

K W Nelson

Interior Design and Contracting Group Limited
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8411

Annual Report 2019

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This report, for which the directors (the “Directors”) of K W Nelson Interior Design and Contracting Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

CONTENTS

Corporate Information	2
Chairman's Statement	3
Biographical Details of the Directors and Company Secretary	4
Management Discussion and Analysis	9
Directors' Report	19
Corporate Governance Report	29
Independent Auditor's Report	38
Consolidated Statement of Profit or Loss	44
Consolidated Statement of Profit or Loss and Other Comprehensive Income	45
Consolidated Statement of Financial Position	46
Consolidated Statement of Changes in Equity	47
Consolidated Cash Flow Statement	48
Notes to the Financial Statements	49
Summary of Financial Information	96

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lau King Wai (*Chairman and Chief Executive Officer*)

Ms. Leung May Yan

Mr. Wong Siu Hong Edward

Independent non-executive Directors

Mr. Li Wai Kwan

Mr. Hui Harry Chi

Ms. So Patsy Ying Chi

COMPLIANCE OFFICER

Mr. Lau King Wai

AUTHORISED REPRESENTATIVES

Mr. Lau King Wai

Mr. Or Kevin

COMPANY SECRETARY

Mr. Or Kevin

AUDIT COMMITTEE MEMBERS

Ms. So Patsy Ying Chi (*Chairlady*)

Mr. Li Wai Kwan

Mr. Hui Harry Chi

REMUNERATION COMMITTEE MEMBERS

Mr. Hui Harry Chi (*Chairman*)

Mr. Li Wai Kwan

Ms. So Patsy Ying Chi

NOMINATION COMMITTEE MEMBERS

Mr. Li Wai Kwan (*Chairman*)

Ms. So Patsy Ying Chi

Mr. Hui Harry Chi

LEGAL ADVISERS TO THE COMPANY

Conyers Dill & Pearman

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

AUDITOR

KPMG

Certified Public Accountants

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

HEAD OFFICE, HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1703, 17th Floor

Technology Plaza

651 King's Road

Quarry Bay

Hong Kong

PLACE OF BUSINESS IN THE PRC

Unit 1319, 1 of No. 2 of Guangwei Road

Yuexiu District

Guangzhou

PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive

PO Box 2681

Grand Cayman, KY1-1111

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited

Level 54

Hopewell Centre

183 Queen's Road East

Hong Kong

COMPANY WEBSITE

www.kwnelson.com.hk

GEM STOCK CODE

8411

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of K W Nelson Interior Design and Contracting Group Limited (the "Company") and its subsidiaries (collectively the "Group"), I am delighted to present the annual report of the Group for the year ended 31 December 2019 (the "Year" or "2019").

APPRECIATION

On behalf of the Board, I wish to take this opportunity to express our gratitude to our shareholders, customers, subcontractors and business partners who trust and remain faithful to the Group. I would also like to express our sincere thanks to our management and staff for their diligence, dedication and contribution throughout the years.

OVERVIEW

During the Year, the Group's revenue decreased by approximately 15.7% to approximately HK\$104.9 million from approximately HK\$124.4 million for the year ended 31 December 2018 (the "Previous Year" or "2018"). The decrease was mainly driven by the decrease in revenue from decoration projects for commercial premises. The Group's gross profit slightly decreased to approximately HK\$48.6 million for the Year from approximately HK\$48.9 million for the Previous Year, representing a decrease of approximately 0.6%.

The Group's profit attributable to shareholders decreased to approximately HK\$27.2 million for the Year from approximately HK\$28.7 million for the Previous Year.

The Board is pleased to share the Group's performance with our shareholders and recommends the payment of a final dividend of HK0.25 cent per share for the Year (Previous Year: HK0.25 cent).

FORWARD

The Company has appointed a sponsor to consider to make an application for transfer of listing from GEM to the Main Board. The transfer is aiming to strengthen the Group's business development and create long term values to shareholders.

In view of the aging population in Hong Kong, the Group believes more health centres, medical clinics and laboratories will be established to meet the health care requirements. The Group will continue to focus more in the medical sector gain naivous design and decoration projects.

Looking forward, the Group is optimistic about the prospects of the interior design and decoration markets, continue to focus on our core business. In order to maximise the long term returns of our shareholders, the Group will devote more resources towards the development of our interior design and decoration business for commercial premises.

Lau King Wai

Chairman and Chief Executive Officer

Hong Kong, 31 January 2020

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

Biographical details of the Directors and company secretary of the Group are set out as follows:

Executive Directors

Mr. Lau King Wai (劉經緯) (“Mr. Nelson Lau”), aged 55, was appointed as an executive Director, the chairman of the Board and the chief executive officer on 7 January 2016. Mr. Nelson Lau is the Founder and he is responsible for the overall business development, strategic planning and major decision-making of the Group.

Mr. Nelson Lau has over 31 years of experience in the interior design and decoration industry. Mr. Nelson Lau started working as an architectural draftsman of King Yip Engineering & Architectural Co., whose principal business is architectural and building services, from July 1985 to July 1987, and he was responsible for preparing architectural drawings. Mr. Nelson Lau then worked as a site co-ordinator of OGLE Contracting Co., whose principal business is interior design services, from September 1987 to February 1988, and he was responsible for work coordination at construction sites. He worked at Frankwell Commodities Ltd, whose principal business is trading of commodities, from April 1988 to 1989, and his last position was account executive responsible for supervising trading accounts of clients. Mr. Nelson Lau was a project director, operator and owner of FCS Interior Design & Contracting Co., which was an interior design firm, from October 1989 to December 1990, and he was responsible for project management. He was a project director and operator of FCS Interior Design & Contracting Co., which was engaged in interior design and project management and was a branch office of Further Concept Limited (a company controlled by Mr. Nelson Lau), from January 1991 to December 1999, and he was responsible for project management. Mr. Nelson Lau was a chief executive officer of F.C.S. Interior Design and Contracting Co. Limited, whose principal business was interior design and project management services, from January 2000 to April 2011, and he was responsible for the overall business development. F.C.S. Interior Design and Contracting Co. Limited (which was deregistered in April 2011) was controlled by Mr. Nelson Lau. In February 2009, Mr. Nelson Lau established K W Nelson Interior Design and Contracting Limited (formerly known as “K W Nelson Interior Architect Limited”) (“K W Nelson”) which incorporates his name in the company name, both English and Chinese, in order to better position and brand his business in the market as well as to differentiate his business and management team from other players in the industry. As confirmed by Mr. Nelson Lau, F.C.S. Interior Design and Contracting Co. Limited did not have active operations after the establishment of K W Nelson in February 2009 and had not been subject to any material noncompliant incidents, claims, litigation or legal proceedings. Subsequent to the receipt of certain trade receivables, an application for deregistration was made in November 2010 and F.C.S. Interior Design and Contracting Co. Limited was dissolved in April 2011.

Mr. Nelson Lau obtained a certificate in basic site surveying and a certificate in engineering preparatory from Vocational Training Council Hong Kong in July 1984 and July 1985 respectively. He completed a distance learning course approved by Business & Technician Education Council, London at Morrison Hill Technical Institute (currently known as The Hong Kong Institute of Vocational Education (Morrison Hill)) and was awarded a national certificate in building studies by Business & Technician Education Council, London in July 1987.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

Ms. Leung May Yan (梁美恩), aged 44, was appointed as an executive Director on 24 February 2016. She joined the Group in February 2009 and has been a design director of the Group. Ms. Leung is responsible for overseeing the operation of projects of the Group.

Ms. Leung has approximately 23 years of experience in interior design. Prior to joining the Group, she was an assistant interior designer of FCS Interior Design & Contracting Co., whose principal business was interior design and project management services, from July 1996 to September 1998, and she was responsible for assisting in the preparation of interior design drawings and floor plan design. She served as an interior designer of F.C.S. Interior Design and Contracting Co. Limited, which was engaged in the provision of interior design and project management services, from January 2000 to February 2009, and she was responsible for developing design concepts and preparing design proposals.

Ms. Leung graduated from Lee Wai Lee Technical Institute (currently known as The Hong Kong Institute of Vocational Education (Lee Wai Lee)) with a diploma degree in design (interior) in August 1996.

Mr. Wong Siu Hong Edward (黃兆康), aged 43, was appointed as an executive Director on 24 February 2016. He joined the Group in February 2009. He has been an interior designer responsible for creating three-dimensional virtual walk-through animations for the Group.

Mr. Wong has approximately 16 years of experience in three-dimensional interior design. Prior to joining to the Group, he was a three-dimensional designer of F.C.S. Interior Design and Contracting Co. Limited, whose principal business was interior design and project management services, from April 2003 to February 2009, and he was responsible for preparing three-dimensional drawings and graphic design. He was a three-dimensional animator of Flapper Computer Trainer Limited, whose principle business was provision of information technology training courses, from January 1999 to May 1999, and he was responsible for preparing three-dimensional drawings.

Mr. Wong graduated from First Institute of Art and Design with a diploma degree in interior & environmental design in August 1998.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Wai Kwan (李偉君), aged 48, was appointed as an independent non-executive Director on 18 November 2016. He is the chairman of the nomination committee and a member of the audit committee, remuneration committee and nomination committee.

Mr. Li has many years of experience in accounting, finance and investment management. Mr. Li is the chief financial officer of Crystal International Group Limited (stock code: 2232), which is principally engaged in manufacturing of fashion products since November 2018, while he is responsible for finance matters for that group. From March 2005 to September 2006, he worked for Esprit Holdings Limited, which is listed on the Main Board (stock code: 330) and principally engaged in manufacturing, retail and wholesale distribution of fashion products, and he served as a vice president of operational finance and a vice president of finance in Asia Pacific region from March 2005 to September 2006, while he was responsible for finance and operational matters. From October 2006 to September 2010, he was a vice president of COFCO China Agri-Industries Holdings Limited, which is listed on the Main Board (stock code: 606) and principally engaged in trading on agricultural raw materials, manufacturing and distributing food products, while he was responsible for finance, investment and company secretarial matters. Mr. Li was a managing director and director of the board of COFCO Agricultural Industrial Investment Fund Management Company Limited, which is principally engaged in asset management, from September 2010 to October 2011, and he was responsible for managing overall business and investment matters. Mr. Li was a managing director of Origo Partners PLC, whose shares are listed on the London Stock Exchange and principal business is private equity investment, from November 2011 to January 2013, and he was responsible for investment matters. Mr. Li was the chief financial officer of Zhuhai Dahengqin Company Limited and its affiliate Zhuhai Dahengqin Property Company Limited, which is principally engaged in primary land development, real estate development, theme park construction and operation, city operational management, and asset management in Hengqin Free Trade Zone, from August 2013 to October 2018, while he was responsible for finance, investment and fund management matters.

Mr. Li has been a director, executive committee member and honorary treasurer of the Hong Kong — ASEAN Economic Cooperation Foundation since 2015, a board member of Chartered Professional Accountants of Canada — Hong Kong Chapter since 2017, an Honorary President of the Institute of Certified Management Accountants — Hong Kong & Macau Branch since 2018, a Chairman of Institute of Public Accountants — Hong Kong Branch since 2019, and a Committee member, SME committee of ACCA — Hong Kong Branch since 2019.

Mr. Li was the chairman of Investor Relations Committee of the Chamber of Hong Kong Listed Companies from 2008 to 2010, the honorary vice chairman of China Enterprise Reputation and Credibility Association (Overseas) in 2009, the chairman of Partnership and Promotion Committee of the Hong Kong Investor Relations Association from 2009 to 2010, a member of the Organising Committee of Directors of the Year Awards 2010 organised by The Hong Kong Institute of Directors, a committee member of the PRC committee of the Hong Kong Venture Capital and Private Equity Association in 2011, and a committee member of Public Awareness Committee of Hong Kong Society of Financial Analysts in 2016. Mr. Li was a member of Finance Committee of the Hong Kong Housing Authority from 2010 to 2012. Mr. Li was the guest lecturer of the Macau University of Science and Technology in 2016.

Mr. Li graduated from University of Toronto in Canada with a bachelor of commerce degree with distinction in November 1995. He further obtained a master of business administration degree from Schulich School of Business, York University in Canada in November 1996.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

Mr. Li was admitted as a member of the Institute of Certified Management Accountants in August 2000, a chartered financial analyst of the Chartered Financial Analysts Institute in September 2001, a certified general accountant of the Certified General Accountants Association of Canada in October 2002, a certified public accountant of the Hong Kong Institute of Certified Public Accountants in October 2004, a member of the Association of Chartered Certified Accountants in May 2005, an associate of the Institute of Chartered Accountant in England & Wales in June 2008, a fellow of the Association of Chartered Certified Accountants in April 2010, a chartered professional accountant of the Chartered Professional Accountants of British Columbia, Canada in June 2015, a member of Hong Kong Business Accountants Association in December 2015, a fellow of the Institute of Certified Management Accountants in April 2016, a member of the Hong Kong Securities and Investment Institute in August 2016, a fellow of the Institute of Chartered Accountant in England & Wales in June 2018, a fellow of the Institute of Public Accountants in July 2019, a fellow of the Institute of Financial Accountants in July 2019, a business and finance professional of the Institute of Chartered Accountant in England & Wales in December 2019, and a member of the Hong Kong Independent Non-Executive Director Association in December 2019.

Mr. Li has been the independent non-executive director of Miricor Enterprises Holdings Limited (stock code: 1827) since 19 December 2016, the independent non-executive director of Enterprise Development Holdings Limited (stock code: 1808) since 27 April 2017, the independent non-executive director of TL Natural Gas Holdings Limited (stock code: 8536) since 18 May 2018, and the independent non-executive director of China Greenfresh Group Company Limited (stock code: 6183) since 20 July 2018. Mr. Li was the independent non-executive director of China Graphene Group Limited (stock code: 63) from 1 February 2018 to 31 November 2018.

Ms. So Patsy Ying Chi (蘇瑩枝), aged 60, was appointed as an independent non-executive Director on 18 November 2016. She is the chairlady of the audit committee and a member of the remuneration committee and nomination committee.

Ms. So has approximately 19 years of experience in investment and institutional banking and approximately 6 years of experience in financial management in a listed company. Currently, she is a consultant to a management consultancy firm. Ms. So worked at Westpac Banking Corporation from December 1988 to April 2004, the last position she served was the head of operations and finance responsible for overseeing the overall operations. Subsequently, she worked at VXL Capital Limited (currently known as Crown International Corporation Ltd.), which is listed on the Main Board (stock code: 727) and principally engaged in property investment and hotel investment and operations, and she served as a financial controller responsible for financial management and an executive director responsible for overseeing business development from June 2004 to July 2009 and from February 2005 to July 2008, respectively.

Ms. So obtained a bachelor of commerce degree in accounting, finance and systems from The University of New South Wales in Australia in October 1982. She became an associate member of Chartered Accountants Australia and New Zealand in December 1986.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

Mr. Hui Harry Chi (許志偉), aged 56, was appointed as an independent non-executive Director on 18 November 2016. He is the chairman of the remuneration committee and a member of the audit committee and nomination committee.

Mr. Hui has approximately 16 years of experience in marketing and business management. He is a managing director of ClearVue Partners (Shanghai) Limited, which is principally engaged in private equity investment, since 31 October 2012, and he is responsible for the overall business development and investment strategies. He was a president of Universal Music International Limited, which is principally engaged in music production, from 2002 to 2006, and he was responsible for managing overall business in Asia (except Japan). From December 2006 to 2010, he was a vice president of China beverages business unit of Pepsico Investment (China) Limited in China, which is principally engaged in sale and distribution of beverages, and he was responsible for customer service relation strategies.

Mr. Hui obtained a bachelor of science in economics and business degree from University at Albany-SUNY in the United States in May 1985 and a master of business administration degree from University of Southern California in the United States in December 1992.

COMPANY SECRETARY

Mr. Or Kevin (柯衍峰), aged 48, was appointed as the Group's company secretary and authorised representative on 1 April 2018. Mr. Or is primarily responsible for overseeing the overall financial management and company secretarial matters of the Company. Mr. Or graduated from Royal Melbourne Institute of Technology in Australia with a degree of Bachelor of Business in 1994. He was admitted as a certified practicing accountant of the Australian Society of Certified Practising Accountants in 1997 and a member of the Hong Kong Institute of Certified Public Accountants in 1998. Mr. Or has over 20 years of experience in audit field. He had worked for PricewaterhouseCoopers for 20 years and his last position was senior manager.

Mr. Or is an independent non-executive director of each of DLC Asia Limited, (listed on with GEM stock code: 8210) and Kato (Hong Kong) Holdings Limited (listed on main board with stock code: 2189).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is an interior decorator based in Hong Kong, focusing on commercial premises including office and retail space mainly located in Hong Kong. Our services include provision of interior design proposals by our in-house designers, engaging subcontractors to carry out fitting-out works and coordinating, managing and supervising the fitting-out works by our project managers.

The Group's projects can be broadly categorised into (i) design & decoration projects in which the Group is responsible for the tailor-made interior design proposals, project management and fitting-out works; (ii) decoration projects in which the Group is responsible for project management and fitting-out works; and (iii) other interior design and fitting-out services.

During the year ended 31 December 2019 (the "Year"), the Group's revenue was decreased by approximately 15.7% to approximately HK\$104.9 million from approximately HK\$124.4 million for the year ended 31 December 2018 (the "Previous Year"). The decrease was mainly driven by the decrease in revenue from decoration projects for commercial premises. The Group's gross profit was slightly decreased to approximately HK\$48.6 million for the Year from approximately HK\$48.9 million for the Previous Year, representing a decrease of approximately 0.6%.

The Group's profit attributable to shareholders was decreased to approximately HK\$27.2 million for the Year from approximately HK\$28.7 million for the Previous Year.

OUTLOOK

During the Year, the Group had certain decoration projects with medical centres and offices, and had completed decoration project for a famous professional medical tower in Central. Although the protests and marches in Hong Kong in 2019 and the coronavirus outbreak in the PRC recently may have an impact on the business of the Group, the management believes that the Group will be able to perform multidimension design and decoration services to different sectors of clients in Hong Kong, Macau and the PRC.

The Company has submitted a formal application to the Stock Exchange on 7 February 2018 for the proposed transfer of the listing of the ordinary shares of the Company (the "Shares") from GEM to the Main Board pursuant to Chapter 9A of the Listing Rules. The application has automatically lapsed as the process of the application has taken more than six months since the submission of the application. On 27 August 2018, the Company re-submitted the application (the "Resubmission") to renew the application. Such application has automatically lapsed as the process has taken more than six months since the Resubmission. The Company has already appointed a sponsor to consider to make a new application. The Board believes that the transfer of listing will enhance the profile of the Group, strengthen its recognition among public investors and hence increase the trading liquidity of the Shares. This will strengthen the Group's position in the industry and enhance the Group's competitive strengths in retaining and attracting the Group's professional staff and customers. The Board also considers that the listing of the Shares on the Main Board will be beneficial to the future growth, financing flexibility and business development of the Group, and it will create a long-term value to the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward, the Group is optimistic with the prospects of the interior design and decoration market, especially on commercial premises. In light of the strong support of the Hong Kong Government on infrastructure projects, the Group will continue to benefit from the increasing demand on design and decoration projects. The Group will also enhance its responsiveness to market trends so as to strengthen its position in the current market and continue its business expansion plan. In order to maximise the long term returns of our shareholders, the Group will continue to devote more resources to further develop its interior design and decoration by undertaking more sizeable projects and to explore new business opportunities through leveraging its experience in the industry.

The Group will focus on the following business strategies: (i) establish an international team with corresponding expansion of Hong Kong office and improvement of the Group's equipment and facilities; (ii) maintain and strengthen the Group's market position in Hong Kong and the PRC by focusing on quality customers; (iii) increase the Group's capacity to capture more business opportunities; and (iv) expand the Group's business in the PRC market.

FINANCIAL REVIEW

Revenue

The Group's revenue is principally generated from (i) design & decoration projects; (ii) decoration projects; and (iii) other interior design and fitting-out services. During the Year, the Group's revenue was decreased by approximately 15.7% to approximately HK\$104.9 million (Previous Year: HK\$124.4 million).

The following table sets forth a breakdown of the Group's revenue by use of premises of our projects for the years ended 31 December 2019 and 2018:

Use of premises	For the year ended 31 December			
	2019		2018	
	HK\$'000	%	HK\$'000	%
Office	34,244	32.6	69,307	55.7
Medical centre	33,407	31.9	48,284	38.8
Retail, restaurant and shopping mall	23,227	22.1	2,863	2.3
Others ^(Note)	14,006	13.4	3,931	3.2
Total	104,884	100.0	124,385	100.0

Note: Others mainly comprise schools, consulate, hotel and residential premises.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth a breakdown of the Group's revenue and number of projects by project types and geographical locations for the years ended 31 December 2019 and 2018:

Project types and locations	For the year ended 31 December					
	2019			2018		
	No. of projects	HK\$'000	%	No. of projects	HK\$'000	%
Design & decoration						
Hong Kong	17	58,797	56.1	21	40,946	32.9
The PRC and Macau	–	–	–	2	3,385	2.7
	17	58,797	56.1	23	44,331	35.6
Decoration						
Hong Kong	14	40,416	38.5	21	76,789	61.7
The PRC and Macau	5	3,978	3.8	3	2,815	2.3
	19	44,394	42.3	24	79,604	64.0
Others						
Hong Kong		1,693	1.6		450	0.4
		1,693	1.6		450	0.4
Total	36	104,884	100.0	47	124,385	100.0

The overall decrease in revenue during the Year was principally attributed to the decrease in revenue from decoration projects from approximately HK\$79.6 million for the Previous Year to approximately HK\$44.4 million for the Year, which offset by the increase in revenue of approximately HK\$14.5 million mainly derived from design and decoration projects of restaurant and shopping malls during the Year.

Cost of Services and Gross Profit

The Group's direct costs mainly comprised subcontracting costs and direct staff costs.

The following table sets forth the breakdown of the Group's gross profit and gross profit margin by use of premises for the years ended 31 December 2019 and 2018:

Use of premises	For the year ended 31 December			
	2019		2018	
	Gross Profit HK\$'000	Gross Profit Margin %	Gross Profit HK\$'000	Gross Profit Margin %
Office	15,294	44.7	27,142	39.2
Medical centre	17,125	51.3	20,142	41.7
Retail, restaurant and shopping mall	12,489	53.8	1,403	49.0
Others	3,723	26.6	202	–
Overall	48,631	46.4	48,889	39.3

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margin of the Group's office projects increased from approximately 39.2% in 2018 to approximately 44.7% in 2019 was mainly due to two major projects with gross profit margin of 41% and 48% was recognised during the Year. Gross profit margin of the Group's medical centre projects was increased from approximately 41.7% in 2018 to approximately 51.3% in 2019 which was mainly due to the combined impact of higher specification required and project cost reversal upon finalisation of accounts with customers, suppliers and subcontractors.

The following table sets forth the breakdown of the Group's gross profit and gross profit margin by project types for the years ended 31 December 2019 and 2018:

Project types	For the year ended 31 December			
	2019		2018	
	Gross Profit HK\$'000	Gross Profit Margin %	Gross Profit HK\$'000	Gross Profit Margin %
Design & decoration	26,147	44.5	17,801	40.2
Decoration	21,939	49.4	31,047	39.0
Others	545	32.2	41	9.1
Overall	48,631	46.4	48,889	39.3

The Group's overall gross profit margin was increased to approximately 46.4% for the Year from approximately 39.3% for the Previous Period, which was mainly due to (i) the higher gross profit margin for decoration projects of medical centres which required higher specification; (ii) during the Year, there was project management fee income for shopping malls, restaurant and office of approximately HK\$4.2 million (Previous Year: HK\$2.2 million); and (iii) project cost reversal upon finalisation of accounts with customers, suppliers and subcontractors which led to favourable financial impact to the Group in the Year.

General and Administrative Expenses

The Group's general and administrative expenses amounted to approximately HK\$16.9 million and approximately HK\$14.8 million for the Year and Previous Year respectively, representing an increase of approximately 14.2%, which mainly due to the increase in transfer of listing expenses and marketing expenses incurred during the Year.

Income tax

Income tax of the Group for the Year was approximately HK\$5.7 million (Previous Year: HK\$6.0 million) and such growth was consistent with the decrease in assessable profits during the Year as compared to the Previous Year. Expenses relating to transfer of listing incurred were not deductible for tax purpose.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the Year

Profit for the Year of the Group was decreased from approximately HK\$28.7 million for the Previous Year to approximately HK\$27.2 million for the Year which was mainly due to the decrease in gross profit from decoration projects and the increase in transfer of listing expenses and marketing expenses.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business objectives as set out in the Company's prospectus dated 29 November 2016 (the "Prospectus") with the Group's actual business progress up to 31 December 2019:

Business objectives up to 31 December 2019 as set out in the Prospectus

Actual business progress up to 31 December 2019

Establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities

- | | |
|--|--|
| — Recruit staff, rent and decorate a new office, procure new projects for the international team | <p>The Group has appointed two consultants to coordinate and negotiate in the process of staff recruitment, office rental and decoration and equipment procurement.</p> <p>The Group has recruited a design director, two designers, a marketing director and a project manager to conduct overseas travelling to explore business opportunities and handle new projects.</p> <p>The Group has rented a new office in North Point for its office expansion, and has completed the decoration of its new and existing office.</p> |
| — Purchase equipment for interior design and technical use, office facilities and a vehicle | <p>The Group is in the process of exploring and identifying suitable interior design and technical use equipment, office facilities and vehicle.</p> |
| — Expand and renovate Hong Kong office | <p>The Group has rented a new office in North Point for its office expansion, and has completed the decoration of its new and existing office.</p> |

MANAGEMENT DISCUSSION AND ANALYSIS

Business objectives up to 31 December 2019 as set out in the Prospectus

Actual business progress up to 31 December 2019

Maintain and strengthen our market position in Hong Kong and the PRC and focus on reputable customers

- | | |
|--|---|
| — Participate in industry related exhibitions, fairs and networking events | The Group has been participating in industry related exhibitions, fairs and networking events. |
| — Establish a showroom for visual display of design and decoration | The Group has rented a new office in North Point for its office expansion, and has completed the decoration of its new and existing office. |
| — Provide trainings to our staff | The Group has been providing trainings to our staff. |
| — Recruit marketing staff | The Group has recruited one designer and two marketing executives to handle the design work and participate in marketing activities. |
| — Prepare and distribute marketing materials | The Group has been preparing and distributing marketing materials. |

Increase our capacity to capture more business opportunities

- | | |
|--|---|
| — Recruit designers and project managers | The Group has recruited one designer and one project manager and is looking for more experienced design and project management staff. |
|--|---|

Expand our business in the PRC market

- | | |
|---|---|
| — Expand our office facilities and recruit marketing staff in the PRC | <p>The Group has been pitching for projects continuously, and plans to expand our office facilities and recruit marketing staff after securing new business in the PRC.</p> <p>The Group has recruited six marketing executives to participate in marketing activities for its PRC expansion.</p> <p>The Group had set up a new office in Hengqin, the PRC.</p> |
|---|---|

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE PLACING

The following table sets forth the status of the use of proceeds from the placing up to 31 December 2019:

	Planned use of proceeds as stated in the Prospectus up to 31 December 2019 <i>HK\$ million</i>	Actual use of proceeds up to 31 December 2019 <i>HK\$ million</i>	Balance as at 31 December 2019 <i>HK\$ million</i>
Establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities	13.8	11.6	2.2
Maintain and strengthen our market position in Hong Kong and the PRC and focus on reputable customers	6.0	6.0	–
Increase our capacity to capture more business opportunities	4.6	4.6	–
Expand our business in the PRC market	3.1	1.6	1.5
General working capital	3.1	3.1	–
	30.6	26.9	3.7

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

The unutilised net proceeds have been placed as interest bearing deposits with banks in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group expects the remaining unutilised use of proceeds will be fully utilised by 31 December 2020. Set out below is the revised expansion plan of the Group including the actual use of proceeds since Listing and up to 31 December 2019.

Use of proceeds	Actual use of proceeds since Listing to 31 December 2019 <i>HK\$ million</i>	Proceeds planned to be used from 1 January 2020 to 31 December 2020 <i>HK\$ million</i>
1. Establish an international team with corresponding expansion of Hong Kong office and improvement of the Group's equipment and facilities	11.6	2.2
2. Maintain and strengthen the Group's market position in Hong Kong and the PRC and focus on reputable customers	6.0	–
3. Increase the Group's capacity to capture more business opportunities	4.6	–
4. Expand the Group's business in the PRC market	1.6	1.5
5. General working capital	3.1	–
Total	26.9	3.7

Business strategies	Implementation activities	Amount of use of proceeds to be utilised
Establish international team with corresponding expansion of Hong Kong office and improvement of the Group's equipment and facilitates	— Retain existing designers and marketing executives	Net proceeds of approximately HK\$2.2 million
	— Additional rental and management fees for Hong Kong office expansion	
Expand the Group's business in the PRC market	— Retain existing marketing executives	Net proceeds of approximately HK\$1.5 million
	— Expand the facilitates and maintain the offices in the PRC	
	— Additional marketing expenses for procuring new projects	

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

During the Year, the Group financed its operations by its internal resources. As at 31 December 2019, the Group had net current assets of approximately HK\$124.8 million (2018: HK\$107.7 million), including cash and cash equivalents balances of approximately HK\$91.0 million (2018: HK\$69.1 million) mainly denominated in Hong Kong dollars. As at 31 December 2019, the Group had an unutilised banking facility of HK\$2.0 million (2018: HK\$2.0 million) which was secured by pledged bank deposits.

The current ratio, being the ratio of current assets to current liabilities, was approximately 3.88 times as at 31 December 2019 (2018: 4.3 times). The decrease was mainly due to the increase in contract liabilities of approximately HK\$12.3 million, which was offset by the decrease in trade and other payables of approximately HK\$7.6 million.

As at 31 December 2019, the Group had no outstanding borrowings (2018: nil) as the Group was not in need of any material debt financing during the Year, and hence no gearing ratio was presented. The gearing ratio is calculated as total debt divided by total equity as at the respective year end.

The shares of the Company were listed on GEM of the Stock Exchange on 8 December 2016 by way of placing and 250,000,000 new shares offered by the Company at a placing price of HK\$0.2 per share were issued under the placing. There has been no change in capital structure of the Company since then. The equity attributable to owners of the Company amounted to approximately HK\$128.0 million as at 31 December 2019 (2018: HK\$110.4 million).

PLEDGE OF ASSETS

As of 31 December 2019, bank deposits of HK\$2.0 million (2018: HK\$2.0 million) and nil (2018: HK\$6.7 million) were pledged to secure the banking facilities and a performance bond respectively. Save for the above, the Group did not have any charges on its assets.

FOREIGN EXCHANGE EXPOSURE AND TREASURY POLICY

The majority of the Group's business operations were conducted in Hong Kong. The transactions, monetary assets and liabilities of the Group were mainly denominated in Hong Kong dollars. During the Year, there was no material impact to the Group arising from the fluctuation in the foreign exchange rates. The Group did not engage in any derivatives agreement and did not commit to any financial instruments to hedge its foreign exchange exposure during the Year.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Year. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

CAPITAL COMMITMENTS

As at 31 December 2019 and 2018, the Group did not have any material capital commitment.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES MANAGEMENT

As at 31 December 2019, the Group had a total of 20 (2018: 19) employees. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any significant investments, material acquisitions, and disposals of subsidiaries and affiliated companies during the Year.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2019.

DIRECTORS' REPORT

The Board is pleased to present its annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019. The shares of the Company (the "Shares") were listed on the GEM of the Stock Exchange (the "Listing") on 8 December 2016 (the "Listing Date").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 2 to the consolidated financial statements. The Group is principally engaged in the provision of interior designs, project management services and fitting-out works in Hong Kong and Mainland China.

SEGMENTAL INFORMATION

The Group's segment information and revenue for the year ended 31 December 2019 are set out in Note 2 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 and the state of affairs of the Company and of the Group as at that date are set out in the consolidated financial statements on pages 44 to 95.

On 31 January 2020, the Board recommended a final dividend of HK0.25 cent per share for the year ended 31 December 2019 (2018: HK0.25 cent) which is subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 15 April 2020 (the "AGM"). The total payout will amount to HK\$2.5 million.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 8 April 2020 to Wednesday, 15 April 2020, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 7 April 2020.

For determining the entitlement to the proposed final dividend payable to Shareholders, the register of members of the Company will be closed from Wednesday, 22 April 2020 to Friday, 24 April 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 21 April 2020. The expected date of payment of the final dividend is Wednesday, 13 May 2020.

BUSINESS REVIEW

A fair review of the business of the Group as well as discussion and analysis of the Group's performance during the year under review and the material factors underlying its financial performance and financial position can be found in the "Chairman's Statement" and "Management Discussion and Analysis" set out on page 3 and pages 9 to 18 respectively.

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition and results of operations would be affected by a number of factors. The principal risks and uncertainties relating to the Group are set out below:

- The Group is dependent on its customers' development plans in Hong Kong. If there is any adverse change in their development plans, the demand for the Group's interior designs, project management services and fitting-out works will decrease and the Group's business and financial conditions may be materially and adversely affected.
- The Group's revenue generated from its five largest customers accounted for over 50% of the total revenue of the Group. Any deterioration of relationships with the major customers or failure to expand the Group's customer base continuously may materially and adversely affect the Group's financial condition and results of operations.
- The Group does not have any long term contracts with its customers. If the Group's customers choose not to engage the Group in the future, the Group's business operations, financial results and profitability will be adversely affected.
- The Group's growth depends on its key management personnel, marketing executives, designers and project managers. Any failure in retaining the key management personnel or hiring suitable talents may adversely affect the Group's financial condition and results of operations.
- The Group's revenue generated from large projects generally have higher gross profit margin. Any decrease in revenue generated from the Group's large projects may adversely affect its financial results and profitability.
- Any delay in the completion of projects caused by the Group may expose the Group to the risk of paying liquidated damages or compensation. In such case, the Group's business, financial condition, results of operations, reputation and prospects may be materially and adversely affected.
- The Group relies on its subcontractors to carry out its fitting-out works and the Group does not enter into long-term contracts with these subcontractors. If the subcontractors engaged by the Group are unavailable or unsuitable, the Group may fail to complete its work on time and/or to the satisfaction of its customers. In such case, the Group's operations, profitability and financial performance would be materially and adversely affected.
- Subcontracting costs payable to the Group's subcontractors and nominated subcontractors are the Group's major costs of services. If the subcontracting costs increase unexpectedly, the Group's financial performance and profitability will be adversely affected.
- The Group is dependent on its subcontractors for the procurement of decoration materials used to execute the interior design ideas of its projects. Should the Group's subcontractors fail to procure materials the Group need, the Group may fail to complete its work on time and the Group's reputation, financial performance and results of operations could be materially and adversely affected.

DIRECTORS' REPORT

- The estimated costs provided by the Group could prove inaccurate and any cost overruns for the Group's projects may reduce the Group's profit and the adversely affect the Group's financial performance.
- The Group's short-term results of operations may not be indicative of the long-term results of operations.
- If the Group was unable to anticipate or respond effectively to its customers' preferences, the Group's financial performance could be adversely affected.
- The Group's performance may be adversely affected by contractual dispute or litigation with its customers or subcontractors.
- The Group incurs time and cost in its design stage. If the Group's potential customers use the Group's interior design proposals without engaging the Group for fitting-out works, the Group's business and financial performance could be adversely affected.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group commits to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

The Group also commits to the principle and practice of recycling and reducing. To help conserve the environment, it implements green office practices such as re-deployment of office furniture as far as possible, encourage use of recycled paper for printing and copying, double-sided printing and copying, reduce energy consumption by switching off idle lightings, air conditioning and electrical appliances.

The Environmental, Social and Governance Report of the Company containing the details of the environmental, social and governance performance of the Group will be issued in due course.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers, customers and other stakeholders to meet its immediate and long-term goals.

During the year under review, there were no material and significant dispute between the Group and its suppliers, customers and/or other stakeholders.

DIRECTORS' REPORT

PERMITTED INDEMNITY

Pursuant to the memorandum and articles of association ("Articles of Association") of the Company, the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in the execution of their duties in their offices. Such permitted indemnity provision has been in force throughout the year under review. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, 15 April 2020. A circular containing the details of AGM and the notice of the AGM and form of proxy accompanying thereto will be despatched to shareholders of the Company in due course.

RESERVES

Details of movements in the reserves of the Company and the Group during the year under review are set out in Note 18 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$27,313,000 (2018: HK\$30,816,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year under review are set out in Note 9 to the consolidated financial statements.

INTEREST CAPITALISED

No interest was capitalised by the Group during the year ended 31 December 2019.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group, as extracted from the consolidated financial statements, is set out on page 96 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital and movements during the year under review are set out in Note 18 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the Year under review is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	27.8%	–
Five largest customers in aggregate	64.5%	–
The largest supplier	–	8.4%
Five largest suppliers in aggregate	–	31.7%

At no time during the year under review, none of the Directors, their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the major customers and suppliers disclosed above.

DIRECTORS

The Directors during the year under review and up to the date of this Annual Report are as follows:

Executive Directors

Mr. Lau King Wai (*Chairman and Chief Executive Officer*)

Ms. Leung May Yan

Mr. Wong Siu Hong Edward

Independent non-executive Directors

Mr. Li Wai Kwan

Mr. Hui Harry Chi

Ms. So Patsy Ying Chi

Pursuant to article 84 of the Articles of Association, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi shall retire from office as Directors by rotation at the AGM and, being eligible, offer themselves for re-election at the AGM.

DIRECTORS' AND COMPANY SECRETARY'S BIOGRAPHIES

Biographical details of the Directors and company secretary are set out on pages 4 to 8 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

All the executive Directors have entered into a service agreements with the Company for three years unless terminated by not less than three months' notice in writing served by either party on the other or otherwise in accordance with the respective service agreements.

DIRECTORS' REPORT

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years and such letter of appointment may be terminated by either party giving at least three months' notice in writing.

Save as disclosed above, none of the Directors being proposed for re-election at the 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.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Notes 6 and 7 to the consolidated financial statements.

MANAGEMENT CONTRACTS

As at 31 December 2019, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

EMOLUMENT POLICY

In order to recruit, develop and retain talented employees, we offer competitive remuneration packages to the staff, including internal promotion opportunities, performance-based commission and bonus. The remuneration packages are subject to review on a regular basis.

The emoluments of the Directors are reviewed by the Remuneration Committee, having regard to the Company's operating results, individual performance, seniority, experience, duties and responsibilities within the Group and comparable market statistics. Each executive Director may also receive a discretionary bonus in respect of each completed calendar year of service. The amount of such bonus will be reviewed by the Remuneration Committee and approved by the Board.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group are set out in Note 4 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACT

Saved as disclosed under the section "Connected Transactions" below, no contract of significance to which the Company, or any of its holding company or subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or the substantial shareholders of the Company ("Substantial Shareholders") or their respective close associates (as defined in the GEM Listing Rules) has interests in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year ended 31 December 2019 and up to the date of this Annual Report.

DIRECTORS' REPORT

NON-COMPETITION UNDERTAKING

Each of Mr. Lau King Wai and Sino Emperor Group Limited ("Sino Emperor"), which is beneficially and wholly owned by Mr. Lau King Wai, as covenantor (each a "Covenantor", collectively, "Covenantors") entered into a non-competition undertaking dated 18 November 2016 in favour of the Group (the "Non-competition Undertaking").

The Company has received from each of the Covenantors an annual written confirmation on the compliance with the Non-competition Undertaking for the year ended 31 December 2019. The independent non-executive Directors have reviewed the compliance of the Non-competition Undertaking from the Covenantors and evaluated the effectiveness of the implementation of the Non-competition Undertaking, and were satisfied that the Covenantors have complied with the Non-competition Undertaking for the year ended 31 December 2019.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2019, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, will be as follows:

Long Positions in Shares of the Company

Name of Director	Company/name of associated corporation	Capacity/Nature of interest	Interests in Shares	Approximate percentage shareholding
Mr. Lau King Wai	the Company	Interest of a controlled corporation (<i>Note</i>)	750,000,000	75%

Note: Mr. Lau King Wai beneficially owns 100% of the issued share capital of Sino Emperor Group Limited ("Sino Emperor"). By virtue of the SFO, Mr. Lau King Wai is deemed to be interested in all the Shares held by Sino Emperor.

Saved as disclosed above, as at 31 December 2019, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the section "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Its Associated Corporations" above, at no time during the year ended 31 December 2019 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware, as at 31 December 2019, other than the Directors or chief executives of the Company whose interests or short positions are disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Its Associated Corporations" above, the following person has an interest or short position in the shares or underlying shares of the Company which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, and who were expected, directly or indirectly, to be interested in 5% or more of the issued shares of the Company are listed as follows:

Long Positions in Shares of the Company

Name of Shareholders	Nature of interest	Number of Shares	Approximate percentage shareholding
Sino Emperor (<i>Note 1</i>)	Beneficial owner	750,000,000	75%
Ms. Chan Pui Shan, Jessica (<i>Note 2</i>)	Interest of spouse	750,000,000	75%

Notes:

1. Sino Emperor is beneficially and wholly owned by Mr. Lau King Wai. By virtue of the SFO, Mr. Lau King Wai is deemed to be interested in all the Shares held by Sino Emperor.
2. 750,000,000 Shares are held by Sino Emperor, which is a company controlled by Mr. Lau King Wai. By virtue of the SFO, Ms. Chan Pui Shan, Jessica, who is the spouse of Mr. Lau King Wai, is taken to be interested in these Shares.

Saved as disclosed above, as at 31 December 2019, the Directors were not aware of any other person (other than the Directors or chief executives as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Its Associated Corporations" above) who had, or deemed to have, interests or short positions in the shares, underlying shares or debentures of the Company which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, or who were directly or indirectly interested in 5% or more of the issued shares of the Company.

DIRECTORS' REPORT

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2019.

CONNECTED TRANSACTIONS

Related party transactions entered into by the Group during the year ended 31 December 2019 are disclosed in Note 21 to the consolidated financial statements. None of the related party transactions as disclosed constituted disclosable non-exempted connected transaction or non-exempted continuing connected transaction under the GEM Listing Rules and the Company had complied with the relevant requirements of Chapter 20 of the GEM Listing Rules during the year ended 31 December 2019.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2019 and up to the date of this Annual Report.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms which are the same as the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company periodically issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the required standards of dealings throughout the year ended 31 December 2019. The Company was not aware of any non-compliance during the year ended 31 December 2019.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this Annual Report.

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company gives priority to distributing dividend in cash and shares its profits with its shareholders. The dividend payout ratio shall be determined or recommended, as appropriate, by the Board at its absolute discretion after taking into account the Company's financial results, future prospects and other factors, and subject to:

- the Articles of Association of the Company;
- the applicable restrictions and requirements under the laws of the Cayman Islands;
- any banking or other funding covenants by which the Company is bound from time to time;
- the investment and operating requirements of the Company; and
- any other factors that have material impact on the Company.

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENTS

No equity-linked agreement that (i) will or may result in the Company issuing shares or (ii) requires the Company issuing shares, was entered into by the Company during the year ended 31 December 2019 or subsisted at the end of the reporting year.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Group the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited consolidated financial statements for the year ended 31 December 2019, with external auditor. There were no disagreements from the auditor of the Company or the Audit Committee in respect of the accounting policies adopted by the Company.

AUDITOR

The consolidated financial statements for the Year have been audited by KPMG, Certified Public Accountants, ("KPMG") who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company will be proposed at the AGM.

There has been no change in the auditor of the Company for the past three years.

By order of the Board of
K W Nelson Interior Design and Contracting Group Limited
Lau King Wai
Chairman and Chief Executive Officer

Hong Kong, 31 January 2020

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 PRACTICES

The Company places high value on the corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of the shareholders of the Company (the "Shareholders").

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. During the Year, the Company has complied with the code provisions set out in the CG Code except for the deviation from code provision A.2.1 of the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory requirements and regulations and the CG Code and align with the latest developments.

BOARD OF DIRECTORS

Board Composition

The Board of the Company currently comprises six members, of which three are executive Directors namely Mr. Lau King Wai (Chairman and Chief Executive Officer ("CEO")), Ms. Leung May Yan and Mr. Wong Siu Hong Edward and three are independent non-executive Directors namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi. Each of the Directors' respective biographical details is set out in the section headed "Biographical Details of the Directors and Company Secretary" of this Annual Report. The Board included at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise at all times during the Year. None of the members of the Board is related to one another.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. In view of Mr. Lau King Wai, being the founder of the Group and his experience and his roles in the Group, the Board considers it beneficial to the business prospect and operational efficiency of the Group that Mr. Lau King Wai acts as the chairman of the Board (the "Chairman") and continues to act as the chief executive officer (the "CEO").

The Directors consider that the current structure does not impair the balance of power and authority between the Board and the management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive Directors. The Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of Chairman and CEO is necessary.

The Chairman is responsible for the Group's strategic planning and the management of the operations of the Board, while the CEO takes the lead in the Group's operations and business development. There is a clear division of responsibilities between the Chairman and CEO of the Company which provides a balance of power and authority.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years and such letter of appointment may be terminated by either party giving at least three months' notice in writing. Also, the independent non-executive Directors are subject to re-election on retirement by rotation at the annual general meeting in accordance with the Articles of Association of the Company.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi to be independent in accordance with the independence guidelines set out in the GEM Listing Rules for the year ended 31 December 2019.

ROLE AND FUNCTION OF THE BOARD

The Board is responsible for overall management of the Company's business, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

DELEGATION BY THE BOARD

The Board reserves for its decisions on all major matters of the Company, including the approval and monitoring of major policy matters, 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.

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

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board.

DIRECTORS' INSURANCE COVER OF LEGAL ACTION

Proper insurance coverage in respect of legal actions against the Directors' liability, which has complied with the CG Code, has been arranged by the Company.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

CORPORATE GOVERNANCE REPORT

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

The Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness.

For the purpose of implementation of the board diversity policy, the following measurable objectives were adopted:

1. at least one-third of the members of the Board shall be independent non-executive Directors; and
2. at least one of the members of the Board shall have obtained accounting or other professional qualifications.

The Board has achieved the measurable objectives in the board diversity policy.

As at the date of this Annual Report, the Board comprises six Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to the newly appointed Directors before their appointment as Directors. All Directors have been updated on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure Directors, upon request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Directors confirmed that they have complied with the code provision A.6.5 of the CG Code on Directors' training. During the year ended 31 December 2019, all Directors have participated in continuous professional development by attending seminars/in-house briefing/reading materials to develop and refresh their knowledge and skills and provided a record of training to the Company. These covered a broad range of topics including Directors' duties, corporate governance and recent updates on the GEM Listing Rules.

Name of Directors	Attended seminars or briefing/read materials
Executive Directors	
Mr. Lau King Wai (<i>Chairman and Chief Executive officer</i>)	✓
Ms. Leung May Yan	✓
Mr. Wong Siu Hong Edward	✓
Independent non-executive Directors	
Mr. Li Wai Kwan	✓
Mr. Hui Harry Chi	✓
Ms. So Patsy Ying Chi	✓

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

Notice of at least 14 days have been given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying Board papers in respect of regular Board meetings are sent out in full to all Directors within reasonable time before the meeting. Draft minutes of all Board meetings are circulated to Directors for comment within a reasonable time prior to confirmation.

Minutes of Board meetings and meetings of Board committees are kept by duly appointed secretaries of the respective meetings and all Directors have access to Board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

NUMBER OF MEETINGS AND ATTENDANCE RECORDS

During the year ended 31 December 2019, four meetings of the Board were held, Directors are provided with relevant information to make informed decisions. The attendance of Directors at the Board meetings, general meeting and the Board committees' meetings is set out in the table below:

Name of Directors	Meetings attended/Eligible to attend					Annual General Meeting held on 9 April 2019
	Board	Audit Committee	Remuneration Committee	Nomination Committee		
Mr. Lau King Wai	4/4	N/A	N/A	N/A		1/1
Ms. Leung May Yan	4/4	N/A	N/A	N/A		1/1
Mr. Wong Siu Hong Edward	4/4	N/A	N/A	N/A		1/1
Mr. Li Wai Kwan	4/4	4/4	1/1	1/1		1/1
Mr. Hui Harry Chi	2/4	2/4	1/1	1/1		1/1
Ms. So Patsy Ying Chi	4/4	4/4	1/1	1/1		1/1

BOARD COMMITTEE

Audit Committee

The Company established an audit committee (the "Audit Committee") on 18 November 2016 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Audit Committee are mainly to make recommendation to the Board on the appointment and removal of external auditors; review financial statements and material advice in respect of financial reporting; and oversee risk management and internal control procedures of the Company. As at 31 December 2019, the Audit Committee consists of three members, namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi. Ms. So Patsy Ying Chi is the chairlady of the Audit Committee.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2019, four meetings of Audit Committee were held for, inter alia, reviewing the Group's quarterly, interim and annual results, the financial reporting and compliance procedures, the effectiveness of the risk management and internal control systems, considering the re-election of auditor of the Company and discussing with the auditors about the audit plan.

Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") on 18 November 2016 with written terms of reference in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules and paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance-based remuneration; and ensure none of the Directors determine their own remuneration. As at 31 December 2019, the Remuneration Committee consists of three members, namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi. Mr. Hui Harry Chi is the chairman of the Remuneration Committee. The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual executive Directors and senior management. Details of the remuneration of Directors are set out in Note 6 to the consolidated financial statements.

During the year ended 31 December 2019, one meeting of Remuneration Committee was held for, inter alia, reviewing the remuneration policy and structure of remuneration. No Director was involved in deciding his/her own remuneration.

Nomination Committee

The Company established a nomination committee (the "Nomination Committee") on 18 November 2016 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. As at 31 December 2019, the Nomination Committee consists of three members, namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi. Mr. Li Wai Kwan is the chairman of the Nomination Committee.

When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:-

- (a) reputation for integrity;
- (b) accomplishment, experience and reputation in the business and other relevant sectors relate to the Company and/or its subsidiaries;
- (c) commitment in respect of sufficient time and attention to the Company's business;

CORPORATE GOVERNANCE REPORT

- (d) diversity in all aspects, including but not limited to gender, age, cultural / educational and professional background, skills, knowledge and experience;
- (e) the ability to assist and support management and make significant contributions to the Company's success;
- (f) compliance with the criteria of independence as prescribed under Rule 5.09 of the GEM Listing Rules for the appointment of an independent non-executive Director; and
- (g) any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

During the year ended 31 December 2019, no new Director was appointed.

During the year ended 31 December 2019, one meeting was held by the Nomination Committee, to review the size, structure, composition as well as diversity of the Board, to assess the independence of independent non-executive Directors and to consider the re-election of the Directors. The Nomination Committee has also reviewed the board diversity policy to ensure its effectiveness and considered that the Group has achieved the objectives of the board diversity policy during the year under review.

Corporate Governance Function

All members of the Board are responsible for performing the corporate governance functions. The terms of reference of corporate governance functions was adopted by the Board at the Board meeting held on 18 November 2016 and is in compliance with paragraph D.3.1 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The Board will review the policy of the corporate governance and the corporate governance report of the Company annually.

DIRECTORS' SECURITIES TRANSACTIONS

The Group adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions of the Company. Upon the Company's specific enquiry, each Director had confirmed that during the year ended 31 December 2019, they had fully complied with the required standard of dealings and there was no event of non-compliance.

AUDITOR'S REMUNERATION

During the year ended 31 December 2019, the fees paid/payable to KPMG, Certified Public Accountants (the "KPMG"), the auditor of the Company, and its affiliate companies in respect of audit and non-audit services provided by them to the Group were as follows:

Service rendered	Fees paid/payable HK\$'000
Audit services	1,000
Non-audit services	285
Total	1,285

Non-audit services represent services in relation to the interim review.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has the overall responsibility to ensure that sound and effective risk management and internal controls are maintained, while the senior management is charged with the responsibility to design and implement an internal controls system to manage risks. A sound system of risk management and internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

Internal Controls

The Group has maintained internal control policies to provide sufficient guidelines for the management staff and employees of the Company to work efficiently under a standardised work procedure. The internal control policies cover various operating processes from risk assessment, financial reporting, cost management, pricing for projects, staff recruitment and training to IT system control. The internal control system is generally overseen by the executive Directors and senior management and is reviewed at least once a year. During the year ended 31 December 2019, the Group has engaged an independent external consulting firm as the Group's internal control consultant to review the effectiveness of the Group's internal control measures. The Board concluded that the Group has maintained effective internal control measures to ensure that the operations of the Group would be in full compliance with the CG Code and the applicable laws and regulations.

The Board is committed to implementing an effective and sound internal control system to safeguard the interest of Shareholders and the Group's assets and the internal control systems would be reviewed annually.

Risk Management

In the course of conducting the business of the Group, the Company is exposed to various types of risks, including business risks, financial risks, operation and other risks. The Board is ultimately responsible for the risk management of the Group and the risk management system is reviewed at least once a year. At operational level, a risk management team is in place to carry out risk identification and monitoring procedures. The risk management team consists of the operation staff, the company secretary and Mr. Lau King Wai. The objectives of the risk management process are to ensure that the operations of the Group would be in full compliance with the CG Code and the applicable laws and regulations enhance the governance and corporate management processes as well as to safeguard the Group against unacceptable levels of risks and losses.

The risk management process of the Group would involve, among others, (i) a quarterly risk identification and analysis exercise which involves assessment of the consequence and likelihood of risks and the development of risk management plans for mitigating such risks; and (ii) a quarterly review of the implementation of the risk management plans and fine tune when necessary.

During the year ended 31 December 2019, the risk management process of the Group has been reviewed, and the Board considered that process was effective and adequate for the year ended 31 December 2019.

Procedures and Internal Controls for Handling and Dissemination of Insider Information

In handling and dissemination of inside information, the Group:

- will conduct immediate dissemination once inside information is available and/or respective decision is made, except the inside information falling into the Safe Harbours of Securities and Futures Commission that allow non-disclosure;
- complies with applicable laws, rules and guidelines on disclosure of inside information issued by Securities and Futures Commission;

CORPORATE GOVERNANCE REPORT

- decides and implements monitoring procedures regarding dissemination of inside information; and
- communicates with relevant persons about corporate information disclosure practices with respective training.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and ensure that the consolidated financial statements are prepared in accordance with statutory requirements and applicable accounting standards. In preparing the consolidated financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

The statement of external auditor of the Company, KPMG, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report.

INVESTOR RELATIONS AND COMMUNICATION

The Board recognises the importance of good communications with all shareholders. The Company encourages two-way communications with both its institutional and private investors. A shareholder's communication policy was adopted by the Board at the Board meeting held on 18 November 2016 aiming at providing the shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. Extensive information about the Company's activities is provided in its interim report, quarterly reports and this Annual Report, which are sent to shareholders of the Company. The annual general meeting provides a valuable forum for direct communication between the Board and the Company's shareholders. The Chairman of the Board as well as Chairmen of the Board Committees together with the auditor will present to answer shareholders' questions. The circulars of the annual general meeting are distributed to all shareholders at least 21 clear days before the meeting. Separate resolutions are proposed at general meetings on each separate issue and voting of which are taken by poll pursuant to the GEM Listing Rules. Any results of the poll are published on both the GEM website and the Company's website. All corporate communication with shareholders will be posted on the Company's website for shareholders' information.

During the year ended 31 December 2019, an annual general meeting was held.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's head office.

COMPANY SECRETARY

The company secretary of the Company ("Company Secretary"), Mr. Or Kevin, was appointed on 1 April 2018. Mr. Or is nominated by an external service provider to assist in company secretarial affair of the Company. Mr. Or's primary contact person at the Company is the Chairman, Mr. Lau King Wai. He is responsible for facilitating the Board meeting process, as well as communications among Board members, with shareholders and management. Mr. Or's biography is set out in the "Biographical Details of the Directors and Senior Management" section. During the year ended 31 December 2019, Mr. Or attended not less than 15 hours of professional training to update his skills and knowledge.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHT

Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to the Article of Association, an extraordinary general meeting of the Company (the "EGM") may be convened by the Board upon requisition by any shareholder holding not less than one-tenth of the issued share capital of the Company and the securities being held carrying the right of voting at any general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary at the head office of the Company at Room 1703, 17th Floor, Technology Plaza, 651 King's Road, Quarry Bay, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to the Article of Association, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such EGM, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward Proposals at a General Meeting

A shareholder shall make a written requisition to the Board or the Company Secretary at the head office of the Company at Room 1703, 17th Floor, Technology Plaza, 651 King's Road, Quarry Bay, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the Company Secretary at the head office of the Company at Room 1703, 17th Floor, Technology Plaza, 651 King's Road, Quarry Bay, Hong Kong, or send email to info@kwnelson.com.hk. Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the year ended 31 December 2019.

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report to the shareholders of K W Nelson Interior Design and Contracting Group Limited *(Incorporated in the Cayman Islands with limited liability)*

Opinion

We have audited the consolidated financial statements of K W Nelson Interior Design and Contracting Group Limited and its subsidiaries ("the Group") set out on pages 44 to 95, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Revenue recognition

Refer to accounting policy note 1(p) and note 2 to the consolidated financial statements

The key audit matter

The Group's principal activities are the provision of interior decorating services focusing on commercial premises, including office and retail space, mainly located in Hong Kong. Revenue represents contract revenue from the provision of interior design services, project management services and fitting-out works.

The Group generally takes one to six months to complete a project, with majority of the projects being completed within three months.

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

We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue included the following:

- evaluating the design, implementation and operating effectiveness of key internal controls which govern revenue recognition;
- inspecting contracts, on a sample basis, to assess whether management recognised the related revenue in accordance with the Group's accounting policies, with reference to the requirements of the prevailing accounting standards;
- conducting site visits throughout the year to a selection of projects to understand the scope and nature of the projects and to assess the progress of the projects;
- comparing, on a sample basis, revenue transactions recorded during the year with the underlying contracts and variation orders (if any), floor plans, progress reports, photographs of completed projects, invoices and bank-in slips for settled balances and assessing the business substance of the underlying transactions and whether the related revenue had been recognised in accordance with the Group's revenue recognition policies;
- obtaining confirmations, on a sample basis, from major customers of the Group to confirm revenue recognised during the year and, for unreturned confirmations, performing alternative procedures by comparing details with contracts, bank-in slips and other underlying project related documentation;
- conducting site visits to projects in progress as at the year end, physically inspecting the progress of individual projects and discussing with the Group management and project managers the physical status of the projects in progress with reference to the specifications in the contracts; and
- scrutinising all the revenue journals raised throughout the reporting period and comparing details of a sample of these journals, which met certain risk-based criteria, with relevant underlying documentation.

INDEPENDENT AUDITOR'S REPORT

Assessing the recoverability of trade receivables

Refer to accounting policy note 1(j) and note 13 to the consolidated financial statements

The key audit matter

The Group's trade receivables amounted to HK\$72 million (representing approximately 43% of the Group's current assets) as at 31 December 2019.

Trade receivables are generally due within 7 days from the date of billing. Negotiated on a case-by-case basis, the credit terms granted to certain customers could be up to three months.

Loss allowances for trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

We identified assessing the recoverability of trade receivables as a key audit matter because the assessment of the recoverability of trade receivables and recognition of loss allowance are inherently subjective and requires significant management judgement, which increases the risk of error or potential management bias.

How the matter was addressed in our audit

Our audit procedures to assess the recoverability of trade receivables included the following:

- evaluating the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimate of expected credit losses;
- assessing, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant sales invoices;
- assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances; and
- inspecting cash receipts from customers after the financial year end relating to trade receivable balances as at 31 December 2019, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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 the directors for the consolidated financial statements

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

INDEPENDENT AUDITOR'S REPORT

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Ka Nang.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

5 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000 (Note)
Revenue	2	104,884	124,385
Direct costs		(56,253)	(75,496)
Gross profit		48,631	48,889
Other revenue	3	1,196	633
General and administrative expenses		(16,877)	(14,818)
Profit from operations		32,950	34,704
Finance costs	4(a)	(67)	–
Profit before taxation	4	32,883	34,704
Income tax	5(a)	(5,690)	(5,970)
Profit for the year		27,193	28,734
Earnings per share	8		
Basic and diluted		HK2.7 cents	HK2.9 cents

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

The notes on pages 49 to 95 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 18(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000 (Note)
Profit for the year	27,193	28,734
Other comprehensive income for the year (net of nil tax and reclassification adjustments)		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of a subsidiary	(57)	(153)
<i>Item that will not be reclassified to profit or loss:</i>		
Change in fair value of financial assets at fair value through other comprehensive income	(7,082)	-
Other comprehensive income for the year	(7,139)	(153)
Total comprehensive income for the year	20,054	28,581

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

The notes on pages 49 to 95 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000 (Note)
Non-current assets			
Property, plant and equipment	9	3,186	2,842
Financial assets at fair value through other comprehensive income	11	511	–
Deferred tax assets	17(b)	90	–
		3,787	2,842
Current assets			
Contract assets	12	1,907	2,941
Trade and other receivables	13	73,346	59,112
Pledged bank deposits	14	2,000	8,670
Cash and cash equivalents	14	90,955	69,149
		168,208	139,872
Current liabilities			
Contract liabilities	12	16,979	4,676
Trade and other payables	15	19,629	27,225
Lease liabilities	16	688	–
Tax payable	17(a)	6,069	314
		43,365	32,215
Net current assets		124,843	107,657
Total assets less current liabilities		128,630	110,499
Non-current liabilities			
Lease liabilities	16	631	–
Deferred tax liabilities	17(b)	–	54
		631	54
NET ASSETS		127,999	110,445
CAPITAL AND RESERVES			
Share capital	18(c)	10,000	10,000
Reserves		117,999	100,445
TOTAL EQUITY		127,999	110,445

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

Approved and authorised for issue by the board of directors on 5 March 2020.

Lau King Wai
Director

Leung May Yan
Director

The notes on pages 49 to 95 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to the ordinary equity shareholders of the Company								
	Note	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Fair value reserve (non-recycling) HK\$'000	Merger reserve HK\$'000	Capital contribution reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2018		10,000	33,728	(122)	-	(380)	5,000	35,638	83,864
Changes in equity for 2018:									
Profit for the year		-	-	-	-	-	-	28,734	28,734
Other comprehensive income									
Exchange differences on translation of financial statements of a subsidiary		-	-	(153)	-	-	-	-	(153)
Total comprehensive income		-	-	(153)	-	-	-	28,734	28,581
Dividend approved and paid in respect of the previous year	18(b)	-	-	-	-	-	-	(2,000)	(2,000)
Balance at 31 December 2018 and 1 January 2019		10,000	33,728	(275)	-	(380)	5,000	62,372	110,445
Changes in equity for 2019:									
Profit for the year		-	-	-	-	-	-	27,193	27,193
Other comprehensive income									
Exchange differences on translation of financial statements of a subsidiary		-	-	(57)	-	-	-	-	(57)
Change in fair value of financial assets at fair value through other comprehensive income		-	-	-	(7,082)	-	-	-	(7,082)
Total comprehensive income		-	-	(57)	(7,082)	-	-	27,193	20,054
Dividend approved and paid in respect of the previous year	18(b)	-	-	-	-	-	-	(2,500)	(2,500)
Balance at 31 December 2019		10,000	33,728	(332)	(7,082)	(380)	5,000	87,065	127,999

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

The notes on pages 49 to 95 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019

	Note	2019 HK\$'000	2018 HK\$'000 (Note)
Operating activities			
Cash generated from operations	14(b)	25,352	16,819
Tax paid:			
— Hong Kong Profits Tax paid		—	(7,197)
— People's Republic of China ("PRC") Corporate Income Tax paid		(79)	(18)
Net cash generated from operating activities		25,273	9,604
Investing activities			
Payment for the purchase of property, plant and equipment		(382)	(3,569)
Proceed from disposal of property, plant and equipment		85	88
Payment for acquisition of financial assets at fair value through other comprehensive income		(7,593)	—
Decrease/(increase) in pledged bank deposits		6,670	(6,670)
Interest received		926	544
Net cash used in investing activities		(294)	(9,607)
Financing activities			
Capital element of lease rentals paid	14(c)	(549)	—
Interest element of lease rentals paid	14(c)	(67)	—
Dividend paid		(2,500)	(2,000)
Net cash used in financing activities		(3,116)	(2,000)
Net increase/(decrease) in cash and cash equivalents		21,863	(2,003)
Cash and cash equivalents at 1 January		69,149	71,305
Effect of foreign exchange rate changes		(57)	(153)
Cash and cash equivalents at 31 December	14(a)	90,955	69,149

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

The notes on pages 49 to 95 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”). Significant accounting policies adopted by K W Nelson Interior Design and Contracting Group Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial assets at fair value through other comprehensive income are stated at their fair value as explained in the accounting policy set out in note 1(e).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 24.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC)-Int 4, *Determining whether an arrangement contains a lease*, HK(SIC)-Int 15, *Operating leases – incentives*, and HK(SIC)-Int 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 which remain substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balances of right-of-use assets and lease liabilities at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, Leases (Continued)

b. Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to properties leased for own use as disclosed in note 20. For an explanation of how the Group applies lessee accounting, see note 1(g).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.13%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- The Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019.

The following table reconciles the operating lease commitments as disclosed in note 20 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK\$'000
Operating lease commitments at 31 December 2018	756
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(210)
	546
Less: total future interest expenses	(30)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	516
Add: finance lease liabilities recognised as at 31 December 2018	—
Total lease liabilities recognised at 1 January 2019	516

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, Leases (Continued)

b. Lessee accounting and transitional impact (Continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK\$'000	Capitalisation of operating lease contracts HK\$'000	Carrying amount at 1 January 2019 HK\$'000
--	---	---	---

Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:

Property, plant and equipment	2,842	516	3,358
Total non-current assets	2,842	516	3,358
Lease liabilities (current)	–	231	231
Current liabilities	32,215	231	32,446
Net current assets	107,657	(231)	107,426
Total assets less current liabilities	110,499	285	110,784
Lease liabilities (non-current)	–	285	285
Total non-current liabilities	54	285	339
Net assets	110,445	–	110,445

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, Leases (Continued)

c. Impact on the financial result, segment results and cash flows of the Group (Continued)

In the consolidated cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 14(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated cash flow statement (see note 14(d)).

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019			2018	
	Amounts reported under HKFRS 16	Add back: HKFRS 16 depreciation and interest expense	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note i)	Hypothetical amounts for 2019 as if under HKAS 17	Compared to amounts reported for 2018 under HKAS 17
	(A)	(B)	(C)	(D=A+B-C)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000

Financial result for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:

Profit from operations	32,950	574	(616)	32,908	34,704
Finance costs	(67)	67	-	-	-
Profit before taxation	32,883	641	(616)	32,908	34,704
Profit for the year	27,193	641	(616)	27,218	28,734

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, Leases (Continued)

c. Impact on the financial result, segment results and cash flows of the Group (Continued)

	Amounts reported under HKFRS 16 (A) HK\$'000	Estimated amounts related to operating leases as if under HKAS 17 (notes i & ii) (B) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000
Line items in the consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	25,352	(616)	24,736	16,819
Net cash generated from operating activities	25,273	(616)	24,657	9,604
Capital element of lease rentals paid	(549)	549	-	-
Interest element of lease rentals paid	(67)	67	-	-
Net cash used in financing activities	(3,116)	616	(2,500)	(2,000)

Note i: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note ii: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

(d) Subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) **Subsidiaries** *(Continued)*

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) **Investments in equity securities**

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. These investments are subsequently accounted for as follows, depending on their classification.

Equity Investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at fair value through other comprehensive income ("FVOCI") (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other revenue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

Property, plant and equipment, including right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest (see note 1(g)), are stated at cost less accumulated depreciation and impairment losses (see note 1(h)(ii)).

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

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

— Properties leased for own use	Over the unexpired periods of the leases
— Leasehold improvements	Over the unexpired periods of the leases or their expected useful live of 3 years, whichever is shorter
— Office equipment	5 years
— Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

(A) *Policy applicable from 1 January 2019*

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets (Continued)

As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(f) and 1(h)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" and presents lease liabilities separately in the consolidated statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

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

- financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade and other receivables); and
- contract assets as defined in HKFRS 15 (see note 1(ii)).

Equity securities designated at FVOCI (non-recycling) measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rate where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Measurement of ECLs (Continued)

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Basis of calculation of interest income

Interest income recognised in accordance with note 1(p)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Impairment of other non-current assets

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

- property, plant and equipment, including right-of-use assets; and
- investments in subsidiaries in the Company's statement of financial position.

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(p)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in note 1(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(j)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(p)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(j)).

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

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(p)).

(j) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(i)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(h)(i)).

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 1(h)(i).

(l) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Employee benefits

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

(n) Income tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Income tax *(Continued)*

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(o) Provisions and contingent liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Revenue and other revenue

Income is classified by the Group as revenue when it arises from the provision of services in the ordinary course of the Group's business.

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

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

(i) Contract revenue

A contract with a customer is classified by the Group as a construction contract when the contract relates to work on real estate assets under the control of the customer and therefore the Group's construction activities create or enhance an asset under the customer's control.

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

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

Revenue arising from interior designs in the contract is recognised when the customer takes possession of and accepts the design work performed.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the financial asset (see note 1(h)(i)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

(r) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- i. has control or joint control over the Group;
 - ii. has significant influence over the Group; or
 - iii. is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Related parties *(Continued)*

- (b) An entity is related to the Group if any of the following conditions applies:
- i. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - vi. The entity is controlled or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(s) Segment reporting

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

2 REVENUE AND SEGMENT REPORTING

(a) Revenue and business segment

The principal activities of the Group are the provision of interior designs, project management services and fitting-out works in Hong Kong and Mainland China.

Revenue represents the contract revenue from the provision of interior designs, project management services and fitting-out works.

The Group's chief operating decision maker, which has been identified as the Board of Directors, reviews the consolidated results of the Group for the purposes of resource allocation and performance assessment and focuses on the operating results of the Group as a whole. Therefore, no additional reportable segment information has been presented.

The Group's customer base includes three (2018: two) customers with whom transactions has exceeded 10% of the Group's revenue for the year ended 31 December 2019. Contract revenue earned from these customers amounted to HK\$54,645,000 (2018: HK\$60,872,000) for the year ended 31 December 2019. Details of concentrations of credit risk arising from the customers are set out in note 19(a).

Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

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

(b) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the work was provided. The geographical location of the specified non-current assets is based on the physical location of the operation to which they are allocated.

	Revenue from external customers		Specified non-current assets	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000 (Note)
Hong Kong (place of domicile)	100,906	121,810	3,184	2,840
Mainland China	3,978	2,575	2	2
	104,884	124,385	3,186	2,842

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3 OTHER REVENUE

	2019 HK\$'000	2018 HK\$'000
Interest income	972	544
(Loss)/gain on disposal of property, plant and equipment	(150)	88
Others	374	1
	1,196	633

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2019 HK\$'000	2018 HK\$'000 (Note)
Interest on lease liabilities (note 14(c))	67	–

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

(b) Staff costs

	2019 HK\$'000	2018 HK\$'000
Salaries, wages and other benefits	7,120	8,278
Contributions to defined contribution retirement plan	234	247
	7,354	8,525

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiary in the PRC participates in a defined contribution retirement benefit scheme (the "Scheme") organised by the local authorities whereby the subsidiary is required to make contributions to the Scheme based on a percentage of the eligible employees' salaries. Contributions to the Scheme vest immediately. Under the Scheme, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

4 PROFIT BEFORE TAXATION (Continued)

(c) Other items

	2019 HK\$'000	2018 HK\$'000
Depreciation (note 9)		
— owned property, plant and equipment	1,097	1,238
— right-of-use assets (note ii)	574	—
Total minimum lease payments for leases previously classified as operating leases under HKAS 17 (note ii)	—	823
Impairment losses on trade receivables	2,028	—
Auditors' remuneration		
— audit services	1,000	950
— other services	285	423
Direct costs (note i)	56,253	75,496

Note i: Direct costs includes HK\$3,869,000 (2018: HK\$4,306,000) relating to staff costs, which is also included in the respective total amounts disclosed separately in note 4(b).

Note ii: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Income tax in the consolidated statement of profit or loss represents:

	2019 HK\$'000	2018 HK\$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	5,468	5,607
Under-provision in respect of prior years	333	345
	5,801	5,952
Current tax — PRC Corporate Income Tax		
Provision for the year	27	48
Under-provision in respect of prior years	6	–
	33	48
Deferred tax		
Reversal of temporary differences (<i>note 17(b)</i>)	(144)	(30)
	5,690	5,970

The provision for Hong Kong Profits Tax for 2019 is calculated at 8.25% (2018: 8.25%) of the first HK\$2,000,000 and 16.5% (2018: 16.5%) of the remaining estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 100% (2018: 75%) of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of HK\$20,000 for each business (2018: a maximum reduction of HK\$30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2018). Taxation for the PRC subsidiary in 2019 was charged at a reduced rate for small and low-profit enterprise at 5% (2018: 10%) of the estimated profits for the year.

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

	2019 HK\$'000	2018 HK\$'000
Profit before taxation	32,883	34,704
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	5,197	5,531
Tax effect of non-deductible expenses	334	227
Tax effect of non-taxable income	(160)	(103)
Under-provision in respect of prior years	339	345
Statutory tax concession	(20)	(30)
Actual tax expense	5,690	5,970

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

6 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	2019 Total HK\$'000
Executive directors					
Mr. LAU King Wai	–	689	–	13	702
Ms. LEUNG May Yan	–	474	30	18	522
Mr. WONG Siu Hong Edward	–	376	35	18	429
Independent non-executive directors					
Ms. So Patsy Ying Chi	120	–	–	–	120
Mr. Li Wai Kwan	120	–	–	–	120
Mr. Hui Harry Chi	120	–	–	–	120
	360	1,539	65	49	2,013

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	2018 Total HK\$'000
Executive directors					
Mr. LAU King Wai	–	471	1,500	12	1,983
Ms. LEUNG May Yan	–	480	30	18	528
Mr. WONG Siu Hong Edward	–	379	35	18	432
Independent non-executive directors					
Ms. So Patsy Ying Chi	120	–	–	–	120
Mr. Li Wai Kwan	120	–	–	–	120
Mr. Hui Harry Chi	120	–	–	–	120
	360	1,330	1,565	48	3,303

During the years ended 31 December 2019 and 2018, there was no amount paid or payable by the Group to the directors or any of the highest paid individuals as set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was also no arrangement under which a director has waived or agreed to waive any remuneration during the years ended 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, there are two directors (2018: three directors) whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other three (2018: two) individuals are as follows:

	2019 HK\$'000	2018 HK\$'000
Salaries and other emoluments	1,514	966
Retirement scheme contributions	49	36
	1,563	1,002

The emoluments of the three (2018: two) individuals with the highest emoluments are within the following bands:

	2019 Number of individuals	2018 Number of individuals
Nil — HK\$1,000,000	3	2

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the following information:

	2019	2018
Profit for the year attributable to the ordinary equity shareholders of the Company (HK\$'000)	27,193	28,734
Weighted average number of ordinary shares in issue (thousand shares)	1,000,000	1,000,000
Basic earnings per share attributable to ordinary equity shareholders of the Company (HK cents)	2.7	2.9

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no diluted potential ordinary shares in existence during the years ended 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

9 PROPERTY, PLANT AND EQUIPMENT

	Properties leased for own use <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At 1 January 2018	–	–	193	2,282	2,475
Exchange adjustments	–	–	1	–	1
Additions	–	2,593	53	923	3,569
Disposals	–	–	–	(244)	(244)
At 31 December 2018	–	2,593	247	2,961	5,801
At 31 December 2018	–	2,593	247	2,961	5,801
Impact on initial application of HKFRS 16 (Note)	516	–	–	–	516
Adjusted balance at 1 January 2019	516	2,593	247	2,961	6,317
Additions	1,352	–	39	343	1,734
Disposals	–	–	–	(321)	(321)
At 31 December 2019	1,868	2,593	286	2,983	7,730
Accumulated depreciation:					
At 1 January 2018	–	–	91	1,873	1,964
Exchange adjustments	–	–	1	–	1
Charge for the year	–	720	33	485	1,238
Written back on disposals	–	–	–	(244)	(244)
At 31 December 2018	–	720	125	2,114	2,959
At 1 January 2019	–	720	125	2,114	2,959
Charge for the year	574	865	47	185	1,671
Written back on disposals	–	–	–	(86)	(86)
At 31 December 2019	574	1,585	172	2,213	4,544
Net book value:					
At 31 December 2019	1,294	1,008	114	770	3,186
At 31 December 2018	–	1,873	122	847	2,842

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 1(c).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

9 PROPERTY, PLANT AND EQUIPMENT (Continued)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 HK\$'000	2018 HK\$'000 (Note)
Depreciation charge of right-of-use assets of underlying asset:		
— Properties leased for own use	574	—
Interest on lease liabilities (note 4(a))	67	—
Expense relating to short-term leases with remaining lease term ending on or before 31 December 2019	210	—
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	—	823

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

During the year, additions to right-of-use assets were HK\$1,352,000. This amount related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 14(d) and 16, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

10 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Golden Icon Group Limited	British Virgin Islands ("BVI")	1 share of US\$1	100%	100%	–	Investment holding
K W Nelson Interior Design and Contracting Limited	Hong Kong	10,000 shares	100%	–	100%	Provision of interior designs, project management services and fitting-out works
Guangzhou Nelson Decoration Limited ("Guangzhou Nelson") (「廣州市立以遜裝飾有限公司」) (Note)	PRC	HK\$1,000,000	100%	–	100%	Provision of fitting-out and interior designs works

Note: Guangzhou Nelson is registered under the law of the PRC as wholly foreign-owned enterprise. The official name of the entity is in Chinese. The English name is for identification purpose only.

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK\$'000	2018 HK\$'000
Equity securities designated at FVOCI (non-recycling)		
— Equity securities listed in Hong Kong	511	–

The Company designated the equity securities at FVOCI (non-recycling) as the investments are held for strategic purpose. No dividends were received on these investments during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

12 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 HK\$'000	2018 HK\$'000
Contract assets		
Arising from performance under construction contract works	1,907	2,941
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" (note 13)	72,096	51,358

The amount of contract assets expected to be recovered after more than one year is HK\$140,000 (2018: HK\$Nil). All the other contract assets are expected to be recovered within one year.

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

— **Construction contract works**

The Group's contract work include payment schedules which require stage payments over the construction period once milestones are reached. These payment schedules prevent the build-up of significant contract assets. A deposit is typically payable up front and this has resulted in a contract liability at early stages of the project. And the Group also typically agrees to three to six month retention period for 5% to 10% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing inspection.

(b) Contract liabilities

	2019 HK\$'000	2018 HK\$'000
Contract liabilities		
Construction contract works		
— Billings in advance of performance	16,979	4,676

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

— **Construction contract works**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

12 CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

(b) Contract liabilities (Continued)

Movements in contract liabilities

	2019 HK\$'000	2018 HK\$'000
Balance at 1 January	4,676	4,543
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 period	(4,676)	(4,543)
Increase in contract liabilities as a result of billing in advance of contract works	16,979	4,676
Balance at 31 December	16,979	4,676

13 TRADE AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Trade receivables	74,124	51,358
Less: loss allowance	(2,028)	–
Trade receivables, net of loss allowance	72,096	51,358
Deposits, prepayments and other receivables	1,250	7,754
	73,346	59,112

The amount of deposits, prepayments and other receivables expected to be recovered or recognised as expense after more than one year is HK\$220,000 (2018: HK\$55,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

13 TRADE AND OTHER RECEIVABLES (Continued)

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	2019 HK\$'000	2018 HK\$'000
Within 1 month	29,463	25,492
Over 1 month to 2 months	15	17,180
Over 2 months to 3 months	7,833	1,899
Over 3 months	34,785	6,787
	72,096	51,358

Trade receivables are generally due within 7 days from the date of billing. Negotiated on a case-by-case basis, the credit terms granted to certain customers could be up to three months. Further details on the Group's credit policy are set out in note 19(a).

14 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2019 HK\$'000	2018 HK\$'000
Cash at bank and in hand	92,955	77,819
Less: pledged bank deposits (note)	(2,000)	(8,670)
Cash and cash equivalents in the consolidated statement of financial position and the consolidated cash flow statement	90,955	69,149

Note: The balance consists of:

- Bank deposits of HK\$2,000,000 (2018: HK\$2,000,000) was pledged to secure a banking facility of HK\$2,000,000 (2018: HK\$2,000,000). As at 31 December 2019 and 2018, no banking facility was utilised.
- As at 31 December 2018, bank deposits of HK\$6,670,000 was pledged for the issuance of a performance bond by a bank (note 22).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

14 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2019 HK\$'000	2018 HK\$'000 (Note)
Profit before taxation		32,883	34,704
Adjustments for:			
Depreciation	4(c)	1,671	1,238
Interest income	3	(972)	(544)
Finance costs	4(a)	67	–
Loss/(gain) on disposal of property, plant and equipment	3	150	(88)
Impairment losses on trade receivables	4(c)	2,028	–
Changes in working capital:			
Decrease in contract assets		1,034	5,801
Increase in contract liabilities		12,303	133
Increase in trade and other receivables		(16,216)	(42,713)
(Decrease)/increase in trade and other payables		(7,596)	18,288
Cash generated from operations		25,352	16,819

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of HK\$823,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 14(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

14 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS (Continued)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Lease liabilities HK\$'000 (Note 16)
As 31 December 2018	–
Impact on initial application of HKFRS 16 (Note)	516
At 1 January 2019	516
Changes from financing cash flows:	
Capital element of lease rentals paid	(549)
Interest element of lease rentals paid	(67)
Total changes from financing cash flows	(616)
Other changes:	
Increase in lease liabilities from entering into new leases during the year	1,352
Interest expenses (note 4(a))	67
Total other changes	1,419
At 31 December 2019	1,319

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 1(c) and 14(b).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

14 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS (Continued)

(d) Total cash outflow of leases

Amounts included in the consolidated cash flow statement for leases comprise the following:

	2019 HK\$'000	2018 HK\$'000 (Note)
Within operating cash flows	210	823
Within financing cash flows	616	–
	826	823

Note: As explained in the note 14(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 HK\$'000	2018 HK\$'000
Lease rentals paid	837	823

15 TRADE AND OTHER PAYABLES

	2019 HK\$'000	2018 HK\$'000
Trade payables	4,905	7,668
Other payables and accruals	14,724	19,557
	19,629	27,225

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

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	2019 HK\$'000	2018 HK\$'000
Within 1 month	630	3,294
Over 1 month to 3 months	1,312	3,099
Over 3 months	2,963	1,275
	4,905	7,668

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

16 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 <i>(Note)</i>		31 December 2018 <i>(Note)</i>	
	Present value of the minimum lease payments <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of the minimum lease payments <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>	Present value of the minimum lease payments <i>HK\$'000</i>	Total minimum lease payments <i>HK\$'000</i>
Within 1 year	688	739	231	252	–	–
After 1 year but within 2 years	509	529	243	252	–	–
After 2 years but within 5 years	122	124	42	42	–	–
	631	653	285	294	–	–
	1,319	1,392	516	546	–	–
Less: total future interest expenses		(73)		(30)		–
Present value of lease liabilities		1,319		516		–

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

17 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2019 HK\$'000	2018 HK\$'000
Provision for Hong Kong Profits Tax	6,069	268
PRC Corporate Income Tax	–	46
Tax payable	6,069	314

(b) Deferred tax (assets)/liabilities recognised:

The deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movement during the year is as follows:

	Depreciation allowances in excess of the related Depreciation HK\$'000	Loss allowance HK\$'000	Total HK\$'000
At 1 January 2018	84	–	84
Credited to profit or loss	(30)	–	(30)
At 31 December 2018	54	–	54
At 1 January 2019	54	–	54
Credited to profit or loss	(31)	(113)	(144)
At 31 December 2019	23	(113)	(90)

(c) Deferred tax liabilities not recognised

At 31 December 2019, temporary differences relating to the undistributed profits of subsidiaries amounted to HK\$1,173,000 (2018: HK\$744,000). Deferred tax liabilities of HK\$59,000 (2018: HK\$37,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the date of incorporation and the end of the year are set out below:

	Share capital HK\$'000	Share premium HK\$'000	(Accumulated losses)/ retained profit HK\$'000	Total HK\$'000
Balance at 1 January 2018	10,000	33,728	141	43,869
Loss and total comprehensive income for the year	–	–	(1,053)	(1,053)
Dividend approved and paid in respect of the previous year	–	–	(2,000)	(2,000)
Balance at 31 December 2018	10,000	33,728	(2,912)	40,816
Balance at 1 January 2019	10,000	33,728	(2,912)	40,816
Loss and total comprehensive income for the year	–	–	(1,003)	(1,003)
Dividend approved and paid in respect of the previous year	–	–	(2,500)	(2,500)
Balance at 31 December 2019	10,000	33,728	(6,415)	37,313

(b) Dividends

(i) Dividend payable to ordinary equity shareholders of the Company attributable to the year

	2019 HK\$'000	2018 HK\$'000
Final dividend proposed after the end of the reporting period of HK0.25 cent per share (2018: HK0.25 cent per share)	2,500	2,500

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

18 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends (Continued)

(ii) Dividend payable to ordinary equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2019 HK\$'000	2018 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK0.25 cent per share (2018: HK0.20 cent per share)	2,500	2,000

(c) Share capital

Issued share capital

	2019		2018	
	No. of share '000	Amount HK\$'000	No. of share '000	Amount HK\$'000
Authorised				
Ordinary shares of HK\$0.01 each	10,000,000	100,000	10,000,000	100,000
Issued and fully paid				
Ordinary shares	1,000,000	10,000	1,000,000	10,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Share premium

The share premium account is governed by the Companies Law of the Cayman Islands and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in paying distributions or dividends to equity shareholders.

No distribution or dividend may be paid to the equity shareholders out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

18 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of an entity with functional currency other than Hong Kong dollars. The reserve is dealt with in accordance with the accounting policies set out in note 1(q).

(iii) Merger reserve

The merger reserve represented the difference between the nominal value of the share capital of the subsidiary acquired as a result of a reorganisation and the nominal value of the share capital of the Company issued in exchange thereof.

(vi) Capital contribution reserve

The capital contribution reserve represents contribution from the controlling shareholder.

(v) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 1(e)).

(vi) Distributability of reserve

At 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$27,313,000 (2018: HK\$30,816,000).

(e) Capital management

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

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligations. At 31 December 2019, the ratio of the Group's total liabilities over its total assets was 26% (2018: 23%).

The Group is not subject to externally imposed capital requirements during the years ended 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks for which the Group considers to have low credit risk.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 36% (2018: 27%) and 63% (2018: 34%) of the total trade receivables and contract assets was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 7 days from the date of billing. Negotiated on a case-by-case basis, the credit terms granted to certain customers could be up to three months. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is further distinguished between the Group's different customer bases.

As at 31 December 2019, loss allowance of HK\$2,028,000 (2018: HK\$Nil) was recognised with respect to the Group's trade receivables of which HK\$1,343,000 (2018: HK\$Nil) were from customers with known financial difficulties or significant doubt on collection that are individually assessed to be fully impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets:

	Expected loss rate %	2019 Gross carrying amount HK\$'000	Loss allowance HK\$'000
Current (not past due) or within 180 days past due	0.1% – 0.5%	60,008	82
181-360 days past due	1.0% – 3.0%	13,662	248
361-540 days past due	8.6% – 10.9%	621	63
541-720 days past due	16.0% – 100%	337	232
More than 720 days past due	100%	60	60
		74,688	685

The Group assessed that there was no significant loss allowance recognised in accordance with HKFRS 9 as at 31 December 2018.

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

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

	2019 HK\$'000	2018 HK\$'000
Balance at 1 January	–	–
Impairment losses recognised during the year	2,028	–
Balance at 31 December	2,028	–

The following significant changes in the gross amounts of trade receivables and contract assets contributed to the increase in the loss allowance:

- origination of new trade receivables net of those settled resulted in an increase in loss allowance of HK\$330,000; and
- increase in days past due over 360 days resulted in an increase in loss allowance of HK\$355,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All financial liabilities are carried at amounts not materially different from the contractual undiscounted cash flows as at 31 December 2019 and 2018. The earliest date the Group is required to settle these liabilities is within one year or repayable on demand.

(c) Interest rate risk

As at 31 December 2019 and 2018, the Group was not exposed to any significant interest rate risk.

(d) Currency risk

The functional currency and reporting currency of the Company and its subsidiaries is Hong Kong dollars, except that the functional currency of the Group's PRC subsidiary is Renminbi ("RMB").

As at 31 December 2019 and 2018, the Group was not exposed to any significant currency risk.

(e) Fair value measurement

Financial assets measured at fair value

During the year, the Group has acquired listed equity securities as investment. The Group designated the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income.

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair value measurement (Continued)

Fair value hierarchy (Continued)

The following table presents the Group's financial assets that are at fair value at 31 December 2019 and 2018.

	Level 1	
	2019	2018
	HK\$'000	HK\$'000
Financial assets at fair value through other comprehensive income		
— Listed equity securities	511	—

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2019 and 2018 because of the immediate or short-term maturity of the financial instruments.

20 COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018
	HK\$'000
Within 1 year	462
After 1 year but within 5 years	294
	756

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 1(g), and the details regarding the Group's future lease payments are disclosed in note 16.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

21 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, transactions with the following parties are considered to be related party transactions:

Name of related party	Relationship with the Group
Mr. LAU King Wai	Director and the controlling shareholder of the Company
Ms. Chan Pui Shan, Jessica	Spouse of the controlling shareholder
Further Concept Limited	Controlled by the controlling shareholder
Target King Limited	Controlled by the controlling shareholder

The following transactions were carried out between the Group and its related parties during the year. In the opinion of the Directors, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group is the amounts paid to the Group's directors as disclosed in note 6 and is included in "staff costs" (see note 4(b)).

(b) Financing arrangement

	Amounts owed by the Group to related party		Related interest expense	
	As at 31 December		Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Lease liabilities due to Further Concept Limited	455	–	29	–

Note: In January 2019, the Group entered into a three-year lease in respect of leasehold property from Further Concept Limited for an office premise. The amount of rent payable by the Group under the lease is HK\$20,000 per month, which was determined with reference to the prevailing market rate. At the commencement date of the lease, the Group recognised a right-of-use asset and a lease liability of HK\$666,000.

(c) Other related party transactions

	2019 HK\$'000	2018 HK\$'000
Office rental paid to Further Concept Limited	–	216
Motor vehicle rental paid to Target King Limited	–	112

In addition, remuneration of HK\$474,000 (2018: HK\$275,000) was paid to the spouse of the controlling shareholder during the year ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

21 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Other related party transactions (Continued)

The related party transactions in respect of rental arrangement above constitute continuing connected transaction as defined in Chapter 20 of the GEM Listing Rules. However, these transactions are exempt from the disclosure requirements in Chapter 20 of the GEM Listing Rules as they are below the de minimis threshold under Rule 20.74(1).

22 CONTINGENT LIABILITY

As at 31 December 2018, performance bond of HK\$6,670,000 was given by a bank in favour of the Group's customer as security for the due performance and observance of the Group's obligation under the contract entered into between the Group and the customer. The Group had pledged bank deposits for the above performance bond (note 14(a)). If the Group failed to provide satisfactory performance to the customer to whom performance bond had given, the customer might demand the bank to pay to the customer the sum stipulated in the demand. The Group would then become liable to compensate the bank accordingly. The performance bond was released upon completion of the contract work during the year ended 31 December 2019.

23 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Investment in a subsidiary	10	380	380
Current assets			
Amount due from a subsidiary		–	1,421
Other receivables		133	177
Cash and cash equivalents		37,136	38,838
		37,269	40,436
Current liabilities			
Amount due to a subsidiary		336	–
Net current assets		36,933	40,436
NET ASSETS		37,313	40,816
CAPITAL AND RESERVES			
Share capital	18	10,000	10,000
Reserves		27,313	30,816
TOTAL EQUITY		37,313	40,816

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

24 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain.

The key sources of estimation uncertainty are as follows:

(a) Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision of matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various debtors that have similar loss patterns. The provision matrix is based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

The provision of ECLs is sensitive to changes in circumstances and of forecast general economic conditions. The information about the ECLs and the Group's contract assets and trade receivables are disclosed in notes 12(a) and 13 respectively. If the financial condition of the customers or the forecast economic conditions were to deteriorate, actual loss allowance would be higher than estimated.

(b) Revenue recognition

As explained in policy note 1(p), revenue from construction contracts are recognised over time. The revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract assets disclosed in note 12(a) do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

25 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 18(b).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

26 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the directors consider the immediate parent of the Group to be Sino Emperor Group Limited, which is incorporated in the BVI and the ultimate controlling party of the Group to be Mr. LAU King Wai. None of the parties produces financial statements available for public use.

27 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendment to HKFRS 3, <i>Definition of a business</i>	1 January 2020
Amendment to HKAS 1 and HKAS 8, <i>Definition of material</i>	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years is set as below:

RESULTS

	Note	For the year ended 31 December				
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	2	104,884	124,385	89,343	59,858	48,612
Direct costs	2	(56,253)	(75,496)	(50,502)	(33,830)	(28,936)
Gross profit		48,631	48,889	38,841	26,028	19,676
Other revenue		1,196	633	170	3	79
Other net income		–	–	–	–	669
General and administrative expenses	1	(16,877)	(14,818)	(7,708)	(5,059)	(4,116)
Listing expenses		–	–	–	(12,782)	(701)
Profit from operations	1 & 2	32,950	34,704	31,303	8,190	15,607
Finance costs	1	(67)	–	–	–	–
Profit before taxation	1 & 2	32,883	34,704	31,303	8,190	15,607
Income tax	1 & 2	(5,690)	(5,970)	(5,201)	(3,522)	(2,681)
Profit for the year	1 & 2	27,193	28,734	26,102	4,668	12,926

ASSET AND LIABILITIES

	Note	As at 31 December				
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Total assets	1 & 2	171,995	142,714	98,957	62,459	54,794
Total liabilities	1 & 2	43,996	32,269	15,093	4,860	7,036
Total equity		127,999	110,445	83,864	57,599	47,758

Note 1: As a result of the adoption of HKFRS 16, *Leases*, with effect from 1 January 2019, the Group has changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to recognise right-of-use assets and lease liabilities as at 1 January 2019. After initial recognition of these assets and liabilities, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Figures in years earlier than 2019 are stated in accordance with the policies applicable in those years.

Note 2: As a result of the adoption of HKFRS 15, *Revenue from contracts with customers*, with effect from 1 January 2018, the Group changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to equity as at 1 January 2018. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.