Hong Kong cents)	15		
Basic		**3.39**	5.70
Diluted		**3.36**	5.67

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current Assets			
Property, plant and equipment	16	**20,266**	24,315
Right-of-use assets	17	**63,053**	–
Intangible assets	18	**3,546**	4,355
Goodwill	19	**1,203**	1,231
Deposits paid for acquisition of property, plant and equipment	24	**9,314**	3,769
Rental deposits	24	**2,310**	6,042
Deferred tax assets	20	**21,266**	11,797
		120,958	51,509
Current Assets			
Inventories	21	**1,162**	1,444
Note receivables	22	**–**	60,000
Trade receivables	23	**198,946**	145,342
Other receivables, deposits and prepayments	24	**27,949**	16,734
Contract assets	25	**51,935**	62,950
Tax recoverable		**155**	–
Pledged bank deposit	26	**3,091**	–
Bank balances and cash	26	**273,595**	284,218
		556,833	570,688
Current Liabilities			
Trade payables	27	**37,683**	24,264
Other payables and accrued charges	27	**54,113**	58,098
Bank borrowings	28	**33,618**	20,000
Lease liabilities	29	**22,226**	–
Obligations under a finance lease	30	**–**	223
Contract liabilities	31	**13,841**	20,316
Tax liabilities		**9,890**	12,592
		171,371	135,493
Net Current Assets		**385,462**	435,195
Total Assets less Current Liabilities		**506,420**	486,704
Capital and Reserves			
Share capital	32	**11,400**	11,400
Reserves		**441,364**	465,011
Equity attributable to owners of the Company		**452,764**	476,411
Non-controlling interests		**10,786**	9,479
Total Equity		**463,550**	485,890
Non-current Liabilities			
Deferred tax liabilities	20	**2,450**	82
Lease liabilities	29	**40,420**	–
Obligations under a finance lease	30	**–**	732
		42,870	814
		506,420	486,704

The consolidated financial statements on pages 89 to 167 were approved and authorised for issue by the Board of Directors on 30 March 2020 and are signed on its behalf by:

SIU MAN HEI
DIRECTOR

YIP KWOK HUNG KEVIN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Equity attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000 (Note (a))	Merger reserve HK$'000 (Note (b))	Statutory reserve HK$'000 (Note (c))	Exchange reserve HK$'000	Long-term employee benefit reserve HK$'000 (Note (d))	Shareholder's contribution HK$'000 (Note (e))	Retained profits HK$'000	Sub-total HK$'000	Non-controlling interest HK$'000	Total HK$'000
At 1 January 2018	–	95,662	(112,360)	2,952	1,261	5,371	43,119	163,169	199,174	7,976	207,150
Profit for the year	–	–	–	–	–	–	–	56,727	56,727	1,286	58,013
Exchange differences arising on translation of foreign operations	–	–	–	–	(11,790)	–	–	–	(11,790)	217	(11,573)
Total comprehensive (expense) income for the year	–	–	–	–	(11,790)	–	–	56,727	44,937	1,503	46,440
Transfer of reserves	–	–	–	213	–	–	–	(213)	–	–	–
Capitalisation issue (note 32)	8,550	(8,550)	–	–	–	–	–	–	–	–	–
Issue of new shares pursuant to the initial public offering (note 32)	2,850	247,950	–	–	–	–	–	–	250,800	–	250,800
Share issue expenses	–	(20,977)	–	–	–	–	–	–	(20,977)	–	(20,977)
Recognition of equity settled long-term employee benefits	–	–	–	–	–	2,477	–	–	2,477	–	2,477
At 31 December 2018	11,400	314,085	(112,360)	3,165	(10,529)	7,848	43,119	219,683	476,411	9,479	485,890
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38,648**	**38,648**	**1,478**	**40,126**
Exchange differences arising on translation of foreign operations	**-**	**-**	**-**	**-**	**(6,725)**	**-**	**-**	**-**	**(6,725)**	**(171)**	**(6,896)**
Total comprehensive (expense) income for the year	**-**	**-**	**-**	**-**	**(6,725)**	**-**	**-**	**38,648**	**31,923**	**1,307**	**33,230**
Transfer of reserves	**-**	**-**	**-**	**1,530**	**-**	**-**	**-**	**(1,530)**	**-**	**-**	**-**
Dividend recognised as distribution (note 14)	**-**	**(57,002)**	**-**	**-**	**-**	**-**	**-**	**-**	**(57,002)**	**-**	**(57,002)**
Recognition of equity settled long-term employee benefits	**-**	**-**	**-**	**-**	**-**	**1,415**	**-**	**-**	**1,415**	**-**	**1,415**
Shares issued upon exercise of share options under share option scheme	**-**	**17**	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**-**	**17**
Cancellation of share options (note 41)	**-**	**-**	**-**	**-**	**-**	**(51)**	**-**	**51**	**-**	**-**	**-**
At 31 December 2019	**11,400**	**257,100**	**(112,360)**	**4,695**	**(17,254)**	**9,212**	**43,119**	**256,852**	**452,764**	**10,786**	**463,550**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2019

Notes:

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

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

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	NOTES	**2019 HK$'000**	2018 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**61,135**	88,221
Adjustments for:			
Amortisation of intangible assets		**1,030**	1,047
Depreciation of property, plant and equipment		**8,393**	7,418
Depreciation of right-of-use assets		**23,371**	–
Expense recognised in respect of Loyalty Incentive Scheme	40	**–**	1,703
Expense recognised in respect of Conversion Scheme and share option scheme	41	**1,415**	2,477
Loss on disposals of property, plant and equipment		**439**	275
Finance costs		**2,662**	916
Impairment losses on trade receivables		**4,124**	1,388
Interest income		**(4,906)**	(1,555)
Operating cash flows before movements in working capital		**97,663**	101,890
Decrease (increase) in inventories		**282**	(60)
Increase in trade receivables		**(59,640)**	(48,058)
(Increase) decrease in other receivables, deposits and prepayments		**(7,814)**	3,700
Decrease (increase) in contract assets		**5,642**	(14,623)
Increase in trade payables		**14,303**	16,387
Decrease in other payables and accrued charges		**(2,692)**	(12,422)
(Decrease) increase in contract liabilities		**(6,503)**	2,814
Net cash generated from operations		**41,241**	49,628
Hong Kong Profits Tax paid		**(2,240)**	(17,868)
PRC Enterprise Income Tax paid		**(28,763)**	(27,209)
Withholding tax paid		**–**	(806)
Interest paid		**(695)**	(916)
NET CASH FROM OPERATING ACTIVITIES		**9,543**	2,829

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
INVESTING ACTIVITIES		
Repayment from note receivables	**120,000**	–
Withdrawal of pledged bank deposits	**9,390**	1,004
Interest received	**4,497**	1,146
Additions to note receivables	**(60,000)**	(60,000)
Placement of pledged bank deposits	**(12,481)**	–
Additions to property, plant and equipment	**(11,925)**	(17,710)
Additions to intangible assets	**(308)**	(1,647)
Proceeds from disposal of property, plant and equipment	**–**	125
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**49,173**	(77,082)
FINANCING ACTIVITIES		
Repayments of bank borrowings	**(164,620)**	(228,000)
Dividend paid	**(57,002)**	(35,000)
Repayment of lease liabilities	**(25,016)**	–
Finance cost paid for lease liabilities	**(1,967)**	–
New bank borrowings raised	**178,238**	240,000
Net proceeds from issuance of shares upon exercise of share options	**17**	–
Issue of shares of the Company, net of transaction costs	**–**	229,823
Repayment of obligations under a finance lease	**–**	(215)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(70,350)**	206,608
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(11,634)**	132,355
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**284,218**	154,910
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,011**	(3,047)
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH	**273,595**	284,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION AND REORGANISATION

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

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

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

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

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

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

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

2.1 HKFRS 16 LEASES

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("**HKAS 17**"), and the related interpretations.

2.1.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF HKFRS 16

(A) DEFINITION OF A LEASE

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

(B) AS A LESSEE

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

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

2.1 HKFRS 16 LEASES (CONTINUED)

2.1.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF HKFRS 16 (CONTINUED)

(B) AS A LESSEE (CONTINUED)

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong and the People's Republic of China were determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

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

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

2.1 HKFRS 16 LEASES (CONTINUED)

2.1.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF HKFRS 16 (CONTINUED)

(B) AS A LESSEE (CONTINUED)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rates applied ranges from 1.30% to 5.90%.

	Note	At 1 January 2019* HK$'000
Operating lease commitments disclosed as at 31 December 2018		**48,313**
Lease liabilities discounted at relevant incremental borrowing rates		**44,515**
Add: Recognition of leases of office equipment		**5,203**
Less: Recognition exemption – short-term leases		**(102)**
Recognition exemption – low value assets		**(179)**
Changes in allocation basis between lease and non-lease components		**(4,740)**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16		**44,697**
Add: Obligations under a finance lease recognised at 31 December 2018	(a)	**955**
Lease liabilities as at 1 January 2019		**45,652**
Analysed as:		
Current		**21,598**
Non-current		**24,054**
		45,652

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

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

2.1 HKFRS 16 LEASES (CONTINUED)

2.1.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF HKFRS 16 (CONTINUED)

(B) AS A LESSEE (CONTINUED)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	Right-of-use assets HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		**44,697**
Amounts included in property, plant and equipment under HKAS 17		
– Assets previously under finance leases	(a)	**1,171**
Adjustments on rental deposits at 1 January 2019	(b)	**419**
		46,287
By class:		
Leased properties		**39,913**
Office equipment		**5,203**
Motor vehicle		**1,171**
		46,287

Notes:

(a) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to HK$1,171,000 as right-of- use assets. In addition, the Group reclassified the obligations under a finance leases of HK$223,000 and HK$732,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

(b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK$419,000 was adjusted to refundable rental deposits paid and right-of-use assets.

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

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

2.1 HKFRS 16 LEASES (CONTINUED)

2.1.1 KEY CHANGES IN ACCOUNTING POLICIES RESULTING FROM APPLICATION OF HKFRS 16 (CONTINUED)

(B) AS A LESSEE (CONTINUED)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK$'000	Adjustments HK$'000	Carrying amounts under HKFRS 16 at 1 January 2019 (Note) HK$'000
Non-current Assets			
Property, plant and equipment	24,315	(1,171)	23,144
Right-of-use assets	–	46,287	46,287
Rental deposits	6,042	(419)	5,623
Current Liabilities			
Lease liabilities	–	21,598	21,598
Obligations under a finance lease	223	(223)	–
Non-current Liabilities			
Lease liabilities	–	24,054	24,054
Obligations under a finance lease	732	(732)	–

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (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 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

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

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

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

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal accounting policies are set out below:

BASIS OF CONSOLIDATION

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

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

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

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

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

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

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

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

CHANGES IN THE GROUP'S INTERESTS IN EXISTING SUBSIDIARIES

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS

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

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

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

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

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

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOODWILL

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

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

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

REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

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

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

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

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

INPUT METHOD

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASE

DEFINITION OF A LEASE (UPON APPLICATION OF HKFRS 16 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

THE GROUP AS A LESSEE (UPON APPLICATION OF HKFRS 16 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2)

ALLOCATION OF CONSIDERATION TO COMPONENTS OF A CONTRACT

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand- alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

The Group applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight – line basis or another systematic basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASE (CONTINUED)

THE GROUP AS A LESSEE (UPON APPLICATION OF HKFRS 16 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2) (CONTINUED)

RIGHT-OF-USE ASSETS

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of- use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

REFUNDABLE RENTAL DEPOSITS

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASE (CONTINUED)

THE GROUP AS A LESSEE (UPON APPLICATION OF HKFRS 16 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2) (CONTINUED)

LEASE LIABILITIES

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASE (CONTINUED)

THE GROUP AS A LESSEE (UPON APPLICATION OF HKFRS 16 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2) (CONTINUED)

LEASE MODIFICATIONS

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(A) THE GROUP AS A LESSEE (PRIOR TO 1 JANUARY 2019)

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.

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

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASE (CONTINUED)

THE GROUP AS A LESSEE (UPON APPLICATION OF HKFRS 16 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2) (CONTINUED)

LEASE MODIFICATIONS (CONTINUED)

(A) THE GROUP AS A LESSEE (PRIOR TO 1 JANUARY 2019) (CONTINUED)

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Sale and leaseback transactions (upon application of HKFRS 16 since 1 January 2019)

The Group applies the requirements of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group acts as a seller-lessee

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee accounts for the transfer proceeds as borrowings within the scope of HKFRS 9.

(B) SALE AND LEASEBACK TRANSACTIONS (PRIOR TO 1 JANUARY 2019)

The accounting treatment of a sale and leaseback transaction depends on the type of lease involved. The leaseback may be a finance lease if it meets the condition that substantially all the risks and rewards of ownership remain with the lessee, or it may be an operating lease (in which case, some significant risks and rewards of ownership have been transferred to the purchaser).

The Group acts as a seller-lessee

For sale and leaseback transactions which are in substance a financing arrangement under HKFRS 9, the Group accounts for the sales proceeds as borrowing within the scope of HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCIES

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

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

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

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

BORROWING COSTS

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

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

GOVERNMENT GRANTS

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENTS

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

SHARE-BASED PAYMENTS ARRANGEMENTS

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

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

SHARE OPTIONS GRANTED TO EMPLOYEES

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

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

When share options are exercised, the amount previously recognised in long-term employee benefit reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in long-term employee benefit reserve will be transferred to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHORT-TERM AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

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

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

RETIREMENT BENEFIT COSTS

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

TAXATION

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAXATION (CONTINUED)

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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 to the same taxation entity by the same taxation authority.

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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.

INTANGIBLE ASSETS

INTANGIBLE ASSETS ACQUIRED SEPARATELY

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

INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

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

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

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

IMPAIRMENT ON PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS OTHER THAN GOODWILL

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

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT ON PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS OTHER THAN GOODWILL (CONTINUED)

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

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

INVENTORIES

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

FINANCIAL INSTRUMENTS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS

CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

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

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

All other financial assets are subsequently measured at FVTPL.

AMORTISED COST AND INTEREST INCOME

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

IMPAIRMENT OF FINANCIAL ASSETS

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

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

(I) SIGNIFICANT INCREASE IN CREDIT RISK

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(I) SIGNIFICANT INCREASE IN CREDIT RISK (CONTINUED)

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

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

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

(II) DEFINITION OF DEFAULT

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(III) CREDIT-IMPAIRED FINANCIAL ASSETS

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

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

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

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

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

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

(IV) WRITE-OFF POLICY

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

(V) MEASUREMENT AND RECOGNITION OF ECL

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

(V) MEASUREMENT AND RECOGNITION OF ECL (CONTINUED)

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

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

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

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL LIABILITIES AND EQUITY

CLASSIFICATION AS DEBT OR EQUITY

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

EQUITY INSTRUMENTS

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

FINANCIAL LIABILITIES AT AMORTISED COST

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

DERECOGNITION OF FINANCIAL LIABILITIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

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

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

ESTIMATED PROVISION OF ECL FOR TRADE RECEIVABLES AND CONTRACT ASSETS

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

The provision of ECL is sensitive to changes in estimates. The information about the Group's assessment of ECL and the details of the Group's trade receivables and contract assets are disclosed in notes 39, 23 and 25, respectively.

5. REVENUE

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

An analysis of the Group's revenue for the years ended 31 December 2019 and 31 December 2018 is as follows:

	2019 HK$'000	2018 HK$'000
Service revenue	**350,700**	397,736
License fee revenue	**1,670**	2,380
Trading income	**152,316**	103,774
	504,686	503,890

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Interior design services HK$'000	Interior decorating and furnishing services HK$'000	Product design services HK$'000	Total HK$'000
Geographical markets				
Hong Kong	**30,376**	**8,119**	**–**	**38,495**
PRC	**274,599**	**168,157**	**311**	**443,067**
Other regions	**20,137**	**411**	**2,576**	**23,124**
	325,112	**176,687**	**2,887**	**504,686**
Timing of revenue recognition				
Over time				
Service revenue	**325,112**	**24,371**	**1,217**	**350,700**
At point in time				
License fee revenue	**–**	**–**	**1,670**	**1,670**
Trading income	**–**	**152,316**	**–**	**152,316**
	–	**152,316**	**1,670**	**153,986**
	325,112	**176,687**	**2,887**	**504,686**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

5. REVENUE (CONTINUED)

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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

5. REVENUE (CONTINUED)

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

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

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

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

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

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

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

The expected timing of recognising revenue on transaction price related to the performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 is within one year. The Group elected to apply the practical expedient by recognising revenue in the amount to which the Group has right to invoice. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

6. OPERATING SEGMENTS

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

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

1. Interior design services: Provision of interior design services

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

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

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

SEGMENT REVENUE AND RESULTS

	Interior design services HK$'000	Interior decorating and furnishing services HK$'000	Product design services HK$'000	Total HK$'000
For the year ended 31 December 2019				
Revenue				
Segment revenue from external customers	**325,112**	**176,687**	**2,887**	**504,686**
Results				
Segment results	**29,886**	**39,218**	**3**	**69,107**
Unallocated expenses				**(9,001)**
Interest income				**4,906**
Depreciation of property, plant and equipment				**(3,438)**
Loss on disposals of property, plant and equipment				**(439)**
Profit before taxation				**61,135**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

6. OPERATING SEGMENTS (CONTINUED)

SEGMENT REVENUE AND RESULTS (CONTINUED)

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

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

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

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

OTHER SEGMENT INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

	Interior design services HK$'000	**Total HK$'000**
Amounts included in the measure of segment results:		
Amortisation of intangible assets	**1,030**	**1,030**
Depreciation of property, plant and equipment	**4,955**	**4,955**
Impairment losses on trade receivables under expected credit loss model	**4,124**	**4,124**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

6. OPERATING SEGMENTS (CONTINUED)

OTHER SEGMENT INFORMATION (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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

GEOGRAPHICAL INFORMATION

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

	2019 HK$'000	2018 HK$'000
External revenue:		
Hong Kong	**38,495**	47,884
PRC	**443,067**	417,116
Other regions	**23,124**	38,890
	504,686	503,890

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

	2019 HK$'000	2018 HK$'000
PRC	**49,595**	21,611
Hong Kong	**50,097**	18,101
	99,692	39,712

INFORMATION ABOUT MAJOR CUSTOMERS

During the years ended 31 December 2019 and 2018, none of the Group's single customer attributed to more than 10% of the Group's total external revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

7. OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Exchange (loss) gain, net	**(2,620)**	4,982
Loss on disposals of property, plant and equipment	**(439)**	(275)
	(3,059)	4,707

8. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Grants received from local government (Note 1)	**2,226**	687
Interest income from bank deposits	**1,350**	1,146
PRC tax rebates (Note 2)	**5,783**	–
Interest income from note receivables	**3,556**	409
Miscellaneous income	**757**	297
	13,672	2,539

Notes:

1. The grants were granted by the relevant PRC authorities to certain PRC subsidiaries of the Group. There were no other specific conditions to the grants and therefore, the Group recognised the grants upon approval being obtained from the relevant PRC authorities.

2. The amount includes certain incentives to attract foreign investment from the relevant PRC tax authorities in the form of profits tax rebates in Tianjin, the PRC.

9. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest on bank borrowings	**695**	903
Interest on lease liabilities	**1,967**	–
Interest on the obligations of a finance lease	**–**	13
	2,662	916

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

10. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Current tax:		
Hong Kong Profits Tax	**745**	–
PRC Enterprise Income Tax	**27,858**	33,696
	28,603	33,696
(Over)underprovision in prior years:		
Hong Kong Profits Tax	**(457)**	303
Deferred taxation (note 20)	**(7,137)**	(3,791)
	21,009	30,208

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

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

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

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

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

	2019 HK$'000	2018 HK$'000
Profit before taxation	**61,135**	88,221
Tax at applicable tax rate of 16.5% (2018:16.5%)	**10,087**	14,556
Tax effect of expenses not deductible for tax purpose	**1,671**	2,637
Tax effect of tax loss not recognised	**308**	5
Effect of different tax rate of the PRC subsidiaries operating in other jurisdiction	**9,400**	12,716
(Over)underprovision in prior years	**(457)**	303
Others	**–**	(9)
Income tax expense for the year	**21,009**	30,208

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

11. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2019 HK$'000	2018 HK$'000
Amortisation of intangible assets		
– included in cost of sales	**578**	627
– included in administrative expenses	**452**	420
	1,030	1,047
Auditors' remunerations		
– audit	**1,430**	1,280
– non-audit	**521**	2,431
Cost of inventories recognised as an expense	**97,789**	67,395
Depreciation of right-of-use assets	**23,371**	–
Depreciation of property, plant and equipment	**8,393**	7,418
Staff costs:		
Directors' emoluments (note 12)	**10,658**	16,904
Other staffs		
– basic salaries, allowances and other benefits	**158,201**	145,049
– discretionary bonus	**18,361**	18,436
– retirement benefits scheme contributions	**22,950**	20,971
– expense recognised in respect of Loyalty Incentive Scheme (note 40)	**–**	982
– expense recognised in respect of Conversion Scheme (note 40) and share option scheme (note 41)	**891**	1,662
	200,403	187,100
	211,061	204,004
Operating lease rental paid in respect of rented properties	**236**	26,510
Operating lease rental paid in respect of rented office equipment	**–**	858

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

		Other emoluments					
	Directors' fees HK$'000	Basic salaries allowances and other benefits HK$'000	Discretionary bonus HK$'000 (Note (c))	Retirement benefits scheme contributions HK$'000	Expense recognised in respect of Loyalty Incentive Scheme HK$'000 (note 40)	Expense recognised in respect of Conversion Scheme and share option scheme HK$'000 (notes 40 and 41)	Total HK$'000
For the year ended 31 December 2019							
Executive directors:							
Siu Man Hei (Note (a))	–	3,797	1,381	180	–	524	5,882
Yip Kwok Hung, Kevin (Note (b))	–	1,500	125	75	–	–	1,700
Ding Chunya	–	481	398	73	–	–	952
Kau Wai Fun	–	1,322	138	64	–	–	1,524
Non-executive directors:							
Xu Xingli	60	–	–	–	–	–	60
Huang Jianhong (Note (e))	–	–	–	–	–	–	–
Xie Jianyu (Note (d))	–	–	–	–	–	–	–
Independent non-executive directors:							
Tsang Ho Ka Eugene	180	–	–	–	–	–	180
Liu Yi	180	–	–	–	–	–	180
Sun Yansheng	180	–	–	–	–	–	180
	600	7,100	2,042	392	–	524	10,658

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

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

Notes:

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

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

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

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

(e) Huang Jianhong was appointed as non-executive director with effect form 23 January 2019.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

13. FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2018: two) were directors for the year ended 31 December 2019. Their emoluments are included in note 12 above. The emoluments of the remaining two (2018: three) non-directors individuals for the year ended 31 December 2019 are as follows:

	2019 HK$'000	2018 HK$'000
Basic salaries, allowances and other benefits	**10,463**	9,720
Discretionary bonus (Note)	**2,011**	4,098
Retirement benefits scheme contributions	**363**	477
Expense recognised in respect of Loyalty Incentive Scheme (note 40)	**–**	114
Expense recognised in respect of Conversion Scheme (note 40) and share option scheme (note 41)	**83**	437
	12,920	14,846

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

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

	No. of employees	
	2019	2018
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	2
HK$9,000,001 to HK$9,500,000	**–**	1
HK$10,000,001 to HK$10,500,000	**1**	–
	2	3

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

14. DIVIDEND

	2019 HK$'000	2018 HK$'000
Dividends for ordinary shareholders of the Company recognised as distributions during the year:		
2018: Final paid – HK2.50 cents per share	**28,501**	–
2018: special dividend paid – HK2.50 cents per share	**28,501**	–
	57,002	–

A final dividend for the year ended 31 December 2019 of HK1.30 cents per share (2018: a final dividend of HK2.50 cents and a special dividend of HK2.50 cents per share) amounting to HK$14,821,000 (2018: 57,002,000) in aggregate, has been proposed by the directors of the Company after the end of the reporting period and is subject to the approval of the shareholders at the forthcoming annual general meeting.

15. EARNINGS PER SHARE

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

	2019 HK$'000	2018 HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**38,648**	56,727

	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,140,021,584**	995,547,945
Effect of dilutive potential ordinary shares in respect of outstanding share options	**11,335,875**	4,793,428
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,151,357,459**	1,000,341,373

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 1 January 2018	14,628	3,200	33,032	4,359	55,219
Additions	12,443	1,064	6,955	1,308	21,770
Disposals	(5)	(265)	(2,382)	–	(2,652)
Exchange realignments	(505)	–	(783)	(25)	(1,313)
At 31 December 2018	26,561	3,999	36,822	5,642	73,024
Adjustments upon application of HKFRS 16 (Note 2.1.1)	–	–	–	(1,308)	(1,308)
At 1 January 2019 (restated)	26,561	3,999	36,822	4,334	71,716
Additions	2,122	618	3,466	–	6,206
Disposals	(3,872)	(1,757)	(2,939)	–	(8,568)
Exchange realignments	(361)	–	(361)	(11)	(733)
At 31 December 2019	24,450	2,860	36,988	4,323	68,621
DEPRECIATION					
At 1 January 2018	12,211	2,754	25,192	4,121	44,278
Provided for the year	2,750	399	3,948	321	7,418
Eliminated upon disposals	(4)	(262)	(1,986)	–	(2,252)
Exchange realignments	(262)	–	(451)	(22)	(735)
At 31 December 2018	14,695	2,891	26,703	4,420	48,709
Adjustments upon application of HKFRS 16	–	–	–	(137)	(137)
At 1 January 2019 (restated)	14,695	2,891	26,703	4,283	48,572
Provided for the year	3,721	554	4,118	–	8,393
Eliminated upon disposals	(3,542)	(1,749)	(2,879)	–	(8,170)
Exchange realignments	(229)	–	(201)	(10)	(440)
At 31 December 2019	14,645	1,696	27,741	4,273	48,355
CARRYING VALUES					
At 31 December 2019	9,805	1,164	9,247	50	20,266
At 31 December 2018	11,866	1,108	10,119	1,222	24,315

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

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

As at 31 December 2018, the carrying value of motor vehicles of HK$1,222,000 included an amount of HK$1,171,000 in respect of a motor vehicle held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

17. RIGHT-OF-USE ASSETS

	Leased properties HK$'000	Office equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
AS AT 1 JANUARY 2019				
Carrying amount	39,913	5,203	1,171	46,287
AS AT 31 DECEMBER 2019				
Carrying amount	58,410	3,798	845	63,053
FOR THE YEAR ENDED 31 DECEMBER 2019				
Depreciation charge	21,679	1,365	327	23,371
Expense relating to short-term leases				102
Expense relating to leases of low-value assets, excluding short-term leases of low value assets				134
Total cash flow for leases				25,252
Additions to right-of-use assets				40,835

18. INTANGIBLE ASSETS

	Software HK$'000 (Note (a))	Backlog contracts HK$'000 (Note (b))	License HK$'000 (Note (c))	Total HK$'000
COST				
At 1 January 2018	8,315	1,207	929	10,451
Additions	1,647	–	–	1,647
Exchange realignments	(582)	–	(98)	(680)
At 31 December 2018	9,380	1,207	831	11,418
Additions	308	–	–	308
Exchange realignments	(213)	–	(45)	(258)
Written off	(4)	–	–	(4)
At 31 December 2019	9,471	1,207	786	11,464
AMORTISATION				
At 1 January 2018	4,895	1,207	324	6,426
Provided for the year	790	–	257	1,047
Exchange realignments	(329)	–	(81)	(410)
At 31 December 2018	5,356	1,207	500	7,063
Provided for the year	783	–	247	1,030
Exchange realignments	(133)	–	(42)	(175)
At 31 December 2019	6,006	1,207	705	7,918
CARRYING VALUES				
At 31 December 2019	3,465	–	81	3,546
At 31 December 2018	4,024	–	331	4,355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

18. INTANGIBLE ASSETS (CONTINUED)

Notes:

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

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

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

19. GOODWILL

	HK$'000
At 1 January 2018	1,290
Exchange realignments	(59)
At 31 December 2018	1,231
Exchange realignments	(28)
At 31 December 2019	1,203

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

During the year ended 31 December 2019, the management performed impairment review for the goodwill. The recoverable amount of the cash-generating unit has been determined by a value-in-use calculation based on the cash flow forecast derived from the most recent financial budgets and estimated future cash flows covering a 5-year period as approved by management and using a pre-tax discount rate of 13.47% (2018: 13.47%), that reflect current market assessments of the time value of money and the risks specific to the cash-generating unit. The cash flows beyond the five-year period are extrapolated using a 2% (2018: 2%) growth rate. The growth rate is based on industry growth forecasts. Changes in gross margin are based on past practices and expectations of future changes in the market. The management believes that reasonably possible change in any of these assumptions would not cause the carrying amount of the cash-generating unit containing the goodwill to exceed its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

20. DEFERRED TAXATION

The following are the major deferred tax (assets) liabilities recognised and movement thereon during the current and prior years:

	Accelerated tax depreciation HK$'000	Allowance for credit losses/ doubtful debts HK$'000	Accrued bonus HK$'000	Accrued expenses HK$'000	Provision for amounts due from customers for contract works/ contract assets HK$'000	Tax losses HK$'000	Fair value adjustment on business acquisition HK$'000	Unrealised profits HK$'000	Total HK$'000
At 1 January 2018	(159)	(3,465)	(2,213)	(80)	(613)	(1,763)	151	–	(8,142)
Transfer arising from application of HKFRS 15	–	(613)	–	–	613	–	–	–	–
Charge (credit) to profit or loss	108	77	1,344	80	–	(4,973)	(64)	(363)	(3,791)
Exchange realignments	–	167	50	–	–	–	(5)	6	218
At 31 December 2018	(51)	(3,834)	(819)	–	–	(6,736)	82	(357)	(11,715)
(Credit) charge to profit or loss	(1,093)	(545)	816	–	–	(8,630)	(61)	2,376	(7,137)
Exchange realignments	–	73	3	–	–	–	(1)	(39)	36
At 31 December 2019	(1,144)	(4,306)	–	–	–	(15,366)	20	1,980	(18,816)

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

	2019 HK$'000	2018 HK$'000
Deferred tax assets	**(21,266)**	(11,797)
Deferred tax liabilities	**2,450**	82
	(18,816)	(11,715)

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary from 1 January 2008 onwards. As at 31 December 2019, the aggregate amount of temporary differences associated with undistributed earnings of the PRC subsidiaries for which deferred tax liabilities have not been recognised are HK$114,477,000 (2018: HK$150,692,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At 31 December 2019, the Group had unused estimated tax losses of HK$94,995,000 (2018: HK$41,739,000) available for offset against future profits respectively. A deferred tax asset has been recognised in respect of such tax losses of HK$93,128,000 (2018: HK$40,824,000). No deferred tax asset has been recognised on the remaining tax losses of HK$1,867,000 (2018: HK$915,000) due to the unpredictability of future profit streams. The tax losses available may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

21. INVENTORIES

Inventories represent finished goods for trading purpose.

22. NOTE RECEIVABLES

	2019 HK$'000	2018 HK$'000
Fixed-rate note receivables	–	60,000

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

On 23 April 2019 and 2 July 2019, the Group subscribed for two short-term notes with a fixed interest rate of 6.00% per annum from an independent third party. The two short-term notes of HK$30,000,000 each are to be matured on 30 December 2019. During the year ended 31 December 2019, the Group received the aggregate amounts of HK$120,000,000 upon the maturity of the four note receivables.

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

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

23. TRADE RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**216,701**	159,617
Less: Allowance for credit losses	**(17,755)**	(14,275)
	198,946	145,342

Included in the carrying amount of trade receivables as at 31 December 2019 is an amount of HK$11,662,000 (2018: HK$12,573,000) due from a related party controlled by a controlling shareholder of the Company.

As at 1 January 2018, trade receivables from contracts with customers amounted to HK$104,410,000.

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

23. TRADE RECEIVABLES (CONTINUED)

	2019 HK$'000	2018 HK$'000
0 to 30 days	**116,702**	103,083
31 to 90 days	**24,100**	15,368
91 to 180 days	**11,173**	7,993
Over 180 days	**46,971**	18,898
	198,946	145,342

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

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$198,946,000 (2018: HK$145,342,000) which are past due as at the reporting date. Out of the past due balances, HK$58,144,000 (2018: HK$26,891,000) has been past due more than 90 days and is not considered as in default since the amounts are still considered as recoverable based on historical experience and forward-looking estimates. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2019 are set out in note 39.

24. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 HK$'000	2018 HK$'000
Other receivables	**7,168**	7,049
Value-added tax recoverable	**4,219**	3,238
Interest receivables from note receivables	**–**	409
Prepayments of expenses	**7,046**	4,444
Rental deposits	**5,990**	6,293
PRC tax rebates	**5,147**	–
Deposits paid for acquisition of property, plant and equipment	**9,314**	3,769
Other deposits	**689**	1,343
	39,573	26,545
Analysed as:		
Current	**27,949**	16,734
Non-current – Deposits paid for acquisition of property, plant and equipment	**9,314**	3,769
Non-current – Rental deposits	**2,310**	6,042
	39,573	26,545

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

25. CONTRACT ASSETS

	2019 HK$'000	2018 HK$'000
Contract assets		
Interior design services	**48,551**	59,474
Interior decorating and furnishing services	**3,384**	2,978
Product design services	**–**	498
	51,935	62,950

At 1 January 2018, contract assets amounted to HK$55,005,000.

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

Included in the carrying amount of contract assets as at 31 December 2019 is an amount of HK$4,722,000 (2018: HK$10,831,000) from a related party controlled by a controlling shareholder of the Company.

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

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

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

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

26. BANK BALANCES AND CASH AND PLEDGED BANK DEPOSITS

As at 31 December 2019, bank deposits of HK$3,091,000 (2018: Nil) were placed to banks to pledge as security for bank borrowings of the Group. The pledged bank deposit carries interests ranges from 1.4% to 2.3% per annum. Included in the bank balances and cash was a short-term bank deposit of HK$3,750,000 (2018: Nil) carries interests at 2.4% per annum and has an original maturity of six months.

Cash at banks earns interest at market interest rates. Short term deposits during the year are placed for periods ranging from one day to one month and earn interest at respective short-term deposits rates.

As at 31 December 2019, the bank balances and cash of the Group denominated in Renminbi ("**RMB**") amounted to HK$171,784,000 (2018: HK$129,778,000).

Details of impairment assessment for the year ended 31 December 2019 are set out in note 39.

27. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	2019 HK$'000	2018 HK$'000
0 to 180 days	**26,303**	21,128
Over 180 days	**11,380**	3,136
	37,683	24,264

The following is the analysis of other payables and accrued charges at the end of each reporting period:

	2019 HK$'000	2018 HK$'000
Accrued staff benefits	**22,569**	30,851
Deposits received from customers	**24,229**	16,018
Liability associated with long-term employee benefits	**–**	4,905
Other payables and accrued charges	**7,315**	6,324
	54,113	58,098

28. BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Secured	**3,618**	–
Unsecured	**30,000**	20,000
	33,618	20,000
The carrying amounts of the above borrowings that do not contain a repayment on demand clause and are repayable based on the scheduled repayment dates set out in the loan agreements within one year	**2,232**	–
The carrying amounts of the bank loans that contain a repayment on demand clause (shown under current liabilities) and the maturity analysis based on the scheduled repayment dates set out in the loan agreements are within one year	**31,386**	20,000
	33,618	20,000

As at 31 December 2019, included in the Group's borrowings of HK$30,000,000 and HK$3,618,000 are variable-rate borrowings carrying interest at 2% to 3.75% over Hong Kong Interbank Offering Rate ("**HIBOR**") and 15% to 25% over benchmark interest rates set by the People's Bank of China respectively. The secured borrowings were secured by pledged bank deposit deposit amounting HK$3,091,000, bearing interest ranges form 1.4% to 2.3% per annum. HK$10,000,000 of the group's unsecured borrowings are guaranteed by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

28. BANK BORROWINGS (CONTINUED)

As at 31 December 2018, the Group has a variable rate borrowing, which is unsecured, bears interest at 3.5% over HIBOR per annum and the interest is repriced every month and repayable within one year. As at 31 December 2018, the average effective rate (which is equal to contracted interest rate) on the Group's bank loan is 5.95% per annum. The loan is guaranteed by the Company.

29. LEASE LIABILITIES

	2019 HK$'000
Lease liabilities payable:	
Within one year	22,226
Within a period of more than one year but not more than two years	19,582
Within a period of more than two years but not more than five years	20,838
	62,646
Less: Amount due for settlement with 12 months shown under current liabilities	(22,226)
Amount due for settlement after 12 months shown under non-current liabilities	40,420

30. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments 2018 HK$'000	Present value of minimum lease payments 2018 HK$'000
Obligations under finance leases payable:		
Within one year	249	223
Within a period of more than one year but not more than two years	519	503
Within a period of more than two years but not more than five years	249	229
	1,017	955
Less: future finance charges	(62)	–
Present value of lease obligations	955	955
Less: Amount due for settlement with 12 months shown under current liabilities		(223)
Amount due for settlement after 12 months shown under non-current liabilities		732

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term was 4.5 years. Interest rate underlying all obligations under finance leases were fixed at 1.3% per annum. The lease has no terms of renewal or purchase options and escalation clauses.

Upon the application of HKFRS 16, the Group reclassified the obligations under a finance lease of HK$223,000 and HK$732,000 to lease liabilities as current liabilities and non-current liabilities, respectively at 1 January 2019. Details are set out in Note 2.1.1.

31. CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Contract liabilities		
Interior design services	**3,296**	5,433
Interior decorating and furnishing services	**10,545**	14,883
	13,841	20,316

At 1 January 2018, contract liabilities amounted to HK$17,665,000.

The contract liabilities represent the Group's obligation to transfer performance obligation to customers for which the Group has received considerations from the customers.

Movements in contract liabilities:

	2019 HK$'000	2018 HK$'000
Balance at the beginning of the year	**20,316**	17,665
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(19,087)**	(14,551)
Increase in contract liabilities as a result of receiving deposits from the customers	**12,657**	17,365
Exchange realignments	**(45)**	(163)
Balance at the end of the year	**13,841**	20,316

When the Group receives a deposit before the design services commence, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

32. SHARE CAPITAL

	Number of shares	HK$
Ordinary share of the Company of HK$0.01 each		
Authorised		
At 1 January 2018	39,000,000	390,000
Increase on 11 June 2018 (Note (a))	3,961,000,000	39,610,000
At 31 December 2018 and 31 December 2019	4,000,000,000	40,000,000
Issued and fully paid		
At 1 January 2018	1,000	10
Capitalisation issue (Note (b))	854,999,000	8,549,990
Issue of shares (Note (c))	285,000,000	2,850,000
At 31 December 2018	1,140,000,000	11,400,000
Issue of shares upon exercise of share options (Note (d))	39,000	390
At 31 December 2019	1,140,039,000	11,400,390

Notes:

(a) On 11 June 2018, the authorised share capital of the Company was increased from HK$390,000 divided into 39,000,000 shares of par value HK$0.01 each to HK$40,000,000 divided into 4,000,000,000 shares of par value HK$0.01 each, by the creation of 3,961,000,000 shares of par value HK$0.01 each.

(b) On 5 July 2018, the Company capitalised HK$8,549,990 standing to the credit of share premium of the Company and applied such amount in paying up in full 854,999,000 shares of the Company for allotment. The new shares rank pari passu in all respects with the issued ordinary shares of the Company.

(c) On 5 July 2018, 285,000,000 ordinary shares of the Company were issued at a price of HK$0.88 by way of initial public offering. Those shares rank pari passu with the existing ordinary shares of the Company. On the same date, the Company's shares were listed on the Stock Exchange. The proceeds of HK$2,850,000 and HK$247,950,000 (net of transaction cost of HK$20,977,000) were credited to the Company's share capital and share premium, respectively.

(d) on 13 June 2019, 39,000 ordinary shares of the Company were issued at a price of HK$0.44 per share pursuant to exercise of share option under the Pre-IPO share option scheme adopted on 11 June 2018 by employee of the Group. Details are set out in note 41.

33. FINANCIAL INFORMATION OF THE COMPANY

The following are the statement of financial position of the Company:

	2019 HK$'000	2018 HK$'000
Non-current Asset		
Interests in subsidiaries	**112,360**	112,360
Current Assets		
Amount due from a subsidiary	**147,749**	122,185
Dividend receivable from a subsidiary	**79,000**	–
Other receivables	**373**	415
Bank balances and cash	**5,360**	70,958
	232,482	193,558
Current Liabilities		
Other payables and accrued charges	**210**	410
Bank borrowing – due within one year	**20,000**	–
	20,210	410
Net Current Assets	**212,272**	193,148
Total Assets less Current Liabilities	**324,632**	305,508
Capital and Reserves		
Share capital (note 32)	**11,400**	11,400
Reserves	**313,232**	294,108
Total Equity	**324,632**	305,508

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

33. FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

The followings are the movements in reserves of the Company for the current and prior years:

	Share premium HK$'000	(Accumulated losses) retained profits HK$'000	Total HK$'000
At 1 January 2018	95,662	(4,699)	90,963
Capitalisation issue (note 32)	(8,550)	–	(8,550)
Issue of new shares pursuant to the initial public offering (note 32)	247,950	–	247,950
Share issue expenses (note 32)	(20,977)	–	(20,977)
Loss and total comprehensive expense for the year	–	(15,278)	(15,278)
At 31 December 2018	314,085	(19,977)	294,108
Dividend recognised as distribution	(57,002)	–	(57,002)
Shares issued exercise of share options under share option scheme	17	–	17
Profit and total comprehensive income for the year	–	76,109	76,109
At 31 December 2019	257,100	56,132	313,232

Note: Share premium represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the share capital and other reserves of SLD Group Holdings Limited, a subsidiary which was incorporated pursuant to the Reorganisation.

34. OPERATING LEASES

The Group as lessee

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

	2018 HK$'000
Within one year	25,057
In the second to fifth year inclusive	23,256
	48,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

35. CAPITAL COMMITMENTS

	2019 HK$'000	2018 HK$'000
Capital expenditures in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**725**	1,713

36. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2019, the Group entered into new lease arrangement for the use of leased properties for 3 years. On the lease commencement, the Group recognised HK$33,854,000 of right-of-use assets and HK$33,854,000 lease liabilities.

37. RELATED PARTY TRANSACTIONS

Other than the balances and transactions with related parties disclosed elsewhere in these consolidated financial statements, the Group has entered into the following transactions with its related parties during the year:

Relationship	**Nature of transaction**	**2019 HK$'000**	2018 HK$'000
Fellow subsidiary	Consultancy service income	**219**	63
	Interest on lease liabilities	**132**	–
	Interior design service income	**4,470**	5,778
	Rental expense	**–**	1,815
	Referral fee	**1,037**	–
	Repayment of lease liabilities	**965**	–
Related company (Note 1)	Interior design service income	**300**	319
Related company (Note 2)	Interior design service income and sales of interior decorative products	**7,151**	24,356

Notes:

1. Leung Chi Tien Steve, a director of SLD and a shareholder of the Company holds beneficial interests over these related companies.

2. Liu Zaiwang, a controlling shareholder of the Company holds controlling interests over these related companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

37. RELATED PARTY TRANSACTIONS (CONTINUED)

COMPENSATION OF KEY MANAGEMENT PERSONNEL

Directors are the key management personnel of the Group whose emoluments are disclosed in note 12.

The remuneration of other key management personnel of the Group, Leung Chi Tien Steve, is as follows:

	2019 **HK$'000**	2018 HK$'000
Basic salaries, allowance and other benefits	**8,904**	6,123
Discretionary bonus	**1,758**	3,079
Retirement benefits scheme contributions	**285**	285
	10,947	9,487

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

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to the shareholder through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the year.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 28, net of cash and cash equivalents and equity attributable to the owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a continuous basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through payment of dividends, issue of new shares as well as issue of new debts or redemption of existing debts.

39. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets at amortised cost	**489,479**	497,017
Financial liabilities		
Amortised cost	**101,185**	86,344

FINANCIAL RISK MANAGEMENT OBJECTIVES

The major financial instruments of the Group include note receivables, trade receivables, certain other receivables, pledged bank deposits, bank balances and cash, trade payables, other payables and accrued charges, lease liabilities and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

There has been no change to the Group's risk exposure relating to financial instruments or the manner in which it manages and measures the risks during the year.

INTEREST RATE RISK

The Group is mainly exposed to fair value interest rate risk in relation to note receivables (see note 22 for details of note receivables), and cash flow interest rate risk in relation to bank deposits (see note 26 for details of bank balances and pledged bank deposits) and bank borrowings (see note 28 for details of bank borrowings) and lease liabilities (see note 29 for details). The Group currently does not have any interest rate hedging policy. The directors of the Company monitor the interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

No interest rate sensitivity is disclosed as in the opinion of the directors of the Company, the interest rate sensitivity does not give additional value in view of insignificant exposure at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

39. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

FOREIGN CURRENCY RISK

The Group has foreign currency transactions, which expose the Group to foreign currency risk.

At the end of the reporting period, the carrying amounts of the Group's monetary assets and monetary liabilities including inter-company balances denominated in currencies other than the functional currencies of its respective group entities are as follows:

	2019		2018	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
United States dollars ("**US$**")	**4,734**	**–**	9,703	–
RMB	**13,827**	**–**	5,707	–
Euro ("**EUR**")	**599**	**–**	330	–
Singapore ("**SGD**")	**–**	**–**	850	–
Great British Pound ("**GBP**")	**215**	**–**	200	–
HK$	**18,353**	**–**	453	–
Inter-company balances RMB	**11,616**	**–**	12,663	–

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

SENSITIVITY ANALYSIS

Since HK$ is pegged to US$, sensitivity analysis is not presented. The following table details the Group's sensitivity to a 5% increase and decrease in the relevant foreign currencies against the respective functional currencies of group entities. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis has been prepared based on outstanding foreign currency denominated monetary items and also inter-company balances and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the foreign currencies strengthen 5% against the relevant functional currencies. For a 5% weakening of the foreign currencies against the relevant functional currencies, there would be an equal and opposite impact on the post-tax profit, and the balances below would be negative. The sensitivity analysis of the Group also includes currency risk exposure on inter-company balances.

	RMB impact		**EUR impact**		**SGD impact**		**GBP impact**		**HK$ impact**	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
Increase in post-tax profits for the year	**1,062**	767	**25**	14	**–**	35	**9**	8	**776**	19

39. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

CREDIT RISK AND IMPAIRMENT ASSESSMENT

As at 31 December 2019, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to manage its credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each debt on a collective and on-going basis to ensure that adequate impairment losses are made for irrecoverable amounts. A net impairment loss of HK$4,124,000 (2018: HK$1,388,000) in respect of the trade receivables was recognised by the Group for the year ended 31 December 2019.

The Group has concentration of credit risk of note receivables as at 31 December 2019. The management assess the credit risk exposure on the note receivables to be low as the counterparty was with a strong financial position.

Other than concentration of credit risk on note receivables, the Group has no significant concentration of credit risk in respect of trade and certain other receivables, with exposure spread over a number of counterparties and customers during the year.

The credit risk on liquid funds of the Group and the Company is limited because the counterparties are international or state-managed banks with high credit-ratings assigned by international credit-rating agencies.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets/other items
Low risk	The counterparty has a low risk of default	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle the amounts	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

39. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

CREDIT RISK AND IMPAIRMENT ASSESSMENT (CONTINUED)

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

2019	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK$'000	HK$'000
Financial assets at amortised cost					
Bank balances and pledged bank deposits	26	Note	12m ECL	**276,448**	**276,448**
Certain other receivables	24	Low risk	12m ECL	**13,847**	**13,847**
Trade receivables	23	Low risk	Lifetime ECL – not credit-impaired	**174,948**	
		Watch list	Lifetime ECL – not credit-impaired	**15,806**	
		Doubtful	Lifetime ECL – not credit-impaired	**17,760**	
		Loss	Lifetime ECL – credit-impaired	**8,187**	**216,701**
Other items					
Contract assets	25	Low risk	Lifetime ECL – not credit-impaired	**51,935**	**51,935**

2018	Notes	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK$'000	HK$'000
Financial assets at amortised cost					
Bank balances	26	Note	12m ECL	283,935	283,935
Certain other receivables	24	Low risk	12m ECL	7,457	7,457
Trade receivables	23	Low risk	Lifetime ECL – not credit-impaired	126,062	
		Watch list	Lifetime ECL – not credit-impaired	12,271	
		Doubtful	Lifetime ECL – not credit-impaired	15,139	
		Loss	Lifetime ECL – credit-impaired	6,145	159,617
Note receivables	22	Low risk	12m ECL	60,000	60,000
Other items					
Contract assets	25	Low risk	Lifetime ECL – not credit-impaired	62,950	62,950

Note: The counterparties are licensed banks with high credit ratings and the risk of default on liquid funds is limited.

39. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

CREDIT RISK AND IMPAIRMENT ASSESSMENT (CONTINUED)

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2019 within lifetime ECL (not credit impaired). Credit-impaired trade receivables with gross carrying amounts of HK$8,187,000 (2018: HK$6,145,000) as at 31 December 2019 were assessed individually.

GROSS CARRYING AMOUNT

	2019			2018		
Internal credit rating	**Average loss rate**	**Trade receivables HK$'000**	**Contract assets HK$'000**	Average loss rate	Trade receivables HK$'000	Contract assets HK$'000
Low risk	**0.6%**	**174,948**	**51,935**	0.2%	126,062	62,950
Watch list	**10.2%**	**15,806**	**–**	2.2%	12,271	–
Doubtful	**38.1%**	**17,760**	**–**	51.5%	15,139	–
		208,514	**51,935**		153,472	62,950

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2019, the Group provided HK$4,124,000 net impairment allowance for trade receivables (2018: HK$1,388,000). Impairment allowance of HK$7,967,000 (2018: HK$6,110,000) were made on credit-impaired debtors as at 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

39. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

CREDIT RISK AND IMPAIRMENT ASSESSMENT (CONTINUED)

GROSS CARRYING AMOUNT (CONTINUED)

The following table shows the movement in allowance for credit losses that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL not credit impaired HK$'000	Lifetime ECL credit impaired HK$'000	Total HK$'000
As at 1 January 2018	–	13,292	13,292
Allowance recognised in profit or loss	9,042	971	10,013
Impairment losses reversed	(720)	(7,905)	(8,625)
Exchange adjustments	(157)	(248)	(405)
As at 31 December 2018	8,165	6,110	14,275
Allowance recognised in profit or loss	7,167	2,757	9,924
Impairment losses reversed	(5,787)	(13)	(5,800)
Write off	–	(758)	(758)
Exchange adjustments	243	(129)	114
As at 31 December 2019	**9,788**	**7,967**	**17,755**

LIQUIDITY RISK

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

The following tables detail the contractual maturity of the Group's financial liabilities and obligations under a finance lease based on the earliest date on which the Group can be required to pay.

39. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)

LIQUIDITY RISK (CONTINUED)

	Weighted average interest rate %	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amounts HK$'000
As at 31 December 2019						
Trade payables	**–**	**37,683**	**–**	**–**	**37,683**	**37,683**
Other payables and accrued charges	**–**	**29,884**	**–**	**–**	**29,884**	**29,884**
Bank borrowings	**4.80**	**31,488**	**2,271**	**–**	**33,759**	**33,618**
Lease liabilities	**3.88**	**6,307**	**17,748**	**41,957**	**66,012**	**62,646**
		105,362	**20,019**	**41,957**	**167,338**	**163,831**
As at 31 December 2018						
Trade payables	–	24,264	–	–	24,264	24,264
Other payables and accrued charges	–	42,080	–	–	42,080	42,080
Bank borrowings	5.95	20,049	–	–	20,049	20,000
Obligations under a finance lease	1.30	62	187	768	1,017	955
		86,455	187	768	87,410	87,299

FAIR VALUE MEASUREMENT

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

The directors of the Company consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

40. LONG-TERM EMPLOYEE BENEFITS

The Group adopted Loyalty Incentive Scheme and Conversion Scheme on 26 November 2014 for the purpose of enhancing the stability and the sense of belonging of the selected employees.

LOYALTY INCENTIVE SCHEME

Under the Loyalty Incentive Scheme, eligible employees may, at their discretion, deposit up to 50% of their respective year-end bonus for the years ended 31 December 2014, 31 December 2015 and/or 31 December 2016 (the "**Accumulated Bonus**") with the Group for a term of 24 months commencing from 31 December of the relevant years (the "**Accumulation Period**") (i.e. until 31 December 2016, 31 December 2017, and/or 31 December 2018). Subject to the participation of the Conversion Scheme by the relevant employees, the Group will pay to the employees who participated in the Loyalty Incentive Scheme the Accumulated Bonus plus a doubled amount (the "**Incentive Bonus**") within 14 days after the expiry of the relevant Accumulation Period.

During the year ended 31 December 2019, the Group did not recognise any expense (2018: HK$1,703,000) in relation to the Incentive Bonus granted under the Loyalty Incentive Scheme. As at 31 December 2019, the amounts to be borne by SLD included in the consolidated statement of financial position as "liability associated with long-term employee benefits" under other payables and accrued charges are Nil (2018: HK$4,905,000).

CONVERSION SCHEME

Eligible employees may also, at their discretion, participate in the Conversion Scheme for the years ended 31 December 2014, 31 December 2015 and 31 December 2016. Pursuant to the Conversion Scheme, the eligible employees may subscribe the awarded shares in SLD in January 2017 at the discounted exercise price of HK$2,500,000 per 1% of the issued share capital of SLD from the shareholders of the Company based on the amount he/she is entitled to (including the original deposited sum and the return) under the Loyalty Incentive Scheme. Such awarded shares will be vested and transferred from the shareholders to the employees in January 2022. No awarded share in SLD was subscribed since 1 January 2017.

The total number of shares which may be awarded under the Conversion Scheme is not permitted to exceed 15% of the shares of SLD in issue at any point in time, without prior approval from the SLD's shareholders. The number of shares awarded and to be transferred from the shareholders to the employees under the Conversion Scheme and may be granted to any individual in any one year is not permitted to exceed 1.5% of the shares of SLD in issue at any point in time, without prior approval from the SLD's shareholders.

40. LONG-TERM EMPLOYEE BENEFITS (CONTINUED)

CONVERSION SCHEME (CONTINUED)

As at 31 December 2014, 31 December 2015 and 31 December 2016, the number of shares in respect of which the Conversion Scheme had been awarded were 2.97, 2.29 and 0.44 respectively, representing 2.97%, 2.29% and 0.44% of the shares of SLD in issue at those dates. The estimated total fair values of the shares in respect of which the Conversion Scheme had been awarded on 31 December 2014, 31 December 2015 and 31 December 2016 were HK$7,427,000, HK$5,723,000 and HK$1,111,000 respectively, which was determined with reference to the consideration for SLD Acquisition as defined in the section headed "History, Development and Reorganisation" in the Prospectus.

During the year ended 31 December 2018, the Conversion Scheme is replaced by the share option scheme as detailed in note 41.

41. SHARE-BASED PAYMENT TRANSACTIONS

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY

The Company's share option scheme was adopted pursuant to a resolution passed on 11 June 2018 (the "**Share Option Scheme**") for the purpose of recognising the contribution of certain senior management, employees, consultants and other contributors of the Group ("**Participants**") that have made or may have been made to the growth of the Group. Under the Share Option Scheme, the board of directors of the Company may grant options to Participants, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

On 15 June 2018, the Company implemented a settlement plan in relation to the Conversion Scheme (the "**Settlement Plan**") as further detailed in "History, Development and Reorganisation" in the Prospectus. Pursuant to the Settlement Plan: (i) the Conversion Scheme was terminated and replaced by the Share Option Scheme; (ii) the entitlement of dividend rights and shares of SLD of the eligible participants under the Conversion Scheme was replaced by the share options granted to them; and (iii) all the rights, benefits and claims of the eligible participants under the Conversion Scheme were terminated.

At 31 December 2019, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 30,278,400 (2018: 30,483,600), representing 2.656% (2018: 2.674%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted shall be taken up upon payment of HK$1 as consideration for the grant of option. Options may be exercised at any time not exceeding a period of 10 years from the date which the share option is deemed to be granted and accepted. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

41. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY (CONTINUED)

The following table discloses movements of the Company's share options held by directors and employees during the year:

Date of grant	Exercise price HK$	Outstanding at 1 January 2018	Granted during the year	Outstanding at 31 December 2018	Exercised during the year (Note 1)	Cancelled during the year (Note 2)	Outstanding 31 December 2019
5 July 2018	0.44	–	6,096,720	6,096,720	(39,000)	(2,040)	6,055,680
		–	6,096,720	6,096,720	–	(41,040)	6,055,680
		–	6,096,720	6,096,720	–	(41,040)	6,055,680
		–	6,096,720	6,096,720	–	(41,040)	6,055,680
		–	6,096,720	6,096,720	–	(41,040)	6,055,680
		–	30,483,600	30,483,600	(39,000)	(166,200)	30,278,400
Weighted average exercise price		–	HK$0.44	HK$0.44	HK$0.44	HK$0.44	HK$0.44

Notes:

1. The weighted average closing price of the shares immediately before the date on which the options were exercised was HK$0.72.

2. These are in respect of options granted to some employees under continuous contracts who have subsequently resigned. Such options have cancelled during the period.

During the year ended 31 December 2018, 30,483,600 options were granted as a replacement of the Conversion Scheme on 5 July 2018. The estimated fair values of the options granted and the fair values of the shares awarded under the Conversion Scheme and cancelled on date of replacement are HK$23,569,000 and HK$23,185,000, respectively. The Company continue to expense those shares awarded under the Conversion Scheme not yet recognised over the original vesting period and expense the incremental fair values of the options granted over the share awarded under Conversion Scheme determined on the date of replacement over the period from the dates of replacement of the Conversion Scheme until the dates when the relevant share options vest.

41. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

EQUITY-SETTLED SHARE OPTION SCHEME OF THE COMPANY (CONTINUED)

The fair values of the options granted were calculated using the Binomial model. The inputs into the model were as follows:

	2018
Underlying share price	HK$1.15
Exercise price	HK$0.44
Expected volatility	45.84%
Risk-free rate	2.1045%

The fair values of the Conversion Scheme cancelled were calculated using the Binomial option pricing model. The inputs into the model were as follows:

	2018
% of restricted shares to share capital	2.6259%
Lock-up period	3.49 years
Expected volatility	46.39%
Risk-free rate	1.95%

Expected volatility was determined by using the historical volatility of the daily return of comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

During the year ended 31 December 2019, 39,000 share options were exercised and 39,000 new ordinary shares of the Company were issued at a price of HK$0.44 per share.

The Group recognised the total expense of HK$1,415,000 (2018: HK$2,477,000) for the year ended 31 December 2019 in relation to share options granted by the Company and shares awarded under the Conversion Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

42. RETIREMENT BENEFITS SCHEME

The employees of the Company's subsidiaries in Hong Kong participate in the MPF Scheme established under the Mandatory Provident Fund Schemes Ordinance. The assets of the scheme are held separately from those of the Group, in funds under the control of trustee. All employees in Hong Kong joining the Group are required to join the MPF Scheme.

Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income capped at HK$1,500 per month. The retirement benefit costs charged to profit or loss represent contributions payable to such fund by the Group at rates specified in the rules of this scheme.

The employees of the Company's subsidiaries in PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their employees' payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

At 31 December 2019, there were no forfeited contributions available to offset future employers' contributions to the schemes.

The total expense recognised in profit or loss for the year ended 31 December 2019 of HK$23,342,000 (2018: HK$21,379,000) represents contributions paid or payable to the above schemes by the Group.

43. PARTICULARS OF THE SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2019 and 2018 are as follows:

Name of subsidiaries	Place of incorporation or establishment/ operations	Issued and fully paid capital/ registered capital	2019	2018	Principal activities
Direct subsidiary:					
SLD Group Holdings Limited	BVI	US$1	100%	100%	Investment holding
Indirect subsidiaries:					
SLD	Hong Kong	HK$100	100%	100%	Provision of interior design services, interior decorating and furnishing services and product design services
梁志天設計諮詢(深圳)有限公司 Steve Leung Designers (Shenzhen) Limited (Notes (i) & (ii))	PRC	HK$1,000,000	100%	100%	Provision of interior design services, interior decorating and furnishing services and product design services
梁志天室內設計(北京)有限公司 Steve Leung Designers (Beijing) Limited (Notes (i) & (ii))	PRC	RMB700,000	100%	100%	Provision of interior design services, interior decorating and furnishing services and product design services
北京港源建築裝飾設計研究院有限公司 Beijing Guangyuan Institute of Architectural Decoration Design and Research Co., Ltd. (Notes (i) & (iii))	PRC	RMB10,000,000	80%	80%	Provision of interior design services
梁志天生活藝術(深圳)有限公司 Steve Leung Lifestyle (Shenzhen) Limited (Notes (i) & (ii))	PRC	RMB700,000	100%	100%	Provision of interior decorating and furnishing services and trading of interior decorating product
Steve Leung & Yoo Limited	Hong Kong	HK$1	100%	100%	Inactive
Steve Leung Architects Limited	Hong Kong	HK$100	100%	100%	Inactive
Steve Leung Exchange Limited	Hong Kong	HK$100	100%	100%	Provision of interior design services
Steve Leung Hospitality Limited	Hong Kong	HK$100	100%	100%	Inactive

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

43. PARTICULARS OF THE SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation or establishment/ operations	Issued and fully paid capital/ registered capital	2019	2018	Principal activities
Indirect subsidiaries: (Continued)					
Everyday Living Limited	Hong Kong	HK$100	100%	100%	Trading of interior decorative products
天天生活(廣州)貿易有限公司 Everyday Living (Guangzhou) Trading Limited (Notes (i) & (ii))	PRC	RMB751,000	100%	100%	Trading of interior decorative products
Steve Leung Lifestyle Limited	Hong Kong	HK$100	100%	100%	Provision of interior decorating and furnishing services and trading of interior decorative products
港源室內設計(天津)有限公司 (Notes (i) & (iii))	PRC	RMB700,000	80%	80%	Provision of interior design services
Steve Leung Casa Limited	Hong Kong	HK$100	100%	100%	Provision of interior design services and interior decorating and furnishing services
Steve Leung Designers (Tianjin) Limited	Hong Kong	HK$100	100%	100%	Investment holding
梁志天裝飾設計(天津)有限公司 Steve Leung Lifestyle (Tianjin) Co., Ltd. (Notes (i) & (ii))	PRC	RMB700,000	100%	100%	Provision of interior design services, interior decorating and furnishing services and product design services
梁志天私宅設計(天津)有限公司 Steve Leung Casa (Tianjin) Co., Ltd. (Notes (i) & (ii))	PRC	RMB700,000	100%	100%	Provision of interior design services and interior decorating and furnishing services
梁志天室內設計(天津)有限公司 Steve Leung Designers (Tianjin) Co., Ltd. (Notes (i) & (ii))	PRC	RMB700,000	100%	100%	Provision of interior design services, interior decorating and furnishing services and product design services
Steve Leung Wellness Design Limited	Hong Kong	HK$100	100%	100%	Inactive

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

43. PARTICULARS OF THE SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation or establishment/ operations	Issued and fully paid capital/ registered capital	2019	2018	Principal activities
Indirect subsidiaries: (Continued)					
SL2.0 Designers Limited	Hong Kong	HK$100	100%	100%	Provision of interior design services, interior decorating and furnishing services and product design services
思路室內設計（天津）有限公司 SL2.0 Designers (Tianjin) Co., Ltd. (Notes (i) & (ii))	PRC	RMB700,000	100%	100%	Provision of interior design services
梁志天建築設計諮詢（天津）有限公司 Steve Leung Architects (Tianjin) Co., Ltd. (Notes (i) & (ii))	PRC	RMB700,000	100%	100%	Provision of interior design services
梁志天室內設計（深圳）有限公司 Steve Leung Designers (Qianhai) Co., Ltd. (Notes (i) & (ii))	PRC	RMB700,000	100%	100%	Provision of interior design services

Notes:

(i) English translated name is for identification only.

(ii) The Company's subsidiary is a wholly foreign owned enterprise in PRC.

(iii) The Company's subsidiary is a sino-foreign equity joint venture in PRC.

None of the subsidiaries had issued any debt securities at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash 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.

	Bank borrowings HK$'000	Lease liabilities/ obligations under a finance lease HK$'000	Dividend payable HK$'000	Total HK$'000
At 1 January 2018	8,000	–	35,000	43,000
Financing cash flows	12,000	(215)	(35,000)	(23,215)
Non-cash changes				
Additions to property, plant and equipment (note 16)	–	1,170	–	1,170
At 31 December 2018	20,000	955	–	20,955
Adjustment upon application of HKFRS 16	–	44,697	–	44,697
At 1 January 2019 (restated)	**20,000**	**45,652**	**–**	**65,652**
Financing cash flows	**13,618**	**(23,050)**	**(57,002)**	**(66,434)**
Non-cash changes				
New leases entered	**–**	**40,734**	**–**	**40,734**
Dividend recognised as distribution	**–**	**–**	**57,002**	**57,002**
Exchange realignment	**–**	**(690)**	**–**	**(690)**
At 31 December 2019	**33,618**	**62,646**	**–**	**96,264**

45. EVENT AFTER THE END OF REPORTING PERIOD

(a) Subsequent to the year ended 31 December 2019, the Group subscribed one short term note with three-month maturity which will be matured on 31 March 2020 with a fixed interest rate of 6.0% per annum at a consideration of HK$60,000,000.

(b) Since the outbreak of the Novel Coronavirus Disease 2019 (COVID-19) in January 2020 which continued spread worldwide. Different countries authorities have taken national prevention and control measures against the disease.

The Group will stay alert on the development and situation of the COVID-19, and continue to assess its financial impacts on the financial position and operating results of the Group and take necessary action to mitigate the business risk. Up to the date of this report, the assessment is still under progress.

FINANCIAL SUMMARY

Results	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Revenue	249,865	318,608	434,822	503,890	**504,686**
Profit before taxation	45,093	79,531	101,322	88,221	**61,135**
Income tax expense	(11,897)	(19,376)	(27,763)	(30,208)	**(21,009)**
Profit for the year	33,196	60,155	73,559	58,013	**40,126**
Profit for the year attribution to:					
– Owners of the Company	34,701	60,007	72,251	56,727	**38,648**
– Non-controlling interests	(1,505)	148	1,308	1,286	**1,478**
	33,196	60,155	73,559	58,013	**40,126**

	2015	2016	2017	2018	**2019**
Earnings per share – basic (expressed in Hong Kong cents)	4.06	7.02	8.45	5.70	**3.39**

Assets and liabilities	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019** **HK$'000**
Total assets	239,026	299,916	375,127	622,197	**677,791**
Total liabilities	(103,956)	(119,010)	(167,977)	(136,307)	**(214,241)**
Net assets	135,070	180,906	207,150	485,890	**463,550**
Equity attributable to:					
– Owners of the Company	136,790	173,971	199,174	476,411	**452,764**
– Non-controlling interests	(1,720)	6,935	7,976	9,479	**10,786**
Total equity	135,070	180,906	207,150	485,890	**463,550**

In the current year, the Group has applied HKFRS 16 (see Note 2 of the Notes to the Consolidated Financial Statements section for the Summary of the corresponding financial impact). Accordingly, certain comparative information for the years ended 31 December 2015, 2016, 2017 and 2018 may not be comparable to the year ended 31 December 2019 as such comparative informations was prepared under HKAS 17. Accounting policies resulting from application of HKFRS 16 are disclosed in the Significant Accounting Policies section.