# K W Nelson

Interior Design and Contracting Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8411

Annual Report 2022

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

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

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



This report, for which the directors (the "Directors") of 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 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

## 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
*As to Hong Kong Law*
WE Lawyers

*As to Cayman Law*
Conyers Dill & Pearman

## AUDITOR
Linksfield CPA Limited
*Certified Public Accountants*
*Registered Public Interest Entity Auditor*

## 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
The 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
17/F., Far East Finance Centre
16 Harcourt Road
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 2022 (the "Year" or "2022").

## OVERVIEW

During the Year, the Group's revenue decreased by approximately 3.6% to approximately HK$42.5 million from approximately HK$44.1 million for the year ended 31 December 2021 (the "Previous Year" or "2021"). The decrease was mainly driven by the decrease in revenue from projects for elderly home, which partially offset by the increase in revenue from projects for office premises and medical centre. The Group's gross profit increased to approximately HK$12.0 million for the Year from approximately HK$9.1 million for the Previous Year, representing an increase of approximately 30.9%.

The Group recorded a loss attributable to the owners of the Company of approximately HK$3.4 million for the Year (Previous Year: HK$5.2 million).

## FORWARD

As a result of the COVID-19 outbreak, Hong Kong faced the prolonged adverse effect on economy of Hong Kong brought by the COVID-19, in which certain project owners and/or customers have suffered tight cashflow, leading to postponement and/or slowdown in certain projects. The Board believes that the pandemic will eventually subside, however, the Group will continue to assess the impact of COVID-19 outbreak on our operation and financial performance, and closely monitor our exposure to the risks and uncertainties in connection with the outbreak of the COVID-19. We will take appropriate measures as necessary to minimise the risks exposed.

In view of the aging population in Hong Kong, the Group believes more health centres, medical clinics and elderly home 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 and medical centres.

## APPRECIATION

On behalf of the Board, I wish to take this opportunity to express our heartfelt gratitude to our shareholders, customers, subcontractors and business partners who trust and remain faithful to the Group through the particularly harsh operating environment in the past two years. I would also like to express our sincere thanks to our management and staff for their diligence, dedication and contribution throughout the years. We are confident the Company can overcome the turbulence and steer into smooth sailing in the near future.

**Lau King Wai**
*Chairman and Chief Executive Officer*

Hong Kong, 22 March 2023

# BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

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

## Executive Directors

**Mr. Lau King Wai** (劉經緯) ("Mr. Nelson Lau"), aged 58, was appointed as an executive Director, the chairman of the Board and the chief executive officer on 7 January 2016. Mr. Lau is the founder of the Group and he is responsible for the overall business development, strategic planning and major decision-making of the Group.

Mr. Lau has over 31 years of experience in the interior design and decoration industry. Mr. Lau started working as an architectural draftsman of King Yip Engineering & Architectural Co., the principal business of which is architectural and building services, from July 1985 to July 1987, and he was responsible for preparing architectural drawings. Mr. Lau then worked as a site co-ordinator of OGLE Contracting Co., the principal business of which was 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, the principal business was trading of commodities, from April 1988 to July 1989, and his last position was senior sales supervisor responsible for supervising trading accounts of clients. Mr. 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 (which was a company controlled by Mr. Lau), from January 1991 to December 1999, and he was responsible for project management. Mr. Lau was a chief executive officer of F.C.S. Interior Design and Contracting Co. Limited, the principal business of which 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. Lau. In February 2009, Mr. Lau established K W Nelson Interior Design and Contracting Limited (formerly known as "K W Nelson Interior Architect Limited" and currently an indirect wholly-owned subsidiary of the Company) ("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.

Mr. 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 47, 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 over 25 years of experience in interior design. Prior to joining the Group, she was an assistant interior designer of FCS Interior Design & Contracting Co., the principal business of which 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 46, 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 19 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, the principal business of which 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 51, was appointed as an independent non-executive Director on 18 November 2016. He is the chairman of the Group's nomination committee and a member of the Group's audit committee and remuneration committee.

Mr. Li has over 11 years of experience in accounting, finance and investment management. Mr. Li is the chief financial officer of Crystal International Group Limited, which is listed on Main Board (stock code: 2232) and principally engaged in manufacturing of fashion products, since November 2018 where he is responsible for finance matters. 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 July 2006 and from August 2006 to September 2006 respectively, where he was responsible for finance and operational matters. From October 2006 to September 2010, he was a vice president of 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, and he was responsible for finance, investment and company secretarial matters. He 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. He was a managing director of Origo Partners PLC, whose shares are listed on alternative investment market of the London Stock Exchange and principal business is private equity investment, from November 2011 to January 2013, and he was responsible for investment matters. From August 2013 to October 2018, Mr. Li was the chief financial officer of Zhuhai Dahengqin Company Limited* (珠海大橫琴股份有限公司) and its affiliate Zhuhai Dahengqin Property Company Limited* (珠海大橫琴置業有限公司), which is principally engaged in property investment and development, where he was responsible for finance, investment and fund management matters.

Mr. Li has been an independent non-executive director of Miricor Enterprises Holdings Limited, which is listed on the Main Board (previous stock code: 8358 and current stock code: 1827) and principally engaged in the provision of medical aesthetic services and sale of skin care products to the clients in Hong Kong, since 19 December 2016. From 27 April 2017 to 12 October 2020, he was the independent non-executive director of Enterprise Development Holdings Limited, which is listed on the Main Board (stock code: 1808) and principally engaged in the provision of integrated business software solutions and trading of listed securities. From 1 February 2018 to 30 November 2018, he was an independent non-executive director of China Asia Valley Group Limited, which is listed on the Main Board (stock code: 63) and principally engaged in property related businesses, provision of horticultural services, money lending business, securities trading business, manufacturing and trading of graphene and graphene-related products. From 20 July 2018 to 5 June 2020, he was an independent non-executive director of China Greenfresh Group Co., Ltd., which is listed on the Main Board (stock code: 6183) and principally engaged in the cultivation and sales of fresh edible fungi. From 28 June 2017 to 30 September 2021, he was the independent non-executive director of TL Natural Gas Holdings Limited, which is listed on GEM (stock code: 8536) and principally engaged in the sale of compressed natural gas.

* *For identification purpose only.*

# BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

Mr. Li has been a director of Hong Kong Research Institute of Textiles and Apparel Limited since 2022 and a director, executive committee member and honorary treasurer of the Hong Kong-ASEAN Economic Cooperation Foundation since 2015, an Honorary President of the Institute of Certified Management Accountants — Hong Kong & Macau Branch since 2019, a Chairman of Institute of Public Accountants — Hong Kong Branch since 2019, a Committee member, SME committee of ACCA — Hong Kong Branch since 2019, and a General Committee member of the Chamber of Hong Kong Listed Companies since 2020.

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 in 2010, a committee member of the PRC committee of the Hong Kong Venture Capital and Private Equity Association in 2011, a committee member of Public Awareness Committee of Hong Kong Society of Financial Analysts in 2016, and a board member of Chartered Professional Accountants of Canada — Hong Kong Chapter from 2017 to 2020. 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.

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 (formerly known as Association for Investment Management and Research) in September 2001, a certified general accountant of the Certified General Accountants Association of Canada in October 2002, a certified public accountant of 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 Accountants in England and 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.

# BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

**Ms. So Patsy Ying Chi (蘇瑩枝)**, aged 63, was appointed as an independent non-executive Director on 18 November 2016. She is the chairlady of the Group's audit committee and a member of the Group's remuneration committee and nomination committee.

Ms. So has approximately 21 years of experience in investment and institutional banking and approximately 7 years of experience in financial management in a listed company. Currently, she is a director of Progressive Consultation Limited which is principally engaged in business advisory services since June 2010, and she is responsible for provision of consultancy services. 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.

**Mr. Hui Harry Chi (許志偉)**, aged 59, was appointed as an independent non-executive Director on 18 November 2016. He is the chairman of the Group's remuneration committee and a member of the Group's audit committee and nomination committee.

Mr. Hui has approximately 18 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 the PRC, 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.

# BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

## COMPANY SECRETARY

**Mr. Or Kevin (柯衍峰)**, aged 51, was appointed as the company secretary and authorised representative of the Company on 1 April 2018. Mr. Or is primarily responsible for overseeing the overall financial management and company secretarial matters of the Company.

Mr. Or has over 20 years of experience in audit field. He worked for PricewaterhouseCoopers, which is principally engaged in the provision of accounting and auditing services, from November 1996 to December 2016 and his last position was senior manager, where he was responsible for the provision of assurance services and advising small and medium-sized enterprises, entrepreneurs and companies seeking listing in Hong Kong.

Mr. Or is an independent non-executive director of DLC Asia Limited, which is listed on GEM of the Stock Exchange (stock code: 8210) and principally engaged in derivatives brokerage, since 30 July 2018, and Kato (Hong Kong) Holdings Limited, which is listed on the Main Board of the Stock Exchange (stock code: 2189) and principally engaged in the provision of residential care services and day care services for the elderly, since 20 May 2019.

Mr. Or graduated from Royal Melbourne Institute of Technology (currently known as RMIT University) in Australia with a degree of Bachelor of Business in 1994. He was admitted as a certified practising accountant of the Australian Society of Certified Practising Accountants in 1997 and a member of the Hong Kong Society of Accountants, which is currently known as the Hong Kong Institute of Certified Public Accountants in 1998.

# 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 medical centre 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 2022 (the "Year" or "2022"), the Group's revenue decreased by approximately 3.6% to approximately HK$42.5 million from approximately HK$44.1 million for the year ended 31 December 2021 (the "Previous Year" or "2021"). The decrease was mainly driven by the decrease in revenue from projects for elderly home, which partially offset by the increase in revenue from projects for office premises and medical centre. The Group's gross profit increased to approximately HK$12.0 million for the Year from approximately HK$9.1 million for the Previous Year, representing an increase of approximately 30.9%.

The Group recorded a loss attributable to the owners of the Company of approximately HK$3.4 million for the Year (Previous Year: HK$5.2 million).

## OUTLOOK

During the Year, the Group completed/awarded certain projects of elderly home, office premises and medical centre. The unexpected outbreak of COVID-19 has brought unprecedented impact to the economy, the Group's business has been disrupted. The prolonged adverse effect on economy of Hong Kong brought by the COVID-19, in which certain project owners and/or customers have suffered tight cashflow, leading to postponement and/or slowdown in certain projects. In view of the outbreak of COVID-19, the Group have implemented certain precautionary measures to maintain a hygienic working environment include sanitising our workplace regularly and requiring our staff and subcontractors to wear face masks in workplaces and construction sites.

Despite having business contingency plans in place by the Group, the Group will continue to closely monitor our business and operations in connection with the potential impacts of the COVID-19 outbreak. If such outbreak continues, we may be required to take additional measures to minimise its potential impacts on our business and operations.

Looking forward, the Group is optimistic with the prospects of the interior design and decoration market, especially on commercial premises, medical centres and elderly home. In view of the increasing public awareness in health issues and ageing population in Hong Kong, the Group believes more health centres, medical clinics, elderly home and health-related facilities will be established to meet the health care demand. 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 decreased by approximately 3.6% to approximately HK$42.5 million (Previous Year: HK$44.1 million).

The following table sets forth a breakdown of the Group's revenue by use of premises of the projects for the years ended 31 December 2022 and 2021:

| Use of premises | For the year ended 31 December 2022 | | 2021 | |
|---|---|---|---|---|
| | HK$'000 | % | HK$'000 | % |
| Office and elderly home | **37,881** | **89.1** | 42,254 | 95.8 |
| Medical centre and others (Note) | **4,640** | **10.9** | 1,832 | 4.2 |
| Total | **42,521** | **100.0** | 44,086 | 100.0 |

*Note:* Others mainly comprise retail stores, restaurant, shopping mall and residential premises.

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 2022 and 2021:

| Project types and locations | For the year ended 31 December 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | No. of projects | HK$'000 | % | No. of projects | HK$'000 | % |
| **Design & decoration** | | | | | | |
| Hong Kong | **9** | **40,305** | **94.8** | 14 | 39,321 | 89.2 |
| The PRC and Macau | – | – | – | 1 | 309 | 0.7 |
| | **9** | **40,305** | **94.8** | 15 | 39,630 | 89.9 |
| **Decoration** | | | | | | |
| Hong Kong | **2** | **340** | **0.8** | 2 | 2,967 | 6.7 |
| | **2** | **340** | **0.8** | 2 | 2,967 | 6.7 |
| **Others** | | | | | | |
| Hong Kong | | **1,876** | **4.4** | | 1,175 | 2.7 |
| The PRC and Macau | | – | – | | 314 | 0.7 |
| | | **1,876** | **4.4** | | 1,489 | 3.4 |
| Total | **11** | **42,521** | **100.0** | 17 | 44,086 | 100.0 |

# MANAGEMENT DISCUSSION AND ANALYSIS

The slight increase in revenue of design and decoration projects from HK$39.6 million for the Previous Year to HK$40.3 million for the Year was mainly due to increase in revenue derived from projects of elderly home and medical centre by HK$14.1 million and HK$2.7 million respectively, which partially offset by decrease in revenue from projects of office premises by HK$15.3 million.

The decrease in revenue of decoration projects by HK$2.6 million during the Year was principally attributed to the decrease in revenue derived from office premises and retail stores by HK$2.9 million.

**Cost of Sales and Gross Profit**

The Group's cost of sales mainly comprised subcontracting costs, direct staff costs, material purchase costs and insurance costs.

The following table sets forth the breakdown of the Group's gross profit and gross profit margin by use of premises of the projects for the years ended 31 December 2022 and 2021:

| Use of premises | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2022** | | 2021 | |
| | ***Gross Profit HK$'000*** | ***Gross Profit Margin %*** | *Gross Profit HK$'000* | *Gross Profit Margin %* |
| Office and elderly home | **10,288** | **27.2** | 8,850 | 20.9 |
| Medical centre and others | **1,665** | **35.9** | 284 | 15.5 |
| **Overall** | **11,953** | **28.1** | 9,134 | 20.7 |

Gross profit margin of the Group's office and elderly home projects increased from approximately 20.9% in 2021 to approximately 27.2% in 2022 was mainly due to the lower gross profit margin for the elderly home for the purpose of expanding the Group's client portfolio in 2021, while there is increase in projects for office premises with relatively higher gross profit margin in 2022.

Gross profit margin of the Group's medical centre and other projects increased from approximately 15.5% in 2021 to approximately 35.9% in 2022 was mainly attributed by the increase in projects for medical centre during the Year with higher gross profit margin due to involvement of more complex specifications for building surgery rooms, installation of specific air-conditioning and mechanical ventilation system, medical gas system, anesthetic gas scavenging system, which require more dedicated technical skills to meet a high standard of compliance to sanitation with antigerms and anti-dust requirements.

# MANAGEMENT DISCUSSION AND ANALYSIS

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 2022 and 2021:

| Project types | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2022** | | 2021 | |
| | ***Gross Profit HK$'000*** | ***Gross Profit Margin %*** | *Gross Profit HK$'000* | *Gross Profit Margin %* |
| Design & decoration | **11,535** | **28.6** | 8,080 | 20.4 |
| Decoration | **36** | **10.6** | 392 | 13.2 |
| Others | **382** | **20.4** | 662 | 44.4 |
| **Overall** | **11,953** | **28.1** | 9,134 | 20.7 |

The Group's overall gross profit margin increased from approximately 20.7% for the Previous Year to approximately 28.1% for the Year, mainly due to increase in design and decoration projects for office premises with relatively higher gross profit margin during the Year.

**Administrative Expenses**

The Group's administrative expenses mainly consisted of (i) staff costs and directors' remuneration; (ii) legal and professional fee; (iii) depreciation; and (iv) other administrative expenses, which increased to approximately HK$15.3 million for the Year from approximately HK$13.8 million for Previous Year due to the increase in the discretionary bonus to staff and directors of HK1.3 million.

**Income tax**

Income tax expense for the Year was approximately HK$0.3 million (Previous Year: HK$0.6 million). The income tax expense for the Year and the Provious Year was mainly attributed by the recognition of deferred tax liabilities in relation to accelerated tax depreciation on property, plant and equipment and loss allowance of trade receivables.

**Loss for the Year**

As a result of the foregoing, the Group recorded a loss of approximately HK$3.4 million for the Year (Previous Year: HK$5.2 million).

**Provision of loss allowance for trade receivables**

The Group recognised loss allowances for trade receivables 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.

As at 31 December 2022, loss allowance of HK$0.5 million (2021: HK$2.8 million) was recognised with respect to the Group's trade receivables of which HK$0.2 million (2021: HK$0.4 million) were related to trade receivables due from customers with known financial difficulties or significant doubt on collection that are individually assessed to be fully impaired.

# 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 set out in the Company's prospectus dated 29 November 2016 (the "Prospectus") up to 31 December 2022:

| | Planned use of proceeds as stated in the Prospectus *HK$ million* | Actual use of proceeds up to 31 December 2021 *HK$ million* | Actual use of proceeds for the Year *HK$ million* | Actual use of proceeds up to 31 December 2022 *HK$ million* | Unutilised amount as at 31 December 2021 *HK$ million* | Expected timeline for utilising the unutilised proceeds *HK$ million* |
|---|---|---|---|---|---|---|
| Establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities | 13.8 | 13.8 | – | 13.8 | – | Fully utilised |
| Maintain and strengthen our market position in Hong Kong and the PRC and focus on reputable customers | 6.0 | 6.0 | – | 6.0 | – | Fully utilised |
| Increase our capacity to capture more business opportunities | 4.6 | 4.6 | – | 4.6 | – | Fully utilised |
| Expand our business in the PRC market | 3.1 | 2.0 | 1.1 | 3.1 | – | Fully utilised |
| General working capital | 3.1 | 3.1 | – | 3.1 | – | Fully utilised |
| | 30.6 | 29.5 | 1.1 | 30.6 | – | |

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 actual use of proceeds for expansion of the PRC market took longer time due to the COVID-19 outbreak.

## LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

During the Year, the Group financed its operations by its internal resources. As at 31 December 2022, the Group had net current assets of approximately HK$68.3 million (2021: HK$125.0 million), including cash and cash equivalents balances of approximately HK$25.1 million (2021: HK$80.7 million) mainly denominated in Hong Kong dollars. As at 31 December 2022, the Group had an unutilised banking facility of HK$2.0 million (2021: 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 10.8 times as at 31 December 2022 (2021: 7.1 times). The increase was mainly due to the decrease % in current assets (48.3%) is lower than that for current liabilities (66.0%).

As at 31 December 2022, the Group had no outstanding borrowings (2021: 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.

There has been no material change in capital structure of the Company since the date of listing. The equity attributable to the owners of the Company amounted to approximately HK$72.2 million as at 31 December 2022 (2021: HK$129.5 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## PLEDGE OF ASSETS

As at 31 December 2022, bank deposits of HK$2.0 million (2021: HK$2.0 million) and HK$0.6 million (2021: Nil) 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 2022 and 2021, the Group did not have any material capital commitment.

## HUMAN RESOURCES MANAGEMENT

As at 31 December 2022, the Group had a total of 12 (2021: 15) 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. Employees may also be granted share awards under the share award scheme adopted by the Company.

## SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR ADDITIONS OF CAPITAL ASSETS

The Group did not have any significant investments, material acquisitions, and disposals of subsidiaries, associates and joint ventures during the Year, nor there were any future plans for material investments or additions of capital assets as at 31 December 2022.

## CONTINGENT LIABILITIES

Saved as disclosed in note 29 to the consolidated financial statement, the Group had no material contingent liabilities as at 31 December 2022 and 2021.

# 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 2022. 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 Group is principally engaged in the provision of interior designs, project management services and fitting-out works. The details of principal activities of its principal subsidiaries are set out in Note 14 to the consolidated financial statements.

## SEGMENTAL INFORMATION

The Group's segment information and revenue for the year ended 31 December 2022 are set out in Note 5 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2022 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 64 to 115 of the Annual Report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: HK0.3 cent per share).

An interim dividend of HK5.0 cents per share was paid by the Company on 31 August 2022.

## ANNUAL GENERAL MEETING

An annual general meeting (the "AGM") will be held on Thursday, 25 May 2023. A circular containing the details of AGM and the notice of the AGM and form of proxy accompanying thereto is sent to the Shareholders together with this Annual Report.

## 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 Monday, 22 May 2023 to Thursday, 25 May 2023, 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 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Friday, 19 May 2023.

## 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 10 to 15 of this Annual Report 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.

For details, please refer to "Environmental, Social and Governance Report" in this Annual Report, containing the details of the environmental, social and governance performance of the Group.

## 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 PROVISION

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.

## CHARITABLE DONATIONS

The Group did not make any charitable donations for the year ended 31 December 2022.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year under review are set out in Note 30(b) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2022, 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$36.9 million (2021: HK$34.0 million).

## 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 15 to the consolidated financial statements.

## INTEREST CAPITALISED

No interest was capitalised by the Group during the year ended 31 December 2022.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from its consolidated financial statements, is set out on page 116 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 22(a) to the consolidated financial statements.

# DIRECTORS' REPORT

## PRE-EMPTIVE RIGHTS

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

## 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 | 62.3% | – |
| Five largest customers in aggregate | 90.1% | – |
| The largest supplier | – | 18.4% |
| Five largest suppliers in aggregate | – | 42.0% |

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 five largest 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 the 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 of the Company are set out on pages 4 to 9 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 two years and such letter of appointment may be terminated by either party giving at least three months' notice in writing.

All Directors are subject to retirement by rotation and re-election at the AGM pursuant to the Articles of Association and the GEM Listing Rules.

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. The Company considers that all of the independent non-executive Directors are independent and meet the requirements set out in Rules 5.09 of the GEM Listing Rules.

## EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Note 9 to the consolidated financial statements.

## MANAGEMENT CONTRACTS

For the year ended 31 December 2022, the Company did not enter into or had 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. Employees may also be granted share awards under the share award scheme adopted by the Company. 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.

## SHARE AWARD SCHEME

The Company adopted a share award scheme (the "Share Award Scheme") on 17 May 2021. The purposes of the Share Award Scheme are to recognise the contributions by certain participants and to provide them with incentives in order to retain them for the continual operation and development of the Group as well as to attract suitable personnel for further development of the Group.

The Share Award Scheme shall be valid and effective for a term of ten years commencing on the date of adoption (i.e. 17 May 2021), unless otherwise early terminated by the Board.

# DIRECTORS' REPORT

According to the Share Award Scheme, the awarded shares shall be satisfied by way of (i) allotment and issue of new shares to the trustee at the subscription price under general mandate; or (ii) acquisition of existing shares through on-market transactions by the trustee and will be held on trust until they are vested.

The Board may, from time to time, at its absolute discretion select any participant (other than any excluded participant) for participation in the Share Award Scheme as a selected participant, and grant such number of awarded shares to any selected participant at no consideration and in such number and on and subject to such terms and conditions as it may in its absolute discretion determine.

The Board shall not make any further award of awarded shares which will result in the nominal value of the shares awarded by the Board under the Share Award Scheme exceeding ten per cent (10%) of the issued share capital of the Company from time to time. The maximum numbers of shares which may be awarded to a selected participant under the Share Award Scheme shall not exceed one per cent (1%) of the issued share capital of the Company from time to time.

During the Year, the Trustee purchased an aggregate of 16,400,000 shares of the Company from the market at a total consideration after transaction cost of approximately HK$3.2 million. No awarded shares had been granted during the Year.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Saved as disclosed under the section "Related Party and 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 the Director or an entity connected with the 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 controlling shareholders of the Company (the "Controlling 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 2022 and up to the date of this Annual 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 2022. 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 2022.

# DIRECTORS' REPORT

## 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 2022, 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 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 the Shares

| Name of Director | Capacity/Nature of interest | Interests in Shares | Approximate percentage shareholding *(Note 2)* |
|---|---|---|---|
| Mr. Lau King Wai | Interest of a controlled corporation *(Note 1)* | 750,000,000 | 75% |

*Notes:*

1. Mr. Lau King Wai beneficially owns 100% of the issued share capital of Sino Emperor. By virtue of the SFO, Mr. Lau King Wai is deemed to be interested in all the Shares held by Sino Emperor.

2. The approximate percentage is calculated based on 1,000,000,000 Shares in issue as at 31 December 2022.

Saved as disclosed above, as at 31 December 2022, 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Award Scheme", at no time during the year ended 31 December 2022 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.

# DIRECTORS' REPORT

## 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 2022, 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 the Shares

| Name of Shareholders | Nature of interest | Number of Shares | Approximate percentage shareholding *(Note 3)* |
|---|---|---|---|
| Sino Emperor *(Note 1)* | Beneficial owner | 750,000,000 | 75% |
| Ms. Chan Pui Shan, Jessica *(Note 2)* | 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.

3. The approximate percentage is calculated based on 1,000,000,000 Shares in issue as at 31 December 2022.

Saved as disclosed above, as at 31 December 2022, 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.

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

Except as disclosed in elsewhere in this report, 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 2022.

# DIRECTORS' REPORT

## RELATED PARTY AND CONNECTED TRANSACTIONS

Related party transactions entered into by the Group during the year ended 31 December 2022 are disclosed in Note 28 to the consolidated financial statements. None of the related party transactions as disclosed constituted a non-exempted connected transaction or a non-exempted continuing connected transaction under Chapter 20 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 2022.

## EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2022 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 the 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 2022. The Company was not aware of any non-compliance during the year ended 31 December 2022.

## 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;

— 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 AGREEMENT

Other than the Share Award Scheme, 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 2022 or subsisted at the end of the reporting year.

## SUFFICIENCY OF PUBLIC FLOAT

During the year under review and up to the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that the Company maintained the prescribed 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 2022, 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

KPMG resigned as the auditor of the Company with effect from 21 December 2021. The Board has resolved to appoint Linksfield CPA Limited ("Linksfield"), Certified Public Accountants, as the new auditor of the Company with effect from 21 December 2021 to fill the casual vacancy following the resignation of KPMG.

The consolidated financial statements for the year ended 31 December 2022 have been audited by Linksfield, who will retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Linksfield as auditor of the Company will be proposed at the AGM.

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

Hong Kong, 22 March 2023

# 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 2022.

## 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 and adopted the principles and the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules as its corporate governance practice. During the Year, the Company has complied with all the code provisions set out in the CG Code except for the deviation from code provision C.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 currently comprises six members, of which three are executive Directors namely Mr. Lau King Wai (Chairman and Chief Executive Officer), 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. Pursuant to Rules 5.05 and 5.05A of the GEM Listing Rules, the Board included at least three independent non-executive Directors, representing at least one-third of the Board, 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. To the best knowledge of the Directors, there is no relationship (including financial, business, family or other material/relevant relationships) between Board members.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

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.

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

All Directors are subject to retirement by rotation and re-election at the AGM pursuant to the Articles of Association and the GEM Listing Rules.

By virtue of articles 84 of the Articles of Association, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi will retire by rotation from office and, being eligible, will offer themselves for re-election at the AGM.

# CORPORATE GOVERNANCE REPORT

The Board and the Nomination Committee recommended their reappointment at the AGM. The Company's circular containing detailed information of the above recommended persons as required by the GEM Listing Rules is sent to the Shareholders together with this Annual Report.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. 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.

## 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 two 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 AGM in accordance with the Articles of Association and the GEM Listing Rules.

The Company has received written annual confirmation from each of the 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 to be independent in accordance with the independence guidelines set out in the GEM Listing Rules for the year ended 31 December 2022.

## 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 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.

# CORPORATE GOVERNANCE REPORT

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

Appropriate insurance cover in respect of legal actions against the Directors' liability has been arranged by the Company in compliance with the code provision C.1.8 of the CG Code.

## 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.

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 of the Company (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 are 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 during the Year and up to the date of this Annual Report.

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.

## GENDER DIVERSITY

During the year under review and as at the date of this Annual Report, the Board has two female Directors, and four male Directors and as such has achieved gender diversity in respect of the Board. The Company will continue to strive to enhance representation of different genders and achieve an appropriate balance of gender diversity with reference to the Shareholders' expectation and international and local recommended best practices.

Details of gender ratio of the workforce (including senior management) for the year ended 31 December 2022 are set out in the `'Environmental, Social and Governance Report" in this annual report.

# CORPORATE GOVERNANCE REPORT

## 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 C.1.4 of the CG Code on Directors' training. During the year ended 31 December 2022, 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 *(Chairman and CEO)* | ✓ |
| 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 | ✓ |

## BOARD MEETINGS

The Board meets at least four times a year with at least 14 days' notices and additional Board meetings with reasonable notices are held as and when the Board considers appropriate. Agenda and accompanying meeting materials are sent to all Directors at least three days in advance of the regular Board meetings. Directors may participate in meetings in person, by phone or by other communication means.

The company secretary records all matters considered by the Directors, decisions reached and any concerns raised at the meetings. Draft and final versions of the minutes are sent to all Directors for their comments and records respectively within a reasonable time. Also, Directors may approve various matters by way of passing written resolutions.

# CORPORATE GOVERNANCE REPORT

## NUMBER OF MEETINGS AND ATTENDANCE RECORDS

During the year ended 31 December 2022, four meetings of the Board were held, Directors are provided with relevant information to make informed decisions. The attendance of the Directors at the Board meetings, annual general meeting and the Board committees' meetings is set out in the table below:

| | Number of meetings attended/Held | | | | |
|---|---|---|---|---|---|
| Name of Directors | Board | Audit Committee | Remuneration Committee | Nomination Committee | Annual General Meeting held on 6 May 2022 |
| **Executive Directors** | | | | | |
| Mr. Lau King Wai | 3/4 | N/A | N/A | N/A | 0/1 |
| 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 |
| **Independent non-executive Directors** | | | | | |
| Mr. Li Wai Kwan | 4/4 | 5/5 | 1/1 | 1/1 | 1/1 |
| Mr. Hui Harry Chi | 3/4 | 4/5 | 1/1 | 1/1 | 1/1 |
| Ms. So Patsy Ying Chi | 4/4 | 5/5 | 1/1 | 1/1 | 1/1 |

## BOARD COMMITTEE

As part of the corporate governance practices, the Board has established the audit committee (the "Audit Committee"), the Nomination Committee and the remuneration committee (the "Remuneration Committee") of the Company with terms of reference pursuant to the principles set out in the CG Code.

### Audit Committee

The Company established the Audit Committee on 18 November 2016 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules and paragraph D.3 of the CG Code. During the year under review, the Company has fully complied with the requirements under Rule 5.28 of 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 2022, 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.

During the year ended 31 December 2022, five 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.

# CORPORATE GOVERNANCE REPORT

**Remuneration Committee**

The Company established the Remuneration Committee on 18 November 2016 with written terms of reference in compliance with Rules 5.34 to 5.35 of the GEM Listing Rules and paragraph E.1 of the CG Code. 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; ensure none of the Directors determine their own remuneration; and review and/or approve matters relating to share schemes under Chapter 23 of the GEM Listing Rules. As at 31 December 2022, 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 9 to the consolidated financial statements. Since there were no shares granted under the Share Award Scheme, no material matters relating to the Share Award Scheme under Chapter 23 of the GEM Listing Rules were required to be reviewed or approved by the Remuneration Committee during the year ended 31 December 2022.

During the year ended 31 December 2022, one meeting of Remuneration Committee was held for, reviewing and making recommendation to the Board on the remuneration package of all Directors and other related matters in accordance with the Remuneration Committee's written terms of reference. No Director was involved in deciding his/her own remuneration.

**Nomination Committee**

The Company established the Nomination Committee on 18 November 2016 with written terms of reference in compliance with paragraph B.3 of the CG Code. 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 2022, 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.

**Nomination Procedures and Criteria**

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;

(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 2022, no new Director was appointed.

During the year ended 31 December 2022, 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 at the AGM. 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 which is in compliance with paragraph A.2.1 of the CG Code. The Board has reviewed and performed the corporate governance functions during the year under review.

## 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 2022. The Company was not aware of any non-compliance during the year ended 31 December 2022.

## AUDITOR'S REMUNERATION

During the years ended 31 December 2022 and 2021, the remuneration paid or payable to Linksfield, the auditor of the Company (including their affiliated firms) for their services rendered is summarised as below:

| Service rendered | **2022**<br>***HK$'000*** | 2021<br>*HK$'000* |
|---|---|---|
| Audit services provided to the Group | **630** | 630 |

Linksfield will retire and being eligible, offer themselves for re-appointment at the AGM.

The re-appointment of Linksfield has been recommended by the Audit Committee and endorsed by the Board, subject to the approval of the Shareholders at the AGM.

# 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 2022, in compliance with code provision D.2.1 of the CG Code, 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 on an annual basis. The review has covered all material controls, including financial, operational and compliance controls and risk management functions. The Board concluded that the Group's risk management and internal control systems are effective and adequate and 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 2022, 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 2022.

# CORPORATE GOVERNANCE REPORT

**Procedures and Internal Controls for Handling and Dissemination of Insider Information**

In handing 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;

— decides and implements monitoring procedures regarding dissemination of inside information; and

— communicates with relevant persons about corporate information disclosure practices with respective training.

## DIRECTORS' AND AUDITORS' 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, Linksfield, about their reporting responsibilities for the audit of the consolidated financial statements of the Group is set out in the Independent Auditor's Report in this annual 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.

# CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2022, an annual general meeting was held on 6 May 2022.

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.

During the during the year under review, the Board has reviewed the shareholders communication policy and confirmed its effectiveness.

## COMPANY SECRETARY

The company secretary of the Company ("Company Secretary"), Mr. Or Kevin, was appointed on 1 April 2018. Mr. Or is an external service provider to assist the Company's secretarial affair. Mr. Or's primary contact person at the Company is the Chairman and the CEO, Mr. Lau King Wai. He is responsible for facilitating the Board meeting process, as well as communications among Board members, with the Shareholders and management. Mr. Or's biography is set out in the "Biographical Details of the Directors and Company Secretary" section in this Annual Report. During the year ended 31 December 2022, Mr. Or attended not less than 15 hours of professional training pursuant to Rule 5.15 of the GEM Listing Rules to update his skills and knowledge.

## 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.

# CORPORATE GOVERNANCE REPORT

**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 2022.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SCOPE AND REPORTING PERIOD

This is the seventh Environmental, Social, and Governance (ESG) report of the K W Nelson Interior Design and Contracting Group Limited (hereafter the "Group"), highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 20 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and Guidance set out by The Stock Exchange of Hong Kong Limited.

The Group is an interior decorator based in Hong Kong, focusing on providing interior designs and coordinating interior decoration projects primarily for commercial premises including offices, medical centres, retail shops, warehouses, restaurants, and shopping malls mainly located in Hong Kong. The Group provides interior design proposals developed by its designers and engages subcontractors to carry out fitting-out works which are coordinated, managed, and supervised by the Group's project managers. The Group also undertakes decoration projects in which it is only responsible for project management and fitting-out works. This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social of its key operations stated below in Hong Kong from 1 January 2022 to 31 December 2022 (the "Reporting Period"), unless otherwise stated.

— the operation in Hong Kong of the headquarter of K W Nelson Interior Design and Contracting Group Limited incorporated in the Cayman Islands with limited liability; and

— the operation in Hong Kong of K W Nelson Interior Design and Contracting Limited incorporated in Hong Kong with limited liability (a major subsidiary of the Company).

## REPORTING PRINCIPLE

The preparation of the ESG Report has applied the following principles:

Materiality — materiality assessments have been carried out to identify material environmental and social issues that have major impacts on investors and other stakeholders, the significant stakeholders, process, and results of the engagement which are presented in the section "Stakeholder Communication" in the Report.

Quantitative — key performance indicators ("KPIs"s) have been established, and are measurable and applicable to make valid comparisons under appropriate conditions; information on the standards, methodologies, assumptions, and/or calculation tools used, and sources of conversion factors used, have been disclosed when applicable.

Consistency — consistent statistical methodologies and presentation of KPIs have been used to allow meaningful comparisons of related data over time.

Balance — The Group's performance during the reporting period has been presented impartially, avoiding choices, omissions, or presentation formats that may unduly influence readers' decisions or judgements.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## BOARD STATEMENT

The Group's mission is to provide each of the clients with comprehensive and attentive service with the assurance of the very best creative, functional, and strategic value, regardless of size or budget, ultimately to achieve an extraordinary and long-lasting environment.

The Group has formulated several short to medium-term strategic goals: (i) optimizing the Group's equipment and facilities; (ii) focusing on high-quality projects to strengthen the Group's market position in Hong Kong and China; (iii) increasing the Group's influence and identifying more business opportunities. The board is fully committed to formulating and implementing ESG strategies. Its ESG performance is supervised by the board members. Relevant risks and opportunities have been embedded into the Group's strategic goals, which are also closely aligned with the overall mission and vision on sustainability. The Group considers employees as its most valuable asset and sustains its capability in interior design by investing in design and technical talents. These will enhance the service quality provided to its customers, and help the Group keep a keen market sensitivity toward the latest practices in the industry. The Group believes that by continuously investing in people and the environment, the financial outcome will be enhanced, and synergies will be formed, ultimately achieving sustainable development for the Group and all stakeholders.

## THE GROUP'S SUSTAINABILITY GOVERNANCE

The Board has overall responsibility for the Group's sustainability strategy and reporting. The Group acknowledges the importance of ESG topic in its business and incorporates ESG approaches into its daily management to achieve the optimum balance between economic performance, environmental protection, social responsibility, and stakeholder satisfaction.

Committed to integrating sustainability into the businesses, the Board leads and provides directions to the management of the Group to develop sustainability policies and strategies, promote effective implementation and to keep track of sustainability progress. The Board reviews sustainability affairs annually and institutes appropriate measures in order to enhance the sustainability performance of the Group.

The Group pays attention to the rights and interests of employees, integrate environmental protection concepts such as increasing daylighting into its design project, and properly handles construction waste. The Board identified the ESG material topics relating to the Group and determined the priority of these issues by conducting an online survey with the assistance of a third-party consultant. Results of the online survey are used to conduct the materiality assessment for selecting important issues for the Group considered by both internal and external stakeholders for targeted management and disclosure.

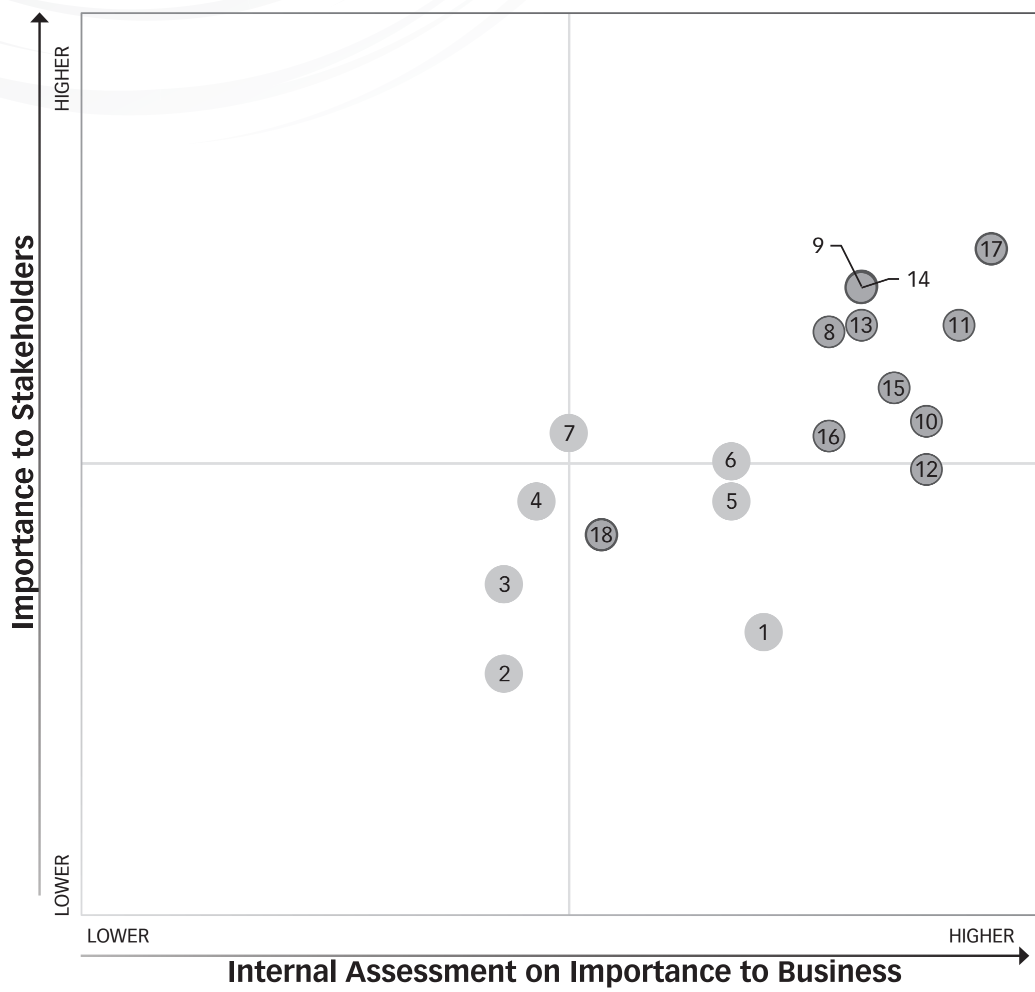
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group engages with key stakeholders such as board members, managers, supervisors, frontline workers, suppliers, and customers to understand their needs and concerns. The Group communicates with stakeholders via various communication channels such as written memos, regular meetings, and interviews.

In order to identify the most significant ESG aspects, the Group conducted quantitative surveys to understand the concerns and interests of its internal and external stakeholders during the Reporting Period. The issues identified have been plotted in the materiality matrix below, showing the importance of issues to its stakeholders against the impact to the business.

**Materiality of Different Topics from Stakeholder Engagement**



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Environmental | | Social | |
|---|---|---|---|
| 1 | Energy | 8 | Employment |
| 2 | Water | 9 | Occupational Health and Safety |
| 3 | Air Emission | 10 | Development and Training |
| 4 | Waste and Effluent | 11 | Labour Standards |
| 5 | Other Raw Materials Consumption | 12 | Supplier Management |
| 6 | Environmental Protection Measures | 13 | Intellectual Property |
| 7 | Climate Change | 14 | Data Protection |
| | | 15 | Customer Service |
| | | 16 | Product/Service Quality |
| | | 17 | Anti-corruption |
| | | 18 | Community Investment |

Among the environmental and social aspects, the following topics are identified as the most material issues to the stakeholders:

- Anti-corruption
- Labour Standards
- Occupational Health and Safety
- Data Protection
- Intellectual Property

All material ESG topics fall under the social topics. The above aspects were strictly managed through the Group's policies and guidelines. Details of management approaches to the above material topics are provided in the relevant sections in this report. The Group will continue to improve its ESG management and maintain close communication with stakeholders to understand their expectations and perspectives on the Group's ESG approach.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDER COMMUNICATION CHANNELS

The Group engages with key stakeholders such as board members, managers, supervisors, frontline workers, suppliers, and customers to understand their needs and concerns. Besides the annual stakeholder survey, the Group communicates with stakeholders via various communication channels such as written memos, regular meetings, and interviews.

| Stakeholders | Possible Issue of Concern | Communication Channels |
|---|---|---|
| **Investors** | • Return on investment<br>• Financial performance | • Annual general meeting<br>• Financial reports<br>• Corporate website<br>• Announcements, notices of meetings, circulars |
| **Clients** | • Robust project management<br>• Full compliance with regulations<br>• High quality products and services<br>• Protect customers' right | • Corporate websites<br>• Regular meetings and communication<br>• Customer satisfaction survey |
| **Employees** | • Compensation and benefits<br>• Occupational health and safety<br>• Career development and opportunities<br>• Corporate culture and well-being<br>• Employee's compensation and benefits | • Provide leisure activities and increase cohesion<br>• In-house training programmes<br>• Performance reviews and appraisals<br>• Means for employee to express opinions (e.g. opinion form and suggestion box)<br>• Regular meeting and management communication (e.g. email and telephone) |
| **Sub-contractors** | • Effective project management<br>• Occupational health and safety<br>• Ethical business practices<br>• Sub-contractors' assessment criteria | • Annual health, safety and environment seminars<br>• Regular progress meetings<br>• Audits and assessments |
| **Government** | • Laws and regulatory compliance<br>• Proper tax payment | • On-site inspections<br>• Work reports preparation and submission for approval<br>• Financial reports |
| **Suppliers** | • Long-term partnership<br>• Sustainable supply chain<br>• Fair and open tendering | • Procurement processes<br>• Audits and assessments<br>• Suppliers' management meetings and events |

The Group endeavours to actively listen to and collaborate with its stakeholders to ensure that their opinions can be voiced out through proper communication channels. In the long run, the stakeholders' contribution will aid the Group in improving the performance of potentially overlooked ESG topics and ensure the continued success of the Group's business in the competitive market.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our ESG approach and performance. Please give your suggestions or share your views with us via email at info@kwnelson.com.hk.

## A. ENVIRONMENTAL

As a responsible corporate citizen, the Group strives to protect the environment by promoting green operations. To minimize its impacts on the environment, the Group implements green office practices such as encouraging the use of recycled paper for printing and copying, double-sided printing and copying, and reducing energy consumption by switching off idling lights, air conditioners, and other electrical appliances.

The Group strictly complies with local laws and regulations regarding environmental protection and pollution control, such as the Environmental Impact Assessment Ordinance and Waste Disposal Ordinance. No material non-compliance with relevant laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste had been identified during the Reporting Period.

### A1. Emissions

#### *A1.1 Air Emissions*

The office did not generate direct air emissions. Fitting-out works carried out by sub-contractors may generate some indoor air pollutants, and the liability shall be borne by the sub-contractors. Meanwhile, the Group has deployed project managers at the site to supervise sub-contractors' work.

Passenger cars consuming gasoline were used for daily business operations. Their combustion generated several air emissions including nitrogen oxides ($NO_x$), sulphur oxides ($SO_x$), and respiratory suspended particles (PM). The table below shows the air emissions generated by Group-owned vehicles during the Reporting Year.

| Air emission | Unit | 2022 | 2021 |
|---|---|---|---|
| Nitrogen oxides ($NO_x$)[1] | kg | 0.74 | 2.37[2] |
| Sulphur Oxide ($SO_x$) | kg | 0.02 | 0.05 |
| Respiratory Suspended particles (PM)[1] | kg | 0.05 | 0.17[2] |

*Notes:*

1. The calculation of $NO_x$ and PM emissions involved data on distance travelled by vehicle, which were estimated by referencing the data of fuel consumed to the fuel consumption of vehicles per 100km distance travelled using the Energy Utilisation Index provided by the Hong Kong Electrical and Mechanical Services Department.

2. The amount of $NO_x$ and PM emissions in 2021 were restated based on the above calculations.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### *A1.2 Greenhouse Gas (GHG) Emissions*

Emissions from the Group were generated directly from the consumption of mobile fuel (i.e. gasoline for the Group-owned vehicles), and indirectly from the consumption of purchased electricity, processing of fresh water and sewage, landfilling of waste papers, and business air travel.

The reported GHG emissions were attributed to the following activities:

- Direct emission (scope 1): combustion of gasoline for the Group-owned vehicles;
- Indirect emission (scope 2): purchased electricity;
- Other indirect emissions (scope 3): processing of freshwater and sewage, business air travel and waste disposal.

| Scope of GHG emissions | Emission sources GHG Emission | 2022 GHG emission (In $tCO_{2e}$) | 2021 GHG emission (In $tCO_{2e}$) |
|---|---|---|---|
| Scope 1 Direct emission[1] | Combustion of gasoline in mobile sources | 2.90 | 9.29 |
| Scope 2 Energy indirect emission[2] | Purchased electricity | 13.91 | 17.07 |
| Scope 3 Other indirect emission[3] | Paper waste disposed at landfills | 0.53 | 1.55 |
| | Electricity used for processing freshwater | 0.00 | 0.02 |
| | Electricity used for processing sewage | 0.00 | 0.01 |
| | Business air travel by employees[4] | 7.34 | 1.52 |
| **Total (in $tCO_{2e}$)** | | **24.68** | **29.46** |
| **Intensity (kg $CO_{2e}$/HK$1,000 revenue)** | | 0.57 | 0.7 |

*Note 1:* Emission factors were referred to Appendix 20 of the GEM Listing Rules and their referred documentation as set out by Hong Kong Exchanges and Clearing Limited unless stated otherwise.

*Note 2:* Emission factor of 0.71 $tCO_{2e}$/kWh and 0.8 $tCO_{2e}$/kWh was used for purchased electricity in 2022 and 2021 respectively from Hong Kong Electric (HKE).

*Note 3:* Scope 3 GHG emissions were calculated based on available emission factors referred by Appendix 20 to the GEM Listing Rules and their referred documentation

*Note 4:* Emissions were calculated using the online tool provided by the International Civil Aviation Organization.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

There were 24.68 tonnes of $CO_2$, with an intensity of 0.57 kg per HK$1,000 revenue, of carbon dioxide equivalent ($tCO_{2e}$) GHG emitted from the Group's operation during the Reporting Period. Business air travel had increased with the improved pandemic situation and the eased travel restrictions. The emission from employees' business air travel had increased significantly by around 383%, compared to the previous reporting period.

### *A1.3 Hazardous Waste*

The Group did not generate a significant amount of hazardous waste due to its business nature. Thus, no data was recorded, and no policy has been formulated.

### *A1.4 Non-hazardous Waste*

The Group strictly complied to the Waste Disposal Ordinance during the Reporting Period. It generated a total of 1371.63 tonnes of non-hazardous waste during the Reporting Period, with an intensity of 31.96 kg per HK$1,000 revenue.

Two major categories of non-hazardous waste — office waste, and construction and demolition (C&D) waste from fitting-out works — were generated. Office waste mainly included wastepaper. During the reporting period, the Group purchased 112 kg of paper for design and office work. 2 kg of wastepaper was recycled, and the remaining 110 kg of wastepaper were properly disposed of at landfills.

It was estimated that 1372 tonnes of C&D waste from fitting out works was generated. The amount of waste produced was calculated based on the cost of the demolition project. C&D waste from fitting-out works, such as gypsum board, wooden board, ceiling grid, carpet, and other decoration debris, was treated by sub-contractors. Sub-contractors are responsible for transporting the C&D waste to the designated landfills for construction waste. Project managers of the Group were responsible for monitoring the process to ensure that the sub-contractors do not engage in illicit waste disposal.

| **Non-hazardous waste** | **Waste treatment method** | **2022** *(in tonnes)* | **2021** *(in tonnes)* |
|---|---|---|---|
| C&D waste from fitting-out works | Treated by sub-contractors | 1371.52 | 1,721 |
| Office waste (i. e. wastepaper) | Collected by the building custodian for further municipal waste treatment | 0.11 | 0.32 |
| Total | | 1371.63 | 1,721.32 |
| Intensity (kg waste/HK$1,000 revenue) | | 31 | 41 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

***A1.5 Measures to Mitigate Emissions***

The Group's emission is low due to its business nature. Employees are encouraged to take public transportation wherever possible to reduce emissions from vehicles.

Employees are encouraged to use public transportation whenever possible to reduce vehicle emissions. To avoid unnecessary travel and/or congestion, the Group plans and schedules the route of its vehicles before commuting. When purchasing new vehicles, priorities will be given to vehicles with higher fuel efficiency. In addition, the Group avoids unnecessary business travel and encourages staff to use low-carbon transportation whenever possible in order to reduce its emissions related to business travel.

The Group did not set any targets regarding emissions as air emission is not considered material to the Group, with reference to the materiality assessment conducted during the Reporting Period.

***A1.6 Wastes Reduction and Initiatives***

The Group has adopted a Green Office Practice to encourage resource conservation and waste reduction at source. To reduce paper consumption, the Group advocates a paperless office, in which documents and information are sent electronically. Employees are encouraged to print on both sides when printing, and to recycle paper, plastic bottles and tin cans as much as possible. The Group has recycled equipment such as printers according to the Producer Responsibility Scheme on Waste Electrical and Electronic Equipment, and toners to reduce waste

No formal policy on waste reduction has been established to regulate its sub-contractors. Nevertheless, they are encouraged to reduce waste and reuse resources to minimize environmental impacts.

The Group has set a target of reducing non-hazardous waste by 5% by the year 2030, compared to 2021 baseline. The target has been achieved in this Reporting Period with a waste reduction of 19.7%. The amount of non-hazardous waste generated varies each year according to the number of projects. It is difficult for the Group to establish new waste reduction targets in this context. Nonetheless, the Group remains committed to achieving a 5% reduction of non-hazardous waste generation in 2023, compared to 2021 baseline.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## A2. Use of Resources

### *A2.1 Energy Consumption*

The Group consumed electricity and gasoline as energy sources. The total consumption was 57,888 Kilowatt-hour ("kWh"). The overall intensity of energy consumption for the Group was 0.70 kWh per HK$1,000 revenue.

| Energy source | 2022 *(in kWh)* | 2021 *(in kWh)* |
|---|---|---|
| Electricity | 19,595 | 24,048 |
| Gasoline | 10,554 | 33,840 |
| Total | 30,149 | 57,888 |
| Intensity (kWh/HK$1,000 revenue) | 0.70 | 1.38 |

*Note:* Conversion factors were referred to IEA Energy Statistics Manual and 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

### *A2.2 Water Consumption*

The Group's business operation did not consume a significant amount of freshwater or generate a great amount of industrial wastewater. During the Reporting Period, the total water consumption of the Group was 39m$^3$, with an intensity of 0.0009m$^3$ per HK$1,000 revenue. No issues on sourcing water were reported during the Reporting Period.

### *A2.3 Energy Use Efficiency Initiatives*

The Group believes that reducing energy use could be mutually beneficial to the environment and the Group by reducing operating costs and creating long-term value for its stakeholders. The Group encourages employees to switch off electrical appliances whenever not in use and all unnecessary lighting, air conditioners, and electrical appliances before they leave the office.

With reference to the materiality matrix, energy-related topic is not considered material to the Group's business. As such, no energy efficiency target is set in this Reporting Period.

### *A2.4 Water Use Efficiency Initiatives*

The Group consumed an insignificant amount of water resources. No policies or initiatives have been formulated. Yet, employees are reminded to save water and reduce wastage. Based on the materiality matrix, water-related topic is not considered as material to the Group. No water efficiency target is set for the next Reporting Period.

No formal policy on energy or water use efficiency has been established for its sub-contractors. Nevertheless, they are encouraged to conserve water and energy.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

#### *A2.5 Packaging Material*

The Group's business operation did not involve a significant use of packaging materials.

### A3. The Environment and Natural Resources

The Group's business operation does not have a significant impact on the environment and natural resources. To minimize the impact of renovation activities or during the construction and fitting-out work, designers and marketing managers of the Group provide eco-friendly materials options for its clients to choose from.

#### *A3.1 Significant Impacts of Activities on the Environment*

The Group's business activities do not generate material impacts on the environment and natural resources, other than minor impacts due to electricity consumption from the office operation. Indirect environmental impacts of the Group are mitigated by adopting the Green Office Practice and the promotion of energy-saving culture among its employees. In addition to monitoring the Group's air emissions and solid waste generation, the Group will continue to review current practice and policies and look for alternative solutions to further cut down their relative emissions.

### A4. Climate Change

Climate change is one of the major challenges faced by society in past decade. Extreme weather such as typhoons and floods, can cause severe damage to buildings and affect daily operation of businesses. Different components of society, as well as businesses, are actively responding to the issue and promoting a sustainable culture to mitigate the impacts of climate change.

The sustainability of a building can be greatly affected by its interior design. As a company that specializes in interior design and coordinates interior decoration projects, the Group recognizes the significant environmental impact of interior renovations. To minimize this impact, the Group strives to provide customers with eco-friendly products and services whenever feasible.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Simultaneously, the Group understand that climate change may have significant impacts on its operations. The Group has evaluated the climate-related risks to the business with reference to the Recommendations of Task Force on Climate-related Financial Risks Disclosure ("TCFD"). The risks have been divided into two major categories: physical and transition risks. To measure their materiality and potential impacts on the Group's business operation, metrics is developed to determine the risk level of the climate risks by evaluating the likelihood and severity of the risk. In general, the Group has a lower risk profile for climate change.

| Risk | Time horizon | Impact to business | Risk level |
|---|---|---|---|
| **Physical risk (Acute)** | Short term | Increased severity and frequency of extreme weather affects daily operations and may cause damage to raw materials. It reduces revenue and increases maintenance cost. | Low/medium |
| **Physical risk (chronic)** | Medium to long term | Rising temperatures increase energy use and equipment maintenance cost | Low |
| **Transition risk (technology)** | Medium to long term | Increased operation cost from the substitution of existing equipment and services. | Medium |
| **Transition risk (legal and policy)** | Long term | Increased operation cost from increased GHG emission pricing | Low |
| **Transition risk (market)** | Long term | Reduced demand for services from the shift of customer and market preference. | Medium |
| **Transition (reputation)** | Long term | Reduced revenue from decreased demand for services | Low |

Taking into account the risk of business interruption related to extreme weather events, we evaluate the possible weather conditions that may suspend business operations. As part of the contingency policies, the Group also instructs its employees on how to deal with situations in which necessary work equipment or services are unavailable due to severe weather events. Moreover, we maintain comprehensive insurance coverage for assets that are susceptible to damage from extreme weather conditions, minimising the potential maintenance and repair costs required.

The Group is more vulnerable to transition risks, especially market risk and technology risks. With the transition to a low-carbon economy, production costs may rise due to a shift in customer and market preference for more eco-friendly building materials. In response to the increased demand for environment-friendly products, the Group will give priority to suppliers with better environmental performance when engaging with suppliers. The Group will continue to monitor the climate-related risk and its potential financial impacts on the Group's business operation.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## B. SOCIAL

### 1. Employment and labour practices

The Group attaches great importance to its employees, as their contribution and dedication are key to the Group's sustainable business development. Employment policies are formally documented in the Employee Handbook, covering recruitment, promotion, remuneration, dismissal, etc. The Group periodically reviews its existing policies and employment practices to ensure continuous improvement of its employment standards and competitiveness among the industry.

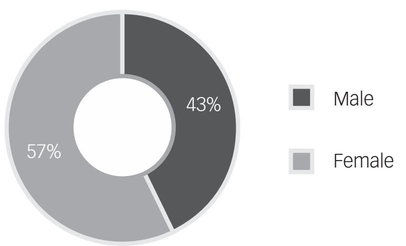
The Group strictly adheres to national and local laws and regulations concerning employment and labour practices, including but not limited to Cap. 57 Employment Ordinance, Cap. 149 General Holiday Ordinance, Cap. 487 Disability Discrimination Ordinance, and Cap. 602 Race Discrimination Ordinance.

During the Reporting Period, no non-compliance with relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare had been identified.

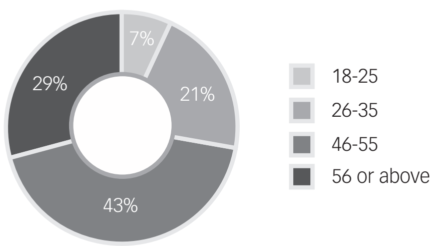
#### *B1. Employment*

As at the end of the Reporting Period, the Group had 14 full time employees. The total workforce categorised by gender, age group, category, and geographical region are shown below.

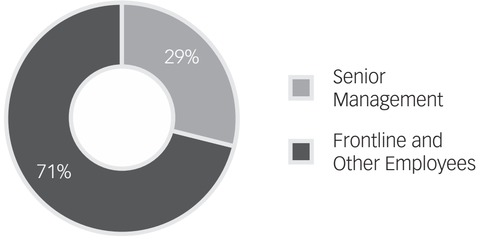
**Gender**



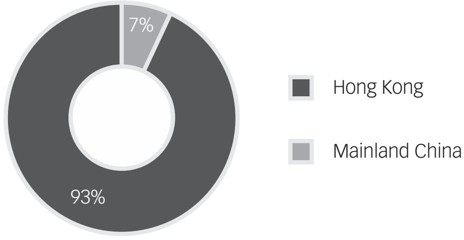

**Age Group**




**Employee Category**




**Geographical Region**



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*Turnover*

3 full-time employees from Hong Kong left the Group during the Reporting Period, representing an annual turnover rate of 15.5%. The employee turnover rate by gender, age group, and employee category in the Reporting Period are as follows:

| | Staff type | Total number of staff left during the Reporting Period | Turnover rate |
|---|---|---|---|
| By gender | Male | 1 | 17% |
| | Female | 2 | 25% |
| By age group | 18-25 | 0 | 0% |
| | 26-35 | 0 | 0% |
| | 36-45 | 2 | 100% |
| | 46-55 | 1 | 17% |
| | 56 or above | 0 | 0% |
| By category | Senior management | 0 | 0% |
| | Frontline & Other staff | 3 | 30% |
| By geographical region | Hong Kong | 3 | 23% |
| | China | 0 | 0% |

*Remuneration and welfare*

The Group understands that a competitive remuneration package, together with good benefits and welfare, encourages retention and fosters a sense of belonging. The Group provides comprehensive remuneration packages for all employees, which includes basic salary, incentive bonus, mandatory provident fund, and other benefits. The year-end bonus may be awarded according to the employees' and the Group's performance. In addition, the Group also refers to the market average salary level and employees' performance to adjust their salary.

The employment policies and guidelines outline the remuneration and promotion policy, compensation and dismissal policy, annual/paid/sick compassionate leave policies, working attendance policy, appraisal, rewards and penalties, development and training, and occupational health and safety.

The Group ensures that all employees are entitled to benefits and welfare upon successful completion of probation. Working hours were maintained at the same level as that of the last Reporting Period. All employees are entitled to 12 days of annual leave, in addition to 17 days of public holidays per annum.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*Dismissal*

The termination of a labour contract includes different types and categories, such as resignation, dismissal, and termination under various situations. Either party may terminate the employment upon giving the other side one month's notice in writing or the payment of one month's salary. The Group does not tolerate the dismissal of employees on any unreasonable basis. Any termination of the employment contract would be based on reasonable and lawful grounds supported by internal policies of the Group.

No employees were dismissed or experienced salary cut during the pandemic period. If there are confirmed case of COVID-19, paid leaves are provided to the employee.

*Equal Opportunity*

The Group adheres to the principles of openness and fairness, and has therefore adopted a robust recruitment process based on merit selection against the corresponding job criteria. Job applicants are assessed based on their suitability for the positions and potential to fulfil the Group's current and future needs, regardless of their race, gender, religion, physical disability, marital status, sexual orientation, etc.

The recruitment procedure, appraisal, promotion, and rewarding and penalty system are outlined in the Employee Handbook. The Group has specifically formulated the "fair opportunities for promotion" rule, in which all employees can be promoted based on their performance.

The Group is committed to providing equal opportunities throughout employment, including the remuneration, recruitment, training, and promotion of staff. It is committed to ensuring that no employee receives less favourable treatment or is unlawfully discriminated against on the grounds of ethnic background, nationality, religion, colour, age, gender, sexual orientation, marital status, family status, disability, or pregnancy.

*Employee Relations*

The Group recognises the importance of workplace communication in enhancing the efficiency of operations and production. To facilitate communication among employees, activities such as team lunches, birthday parties and bonding sessions were held regularly. Employees are also encouraged to give feedback and suggestions to the Group for improvements to be made.

### *B2. Employee Health and Safety*

The Group strictly follows relevant laws and regulations such as the Occupational Safety and Health Ordinance. During the Reporting Period, there was no material non-compliance with the applicable laws and regulations relating to occupational health and safety which had a material impact on the Group.

The Group's project managers have been trained and awarded with a Certificate for Safety & Health Supervisors (Construction) issued by the government. They are responsible for coordinating, managing, and supervising the fitting out works carried out by the sub-contractors, and ensuring that they observe laws and regulations relating to health and safety.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group understands that preventive measures are much more important than reactive measures. Therefore, sufficient first-aid boxes have been equipped in the office area in case of any emergencies. During the Reporting Period, there was no case of work injury or fatalities reported in the Group. Looking ahead, the Group would continue to promote occupational health and safety to its employees and avoid any work injury or accident by all means.

To avoid ergonomic hazards caused by prolonged use of computers, the Group has provided employees with appropriate-height desks and height-adjustable chairs and encourages them to pay attention to their usual sitting posture, take breaks, and do stretching exercises on a regular basis. Employees are also reminded to take precautions and use appropriate tools for assistance when lifting heavy items or reaching items at height.

During the past 3 years including the Reporting Period, no fatalities, work-related injury cases, or lost days due to work injury were recorded in the Group. The Group was not in violation of any of the relevant laws and regulations in relation to providing a safe working environment and protecting the employees from occupational hazards that have a significant impact on the Group during the Reporting Period.

*COVID-19 Arrangement*
Employees are required to wear face masks throughout the pandemic period for long-term protection. The Group has purchased sufficient cleansers and disinfectants to ensure proper personal and workplace hygiene. Employees who have symptoms or live in a residential building with confirmed COVID-19 cases are required to take a COVID-19 nucleic acid test and work from home until they have received a negative test result.

***B3. Development and Training***

The Group values employee training and considers it an important means to improve the Group's overall operational efficiency. The Group focuses on the ability requirements of each level of employee to ensure that employees are growing with the Group at the same time.

The Group regularly identifies and assesses the training needs of its employees by collecting and analyzing the feedback from employees through systematic evaluation. When necessary, the Group will provide internal training for its employees to enhance their skills and knowledge. During the Reporting Period, the Group did not provide any training to its employees. However, the Group encourages its employees to apply for external training courses. Subsidies will be provided to the employees upon the completion of the accredited program.

***B4. Labour Standards***

The Group complies with relevant laws and regulations relating to labour standards such as the Employment Ordinance. To prevent the employment of child labor or forced labor, background checks are conducted on all new employees to ensure that no teenagers under the statutory minimum working age are employed. Any violence, with the purpose of deliberately causing difficulties, threats, and/or corporal punishment forcing employees to work is prohibited. Should any child or forced labour be discovered, the Group will conduct an investigation and the concerned person will be dismissed permanently. All employees must provide their identity documents to prove their age and identity. During the Reporting Period, there were no cases of material non-compliance with local child and forced labour-related laws and regulations.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2. Operating Practices

### *B5. Supply Chain Management*

The Group understands that supply chain management is of great importance to the Group's quality control. The Group has a strict supplier and contractor selection process in place to ensure that high-quality products and services are delivered. Suppliers, contractors, and other business partners are required to implement proper management policies regarding their social and environmental impacts. The Group held regular meetings and discussions with sub-contractors to assure their compliance with relevant laws and regulations in Hong Kong, such as those identified under the Environmental and Social section. The management team also regularly visits the sites to inspect the quality of the project and the environmental, health, and safety conditions.

Throughout the procurement process, project managers of the Group are responsible for selecting suppliers and reviewing the performance of their products and services. More environmentally friendly products or services should be procured whenever possible, with a view to minimizing negative impacts to the environment and human health and conserving natural resources.

### *B6. Product Responsibility*

Achieving and maintaining a high-quality standard for projects is of utmost importance for the sustainable growth of the Group. The Group believes completing works that meet or exceed our client's expectations is crucial for job references and future business opportunities. The Group regularly controls and monitors the progress of each project in order to ensure that it delivers high-quality services and sustainable projects to our customers. The Group was not involved in the sale of products due to its business nature, therefore disclosure on product recall procedures and number of products recalled are not applicable. There was no complaint received during the Reporting Period.

*Product Labelling, Health and Safety, and Advertising*

Product labelling, health and safety, and advertising were not applicable due to the business nature of the Group. The purchased building materials, such as gypsum board, wood board, and ceiling grid, were environmentally friendly materials that meet European Union standards. The Group's project managers supervise on-site fitting-out work to ensure work procedures follow the Occupational Safety and Health Ordinance and generate minimum health and safety impacts on the fitting-out workers and the surrounding community.

No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labeling and privacy matters relating to products and services provided had been identified during the Reporting Period.

*Quality Assurance*

The Group's project managers conduct on-site quality checks and inspections at various stages of the projects to ensure the fitting-out works reach the technical specifications and are consistent with the sample provided. When the project managers find any work not conforming to the operating procedures, they will follow up immediately.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

*Data Protection*

The Group acknowledges the importance of protecting privacy and confidentiality of relevant stakeholders and prohibits the use of any personal information of clients by other parties. The Group implements various schemes to prevent misuse or abuse of customer sensitive information, and data leakage. The Group follows the Personal Data (Privacy) Ordinance to handle all personal information. Employees must strictly comply with anti-virus protection regulations. To protect confidential information (e.g. business strategies and methods, technical specifications, intellectual property, data of customers and business partners, and any information which the Group may be subject to confidentiality or non-disclosure obligations), privacy and interests of the Group and its stakeholder, employees shall:

- use confidential information solely for the advancement of the business of the Group and not for personal benefit or that of any other person or entity;
- always maintain and protect the strictest confidentiality in respect of all confidential information and in any circumstances, except when required by law or by the order of the court and only to such extent as required or ordered;
- not approach or contact any existing customers of the Group for the purposes of soliciting business from such customers; and
- not remove or transmit any confidential information, whether in original form or in duplication or reproduction, from the premises of the Group by electronic or any other means without the prior written consent of the Group.

*Intellectual Property*

The Group extensively invests in innovation and introduces innovative designs and services to various customers. Correspondingly, the Group pays great attention to protecting its intellectual property ("IP") rights. The IP clauses set out in Labour Contract continue to guide the protection of IP rights and business confidentiality of the Group and its business partners. All employees shall protect the Group's IP rights including, but not limited to all concepts, ideas, plans, drafts, sketches, designs, drawings, layouts, images, charts, models, artworks, development or improvement, and any other intellectual achievements whether or not copyrighted, or any other intellectual property rights subsist or are capable of subsisting in respect of the same.

### *B7. Anti-corruption*

The Group strives to maintain a high level of ethical corporate culture and strictly prohibits all forms of bribery, extortion, fraud, and money laundering. The Group is committed to conducting business with integrity and consistent with the highest ethical standards, and in compliance with all applicable laws and regulatory requirements for the prevention of corruption, bribery and extortion, including but not limited to the Prevention of Bribery Ordinance, thereby acting professionally, fairly, and with integrity in all its business dealings and relationships.

In the event of bribery, extortion, fraud and money laundering, the Group will investigate in depth and report to the Hong Kong Independent Commission Against Corruption ("ICAC") if necessary. The Group has not aided, abetted, assisted or colluded with an individual who has committed or conspired to commit any unlawful activities.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to corruption, bribery, fraud, and money laundering had been identified during the Reporting Period.

*Whistle-Blowing*
The Group is committed to achieving and maintaining the highest standards of openness, integrity and accountability. If any employees believes reasonably and in good faith that misconduct, malpractice or irregularity exists in the workplace, he/she should report it to the administration department. If necessary, employees may also raise the matter directly to the chairman of the audit committee. All reports are treated confidentially, and the Group makes every effort to protect the legitimate rights and interests of the whistle blower.

*Anti-Corruption Training*
To strengthen understanding of relevant applicable laws and regulations, training regarding ethical business conduct covering topics such as integrity and discipline, confidentiality, and conflict of interest is provided to all directors and general staff. The training covers major provisions of the Prevention of Bribery Ordinance, organizational roles and responsibilities, key components of an anti-corruption program and policy, essential elements of a code of conduct, corruption risk identification and controls, and promulgation of anti-corruption practices. Employees are required to read the anti-corruption training materials after receiving them and sign an acknowledgment letter to confirm that they have completed the anti-corruption program. All directors and 10 employees have completed the anti-corruption training with an average training hour of one hour during the Reporting Period .

| Categories | Percentage of staff that have completed anti-corruption training[1] |
|---|---|
| Directors | 100% |
| General staff | 64% |

*Note:* Percentage is calculated based on the number of signed acknowledgement letters received by the Group.

### B8. *Community Investment*
The Group has not established formal policies on community investment. Nevertheless, the Group strives to implement corporate social responsibility and encourage employees to participate in charitable activities during their work and spare time, as the Group believe participating in activities that repay society can increase our employees' civic awareness while establishing correct values. Due to the pandemic situation, the Group was unable to participate in any community event during the Reporting Period.

# INDEPENDENT AUDITOR'S REPORT

LINKSFIELD
CPA LIMITED

**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

### What we have audited

The consolidated financial statements of K W Nelson Interior Design and Contracting Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 115, which comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

### Our opinion

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 2022, 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.

# INDEPENDENT AUDITOR'S REPORT

## 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

— revenue recognition for provision of interior designs, project management services and fitting-out works; and
— impairment for trade receivables.

# INDEPENDENT AUDITOR'S REPORT

| Key Audit Matters | How our audit addressed the Key Audit Matters |
|---|---|
| *Revenue recognition for provision of interior designs, project management services and fitting-out works*<br><br>Refer to Note 2.19(a), Note 4(a) and Note 6 to the consolidated financial statements.<br><br>For the year ended 31 December 2022, the Group recognised revenue from provision for interior designs, project management services and fitting-out works of approximately HK$42,521,000.<br><br>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.<br><br>The Group generally takes one to six months to complete a project, with majority of the projects being completed within three months. The determination of the estimated value of contract work completed to date for different projects involved significant management's judgment and estimates which may have significant impact on the account and timing of revenue recognised.<br><br>We focused on this area because the magnitude of revenue as recognised from provision for interior designs, project management services and fitting-out works are significant and determining the value of the contract work completed to date for the purpose of recognising revenue from provision for interior designs, project management services and fitting-out works over time involved significant management's judgment and estimates. | We performed the following procedures to address the key audit matter:<br><br>• Obtained an understanding of management's internal controls on the revenue recognition for provision of interior designs, project management services and fitting-out works and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and other inherent risk factors;<br><br>• Evaluated and validated, on a sample basis, the key controls over the revenue recognition for interior designs, project management services and fitting-out works;<br><br>• Tested, on a sample basis, revenue transactions recorded during the year with the underlying contracts and variation orders (if any), floor plans, progress reports and/or letter of completion, photographs of completed projects, invoices and bank-in slips for settled balances and assessed the business substance of the underlying transactions and whether the related revenue had been recognised in accordance with the Group's revenue recognition policies;<br><br>• Obtained 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;<br><br>• Conducted site visits to projects in progress as at the year end, physical inspecting the progress of individual projects and discussed with the Group management and project managers the physical status of the projects in progress with reference to the specifications in the project service agreements; and<br><br>• Scrutinised all the revenue journals raised throughout the reporting period and compared details of a sample of these journals, if any that met certain risk-based criteria, with relevant underlying documentation.<br><br>Based on the procedures performed, we found that the judgments and estimates adopted by management in the revenue recognition for provision of interior designs, project management services and fitting-out works was supported by available evidence. |

# INDEPENDENT AUDITOR'S REPORT

**Key Audit Matters**

*Impairment for trade receivables*

Refer to Note 3.1(c), Note 4(b) and Note 18 to the consolidated financial statements.

As at 31 December 2022, the Group had gross trade receivables of approximately HK$2,489,000 and provision for impairment of trade receivables of approximately HK$543,000. Loss allowance is made for lifetime expected credit losses ("ECLs") on trade receivables.

Management applied judgment in assessing the expected credit losses. Receivables relating to customers with known financial difficulties or significant doubts on collection of receivables are assessed individually for provision for loss allowance. Expected credit losses are also estimated by grouping the remaining receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its geographical location and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables. The expected loss rates are based on the payment profiles of sales over a period of two years and the corresponding historical credit losses experienced within the period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

We focused on this area due to the magnitude of the trade receivables balance and the estimation and judgment involved in determining the expected credit losses allowance of the trade receivables.

**How our audit addressed the Key Audit Matters**

We performed the following procedures to address the key audit matter:

- Understood, evaluated and validated, on a sample basis, the key control procedures over the management's estimation of expected credit losses allowance and periodic review of aged receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors associated with estimating the expected credit losses;

- Obtained management's assessment on the expected credit losses allowance of receivables. We corroborated and validated, on a sample basis, management's assessment based on the payment profiles of sales over a period of two years, correspondence with the customers, evidence from external sources including the relevant market research regarding the relevant forward-looking information such as macroeconomic factors used in management's assessment;

- Involved our internal valuation expert to develop an auditor's point estimate in assessing the expected credit losses allowance including forward-looking information;

- Tested, on a sample basis, the accuracy of ageing profile of trade receivables by checking to the underlying sales invoices; and

- Tested, on a sample basis, the subsequent settlement of trade receivables against bank receipts.

Based upon the above, we found that the estimation and judgment made by management in respect of the expected credit losses allowance and the collectability of trade receivables were supported by the available evidence.

# INDEPENDENT AUDITOR'S REPORT

## Other Information

The directors of the Company are responsible for the other information. The other information comprises all of 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 Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company 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 Audit Committee is responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

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

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

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

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

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

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

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

We communicate with 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

# INDEPENDENT AUDITOR'S REPORT

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

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 Kwok Chi Kan.

**Linksfield CPA Limited**
*Certified Public Accountants*

Hong Kong, 22 March 2023

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2022*

| | Note | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|---|
| **Revenue** | 6 | **42,521** | 44,086 |
| Cost of sales | 8 | **(30,568)** | (34,952) |
| **Gross profit** | | **11,953** | 9,134 |
| Other income and gains | 7 | **769** | 674 |
| Selling and distribution expenses | 8 | **(865)** | (1,129) |
| Administrative expenses | 8 | **(15,325)** | (13,836) |
| Reversal of impairment of trade receivables | 18 | **445** | 659 |
| **Operating loss** | | **(3,023)** | (4,498) |
| Finance costs | 10 | **(52)** | (46) |
| **Loss before income tax** | | **(3,075)** | (4,544) |
| Income tax expense | 11 | **(327)** | (622) |
| **Loss for the year attributable to the owners of the Company** | | **(3,402)** | (5,166) |
| **Loss per share attributable to the owners of the Company (in HK cents)** | | | |
| Basic and diluted | 12 | **(0.4)** | (0.5) |

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2022*

| | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|
| **Loss for the year** | **(3,402)** | (5,166) |
| **Other comprehensive income** | | |
| *Item that may be reclassified subsequently to profit or loss:* | | |
| Exchange difference arising on translation of foreign operations | **(244)** | 107 |
| *Item that may not be reclassified to profit or loss:* | | |
| Change in fair value of financial assets at fair value through other comprehensive income ("FVOCI") | **433** | (18) |
| **Other comprehensive income for the year, net of tax** | **189** | 89 |
| **Total comprehensive loss for the year attributable to the owners of the Company** | **(3,213)** | (5,077) |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2022*

| | Note | **2022 HK$'000** | 2021 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **3,524** | 4,099 |
| Right-of-use assets | 16 | **1,025** | 635 |
| Financial assets at fair value through other comprehensive income | 17 | **518** | 85 |
| | | **5,067** | 4,819 |
| **Current assets** | | | |
| Trade and other receivables | 18 | **3,963** | 19,646 |
| Contract assets | 19 | **423** | 215 |
| Current income tax assets | | **4,423** | 4,423 |
| Pledged bank deposits | 20(a) | **2,647** | 2,000 |
| Time deposits with original maturity over three months | 20(b) | **38,720** | 38,561 |
| Cash and cash equivalents | 20(c) | **25,116** | 80,673 |
| | | **75,292** | 145,518 |
| **Total assets** | | **80,359** | 150,337 |
| **EQUITY** | | | |
| **Equity attributable to the owners of the Company** | | | |
| Share capital | 22(a) | **10,000** | 10,000 |
| Share premium | 22(b) | **33,728** | 33,728 |
| Shares held for share award scheme | 24 | **(7,589)** | (4,439) |
| Reserves | 23 | **36,079** | 90,226 |
| | | **72,218** | 129,515 |
| Non-controlling interests | | **5** | 5 |
| **Total equity** | | **72,223** | 129,520 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2022*

| | Note | 2022 HK$'000 | 2021 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Lease liabilities | 16 | **277** | 293 |
| Deferred income tax liabilities | 21 | **359** | 32 |
| Provisions | 25 | **535** | – |
| | | **1,171** | 325 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **1,976** | 7,103 |
| Contract liabilities | 19 | **4,517** | 13,029 |
| Lease liabilities | 16 | **472** | 360 |
| | | **6,965** | 20,492 |
| **Total liabilities** | | **8,136** | 20,817 |
| **Total equity and liabilities** | | **80,359** | 150,337 |

The consolidated financial statements on pages 64 to 115 were approved by the Board of Directors on 22 March 2023 and were signed on its behalf.

**Lau King Wai**
*Director*

**Wong Siu Hong Edward**
*Director*

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2022*

| | Attributable to the owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Share premium *HK$'000* | Exchange reserve *HK$'000* | Fair value reserve *HK$'000* | Shares held for share award scheme *HK$'000* | Merger reserve *HK$'000* | Capital contribution reserve *HK$'000* | Retained earnings *HK$'000* | Total *HK$'000* | Non-controlling interests *HK$'000* | Total equity *HK$'000* |
| **At 1 January 2021** | 10,000 | 33,728 | (140) | (7,490) | – | (380) | 5,000 | 101,313 | 142,031 | – | 142,031 |
| **Comprehensive income** | | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | – | (5,166) | (5,166) | – | (5,166) |
| **Other comprehensive income** | | | | | | | | | | | |
| Exchange difference arising on translation of foreign operations | – | – | 107 | – | – | – | – | – | 107 | – | 107 |
| Change in fair value of financial assets at FVOCI | – | – | – | (18) | – | – | – | – | (18) | – | (18) |
| Total comprehensive loss for the year | – | – | 107 | (18) | – | – | – | (5,166) | (5,077) | – | (5,077) |
| **Transactions with owners** | | | | | | | | | | | |
| Dividend *(Note 13)* | – | – | – | – | – | – | – | (3,000) | (3,000) | – | (3,000) |
| Shares purchased for share award scheme *(Note 24)* | – | – | – | – | (4,439) | – | – | – | (4,439) | – | (4,439) |
| Capital contribution by non-controlling interests | – | – | – | – | – | – | – | – | – | 5 | 5 |
| **At 31 December 2021** | 10,000 | 33,728 | (33) | (7,508) | (4,439) | (380) | 5,000 | 93,147 | 129,515 | 5 | 129,520 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2022*

| | Attributable to the owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Share premium *HK$'000* | Exchange reserve *HK$'000* | Fair value reserve *HK$'000* | Shares held for share award scheme *HK$'000* | Merger reserve *HK$'000* | Capital contribution reserve *HK$'000* | Retained earnings *HK$'000* | Total *HK$'000* | Non-controlling interests *HK$'000* | Total equity *HK$'000* |
| **At 1 January 2022** | 10,000 | 33,728 | (33) | (7,508) | (4,439) | (380) | 5,000 | 93,147 | 129,515 | 5 | 129,520 |
| **Comprehensive income** | | | | | | | | | | | |
| Loss for the year | – | – | – | – | – | – | – | (3,402) | (3,402) | – | (3,402) |
| **Other comprehensive income** | | | | | | | | | | | |
| Exchange difference arising on translation of foreign operations | – | – | (244) | – | – | – | – | – | (244) | – | (244) |
| Change in fair value of financial assets at FVOCI | – | – | – | 433 | – | – | – | – | 433 | – | 433 |
| Total comprehensive loss for the year | – | – | (244) | 433 | – | – | – | (3,402) | (3,213) | – | (3,213) |
| **Transactions with owners** | | | | | | | | | | | |
| Dividend *(Note 13)* | – | – | – | – | – | – | – | (50,934) | (50,934) | – | (50,934) |
| Shares purchased for share award scheme *(Note 24)* | – | – | – | – | (3,150) | – | – | – | (3,150) | – | (3,150) |
| **At 31 December 2022** | 10,000 | 33,728 | (277) | (7,075) | (7,589) | (380) | 5,000 | 38,811 | 72,218 | 5 | 72,223 |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2022*

| | Note | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 27(a) | **98** | 20,546 |
| Hong Kong profits tax paid | | **–** | (3,201) |
| **Net cash generated from operating activities** | | **98** | 17,345 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(385)** | (4,128) |
| Proceeds from disposal of property, plant and equipment | 27(c) | **–** | 330 |
| Increase in time deposits with original maturity over three months | | **(159)** | (38,561) |
| Placement of pledged bank deposits | | **(647)** | – |
| Interest received | | **487** | 114 |
| **Net cash used in investing activities** | | **(704)** | (42,245) |
| **Cash flows from financing activities** | | | |
| Principal elements of lease payments | 27(b) | **(571)** | (699) |
| Interest elements of lease payments | 27(b) | **(52)** | (46) |
| Dividend paid | 13 | **(50,934)** | (3,000) |
| Repurchase of shares under share award scheme | 24 | **(3,150)** | (4,439) |
| **Net cash used in financing activities** | | **(54,707)** | (8,184) |
| **Net decrease in cash and cash equivalents** | | **(55,313)** | (33,084) |
| **Cash and cash equivalents at the beginning of the year** | | **80,673** | 113,650 |
| **Effect of foreign exchange rate changes** | | **(244)** | 107 |
| **Cash and cash equivalents at the end of the year** | 20(c) | **25,116** | 80,673 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 1 GENERAL INFORMATION

K W Nelson Interior Design and Contracting Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Cap 22, Law 3 of 1961 as consolidated and revised) (now known as the Companies Act (2021 Revision)) of the Cayman Islands.

The Company's registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1–1111, Cayman Islands. The principal place of business is Room 1703, 17th Floor, Technology Plaza, 651 King's Road, Quarry Bay, Hong Kong.

The Company is an investment holding company and together with its subsidiaries (collectively, the "Group") are principally engaged in provision of interior designs, project management services and fitting-out works.

These consolidated financial statements are presented in thousands of Hong Kong Dollars ("HK$'000"), unless otherwise stated.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention, except for the financial assets at fair value through other comprehensive income, which is carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

***(a) New and amended standards adopted by the Group***

The Group has applied the following new and amended standards, improvements and interpretation for the first time for their annual reporting period commencing 1 January 2022:

| | |
|---|---|
| Annual Improvements Project | Annual Improvements to HKFRSs 2018-2020 (Amendments) |
| HKFRS 3, HKAS 16 and HKAS 37 | Narrow-scope amendments (Amendments) |
| HKFRS 16 | Covid-19-Related Rent Concessions beyond 2021 (Amendments) |
| AG 5 (Revised) | Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations |

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

***(b) New and amended standards and interpretations not yet adopted***

The following new and amended standards and interpretations have been published that are not mandatory for the current reporting period and have not been early adopted by the Group:

| | | Effective for annual periods beginning on or after |
|---|---|---|
| HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies (Amendments) | 1 January 2023 |
| HKAS 8 | Definition of Accounting Estimates (Amendments) | 1 January 2023 |
| HKAS 12 | Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments) | 1 January 2023 |
| HKFRS 17 | Insurance Contracts (new standard) | 1 January 2023 |
| HKFRS 17 | Amendments to HKFRS 17 | 1 January 2023 |
| HKFRS 17 | Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information | 1 January 2023 |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current (Amendments) | 1 January 2024 |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants (Amendments) | 1 January 2024 |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback (Amendments) | 1 January 2024 |
| HK Int 5 (Revised) | Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause | 1 January 2024 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (Amendments) | To be determined |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *(b) New and amended standards and interpretations not yet adopted* *(Continued)*

The directors of the Company have assessed the financial impact on the Group of the adoption of the above new standards, amendments to existing standards, interpretations and accounting guideline. These standards, amendments and interpretation are not expected to have a material financial impact on the Group in the future reporting periods and on foreseeable future transactions. The Group is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements. The Group intends to adopt the above new standards, amendments to existing standards, interpretations and accounting guideline when they become effective.

### 2.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of the subsidiary are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired entity,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 Business combination *(Continued)*

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

### 2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the period the dividend is declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors, who makes strategic decisions.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 Foreign currency translation

***(i) Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar ("HK$"), which is the presentation currency of the Group and the functional currency of the Company.

***(ii) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss.

Foreign exchange gains and losses are presented in the consolidated statement of profit or loss on a net basis within "administrative expenses".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

***(iii) Group companies***

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives as follows:

| | |
|---|---|
| Leasehold improvements | Over the shorter of remaining lease term or 20% per annum |
| Office equipment | 5 years |
| Motor vehicles | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within "other income and gains" in the consolidated statement of profit or loss.

### 2.8 Impairment of non-financial assets

Properties, plant and equipment which are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there is separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Investments and other financial assets

#### *2.9.1 Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### *2.9.2 Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

#### *2.9.3 Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

*Equity instruments*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as "other income and gains" when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "other income and gains" in the consolidated statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Investments and other financial assets *(Continued)*

#### *2.9.4 Impairment of financial assets*

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

### 2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the Group or the counterparty.

### 2.11 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets.

Trade and other receivables are recognised initially at fair values and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.12 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.14 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.15 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

***(i) Current income tax***

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

***(ii) Deferred income tax***

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.15 Current and deferred income tax *(Continued)*

***(iii) Investment allowances and similar tax incentives***

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

### 2.16 Employee benefits

***(i) Retirement benefit costs***

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") set up pursuant to the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to vesting fully in the contributions, in accordance with the rules of the MPF Scheme.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

In addition, pursuant to the government regulations in the PRC, the Group is required to contribute an amount to certain retirement benefit schemes based on certain percentage of the wages for the year of those employees in the PRC. The local municipal government undertakes to assume the retirement benefits obligations of those employees of the Group. Contributions to these retirement benefits schemes are charged to the consolidated statement of profit or loss as incurred.

***(ii) Employee leave entitlements***

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the consolidated statement of financial position date.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.16 Employee benefits *(Continued)*

***(iii) Share-based compensation***

The Group operates equity-settled, share-based compensation plans, namely the share award scheme. The fair value of the employee services received in exchange for the grant of the share awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share awards granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

Non-market vesting conditions are included in assumptions about the number of awarded shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of awarded shares that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated profit or loss, with a corresponding adjustment to equity.

For the share award scheme, the Group may purchase its own shares through the trustee of the share award scheme from the open market for the shares to be vested under the share award scheme. The shares purchased by the Group that are not yet vested for this share award scheme were recorded as treasury shares and recorded as "Shares held for share award scheme" as a deduction under equity. Upon vesting of the awarded shares, the related costs of the purchased shares are reduced from the "Shares held for share award scheme".

***(iv) Long service payments***

In Hong Kong, employees who have completed a required number of years of service to the Group are eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment, provided that such termination meet the circumstances specified in the Hong Kong Employment Ordinance. Long service payments are recognised when they accrue to employees. A provision is made for the estimated liability for long service payment as a result of services rendered by employees up to the consolidated statement of financial position date. The liability recognised in the consolidated statement of financial position in respect of long service payments is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.17 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### 2.18 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

### 2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Group's activities.

If contracts involve the sale of multiple elements, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point of time.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.19 Revenue recognition *(Continued)*

Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

***(a) Revenue from provision for interior designs, project management services and fitting-out works***

The Group has to identify the performance obligations in contract. A performance obligation is a promise in a contract to transfer a good or service to a customer. Generally, contract for provision of interior designs, project management services and fitting out works will provide a significant integration service including purchase of materials, arrangement of subcontractor and labour for the provision of services and the goods and services within the contract will be highly dependent on or highly integrated with other goods or services. As such, different elements of contract for provision of interior designs, project management services and fitting out works are accounted as a single performance obligation. The Group treated all of contracts for provision of interior designs, project management services and fitting out works as a single performance obligation and not capable of being distinct.

Revenue from individual contracts is recognised according to progress of the project towards complete satisfaction of performance obligation. The Group recognises revenue using output method, which is measured based on the direct measurements of the value to the customer of the goods or services transferred to the date relative to the remaining goods or services promised under the contract or surveys of work performed, provided that the value of contract work performed can be measured reliably.

The Group accounts for a modification if the customers to a contract approve a change in the scope and/or the price of a contract. A contract modification is approved when the modification creates or changes the enforceable rights and obligations of the customers to the contract. If the customers have approved a change in scope, but have not yet determined the corresponding change in price, the Group estimates the change to the contract price as a variable consideration.

The estimated amount of the variable consideration is included in the contract price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable considerations is subsequently resolved.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.19 Revenue recognition *(Continued)*

***(a) Revenue from provision for interior designs, project management services and fitting-out works*** *(Continued)*

The payment terms differed for different customers due to the variety of projects. The Group does not intend to give a financing to customers and the Group make efforts to collect the receivables and timely monitor the credit risk.

***(b) Contract assets and contract liabilities***

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assume performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations give rise to a net asset or net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if consideration received (or an amount of consideration is due) from the customer exceed the measure of the remaining unsatisfied performance obligations. In the consolidated statement of financial position, the contract assets mainly consist of unbilled revenue arising from the contracts for provision of interior designs, project management services and fitting-out works. Contract liabilities mainly consist of the Group's obligations to transfer the control of performance obligation to the customers for which the Group has received consideration from the customers.

### 2.20 Interest income

Interest income is recognised using the effective interest method, on a time-proportion basis.

### 2.21 Earnings per share

***(i) Basic earnings per share***

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

***(ii) Diluted earnings per share***

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.22 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received and makes any adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.22 Leases *(Continued)*

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and all leases of low-valued assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

### 2.23 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the entity's shareholders or directors, where appropriate.

Dividend proposed or declared after the reporting period but before the consolidated financial statements are authorised for issue, are disclosed as a non-adjusting event and are not recognised as a liability at the end of the reporting period.

### 2.24 Government grants

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants are recognised as "other income and gains" over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to price risk, market risk (including foreign exchange and interest rate), credit risk and liquidity risk. The Group's overall risk management programme focuses on the analysis, evaluation, acceptance and monitoring of such risks which are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Group's financial performance.

***(a) Price risk***

The Group held listed equity investments, which can be affected by fluctuations in share price and is exposed to other price risk on share price of the listed investments.

As at 31 December 2022, if the price of the investment had been 5% (2021: 5%) higher/lower, with all other variables held constant, other components of equity would have increased/decreased by approximately HK$26,000 (2021: HK$4,000).

***(b) Market risk***

*(i) Foreign exchange risk*

Foreign exchange risk arises from future commercial transactions, recognised assets or liabilities denominated in a currency that is not the functional currency of the relevant group entity. The Group mainly operates in Hong Kong and the PRC. The majority of the transactions at each location are settled in the respective local currencies, namely Hong Kong dollar ("HK$") and Renminbi ("RMB"). The directors are of the opinion that the Group does not have significant foreign exchange risk, the exposure to fluctuation in exchange rates will only arise from the translation to the presentation currency of the Group. Accordingly, no sensitivity analysis is performed.

Management closely monitors foreign currency exchange exposure and will take measures to minimise the currency translation risk. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposure. The Group has not used any hedging arrangement to hedge its foreign exchange risk exposure as management considers its exposure is not significant.

*(ii) Interest rate risk*

The Group has no significant interest-bearing assets and liabilities except pledged bank deposits, time deposits and cash at banks.

In the opinions of the directors, the interest income derived from the bank balances is insignificant and the Group's income and operating cash flows are substantially independent of changes in market interest rates. Accordingly, no sensitivity analysis is performed.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### *(c) Credit risk*

Credit risk refer to the risk that the counter-party fails to meet its contractual obligations resulting in financial loss to the Group. The credit risk of the Group mainly arises from trade and other receivables, contract assets and deposits with banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

The Group applies the general approach in HKFRS 9 to measure the expected credit losses for balances not qualified for simplified approach. The general approach which uses a three-stage model to calculate the loss allowances. According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the expected credit losses by three stages:

Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month expected credit losses is recognised as loss allowance.

Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime expected credit losses is recognised as loss allowance.

Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime expected credit losses is recognised as loss allowance.

*Assessment of significant increase in credit risk*

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date with the risk of default at origination (after considering the passage of time). "Significant" does not mean statistically significant nor is it reflective of the extent of the impact on the Group's financial statements. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria, e.g. payment being past due by more than certain amount of days.

*Assessment of credit-impaired*

Credit-impaired financial assets comprise those assets that have experienced an observed credit event and are in default. Default represents those assets that are unlikely to pay, such as bankruptcy, fraud or death. This definition is consistent with internal credit risk management and the regulatory definition of default.

*Bank balances*

The credit risk on deposits with banks is limited because the counterparties are several reputable and creditworthy banks. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past. Therefore, expected credit loss rate of cash at bank is assessed to be immaterial and no provision was made as at 31 December 2022 and 2021.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

**(c) *Credit risk*** *(Continued)*

*Trade receivables and contract assets*

The Group is exposed to concentration of credit as the revenue from largest customer and the five largest customers constituted 62.3% and 90.1% (2021: 31.2% and 69.5%) of the Group's revenue for the year ended 31 December 2022, respectively. They accounted for approximately 0% and 34.1% (2021: 21.6% and 21.6%) of the total trade receivables and contract assets after impairment as at 31 December 2022. Collections of outstanding receivable balances are closely monitored on an ongoing basis to minimise such credit risk.

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 applies HKFRS 9 simplified approach for measuring the expected credit losses ("ECL"), which use a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The expected loss rates are based on the payment profiles of sales over a period of two years and the corresponding historical credit losses experienced within the period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Receivables relating to customers with known financial difficulties, dispute or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. The following table presents the balances of gross carrying amount and loss allowance in respect of the individually assessed receivables as at 31 December 2022 and 2021:

| | **2022** *HK$'000* | 2021 *HK$'000* |
|---|---|---|
| Gross carrying amount | **169** | 413 |
| Loss allowance | **(169)** | (413) |
| Net carrying amount | **–** | – |

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

***(c) Credit risk*** *(Continued)*

The loss allowance for trade receivables and contract assets as at 31 December 2022 and 2021 was determined as follows:

| | Expected loss rate | Gross carrying amount *HK$'000* | Expected credit loss *HK$'000* | Net carrying amount *HK$'000* |
|---|---|---|---|---|
| **As at 31 December 2022** | | | | |
| Not yet due or within 180 days | **0.5%** | **1,733** | **(9)** | **1,724** |
| 181-360 days past due | **2.5%** | **653** | **(17)** | **636** |
| 361-540 days past due | **5.3%** | **9** | **–** | **9** |
| More than 720 days past due | **100%** | **517** | **(517)** | **–** |
| | | **2,912** | **(543)** | **2,369** |

| | Expected loss rate | Gross carrying amount *HK$'000* | Expected credit loss *HK$'000* | Net carrying amount *HK$'000* |
|---|---|---|---|---|
| **As at 31 December 2021** | | | | |
| Not yet due or within 180 days | 1.2% | 8,406 | (102) | 8,304 |
| 181-360 days past due | 2.1% | 2,726 | (57) | 2,669 |
| 361-540 days past due | 4.1% | 1,517 | (62) | 1,455 |
| 541-720 days past due | 12.5% | 8 | (1) | 7 |
| More than 720 days past due | 100% | 2,584 | (2,584) | – |
| | | 15,241 | (2,806) | 12,435 |

Impairment losses on trade receivables and contract assets are presented as "reversal of impairment of trade receivables" in the consolidated statement of profit or loss. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are recognised as "reversal of impairment of trade receivables" in the consolidated statement of profit or loss.

The allowance for expected credit loss on trade receivables and contract assets of the Group decreased to HK$0.5 million as at 31 December 2022 (2021: HK$2.8 million) as there is more satisfactory overall settlement of trade receivables from customers which attributed by decrease in negative impact brought by COVID-19.

*Other receivables*

The Group adopted general approach for expected credit loss of other receivables. The Group considered these financial assets have not significantly increased in credit risk from initial recognition. Thus, these financial assets are classified in stage one and only considered 12-month expected credit losses. Considering the history of default and forward-looking factor, the expected credit loss is immaterial.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Financial risk factors *(Continued)*

### *(d) Liquidity risk*

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents which are generated from internal operations and having adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Undiscounted cash flows | | | | |
|---|---|---|---|---|---|
| | Less than 1 year *HK$'000* | Between 1 to 2 years *HK$'000* | Between 2 to 5 years *HK$'000* | Total *HK$'000* | Carrying amount *HK$'000* |
| **As at 31 December 2022** | | | | | |
| Trade and other payables | **1,976** | **–** | **–** | **1,976** | **1,976** |
| Undiscounted lease liabilities | **499** | **283** | **–** | **782** | **749** |
| | **2,475** | **283** | **–** | **2,758** | **2,725** |
| **As at 31 December 2021** | | | | | |
| Trade and other payables | 7,103 | – | – | 7,103 | 7,103 |
| Undiscounted lease liabilities | 383 | 259 | 43 | 685 | 653 |
| | 7,486 | 259 | 43 | 7,788 | 7,756 |

## 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged throughout the year.

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 capital structure of the Group represents equity attributable to the owners of the Company, comprising issued share capital, retained earnings, and other reserves. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the member, return capital to the members, issue new shares or sell assets to reduce debt.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.2 Capital risk management *(Continued)*

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 2022, the ratio of the Group's total liabilities over its total assets was 10.1% (2021: 13.8%).

The Group is not subject to externally imposed capital requirements during the years ended 31 December 2022 and 2021.

### 3.3 Fair value estimation and judgements

The table below analyses financial instruments carried at fair value, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2022 and 2021.

| | Level 1 | |
|---|---|---|
| | **2022** | 2021 |
| | ***HK$'000*** | *HK$'000* |
| Financial assets at fair value through other comprehensive income | **518** | 85 |

There was no transfer of financial assets and liabilities between the fair value hierarchy classifications during the year ended 31 December 2022 (2021: same).

The carrying amounts of the Group's financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to their fair values. The fair value for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments, unless the discounting effect is insignificant.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**(a) Accounting for contracts for provision of interior designs, project management services and fitting-out works**

Revenue from provision of interior designs, project management services and fitting-out works is recognised over time by measuring the progress towards completion of the Group's performance obligations as set out in respective contracts. The Group has used the output method to estimate the progress of each performance obligation satisfied over time by reference to the value of construction works completed to date as a proportion of the total contract value of the relevant service contracts. The Group regularly reviews and revises the estimation of service contract progresses whenever there is any change in circumstances.

The actual outcomes in terms of revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue recognised in future as an adjustment to the amounts recorded to date.

**(b) Loss allowance of trade receivables**

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. For trade receivables from customers who have financial difficulties, the Group assessed individually and provided for credit losses allowance. If no reasonable and supportable information is available without undue cost for expected credit losses measurement, the trade receivables were grouped by reference to the credit risk characteristics and assessed collectively for credit losses allowance. When measuring expected credit loss, the Group considers the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position, and adjusts by taking into consideration current conditions and forward-looking factors.

The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the debtor's historical repayment history and forward-looking information at the year end. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional loss allowance to the consolidated statement of profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 5 SEGMENT INFORMATION

The Group's chief operating decision maker, which has been identified as the Board of Directors, consider the segment from a business perspective and monitor the operating results of its operating segment for the purpose of making decisions about resource allocation and performance assessment.

During the year ended 31 December 2022, the Group had one (2021: one) reportable operating segment, which was provision of interior designs, project management services and fitting-out works. Since this is the only operating segment of the Group, no further operating segment analysis thereof is presented.

**Geographic Information**

***(a) Revenue from external customers***

The Group's revenue from external customers by geographical area, which is determined by the country/region where the services were provided, is as follows:

| | **2022** | 2021 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **42,521** | 43,463 |
| The PRC and Macau | **–** | 623 |
| | **42,521** | 44,086 |

***(b) Non-current assets***

The Group's non-current assets other than financial assets at FVOCI by geographic area is as follows:

| | **2022** | 2021 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **4,547** | 4,731 |
| The PRC and Macau | **2** | 3 |
| | **4,549** | 4,734 |

**Key Customers**

For the year ended 31 December 2022, there was one customers (2021: two) which individually contributed over 10% of the Group's total revenue, the revenue contributed from each of these customers was as follows:

| | **2022** | 2021 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A | **26,489** | 13,776 |
| Customer B | **–*** | 7,010 |

* The corresponding revenue did not contribute over 10% of the Group's total revenue.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 6 REVENUE FROM CONTRACTS WITH CUSTOMERS

### Disaggregation of revenue from contracts with external customers

| | **2022** **_HK$'000_** | 2021 *HK$'000* |
|---|---|---|
| Recognised over time | | |
| — Provision for interior designs, project management services and fitting-out works | **42,521** | 44,086 |

As permitted under HKFRS 15, the transaction price allocated to those unsatisfied contracts which have an original expected duration of one year or less is not disclosed.

## 7 OTHER INCOME AND GAINS

| | **2022** **_HK$'000_** | 2021 *HK$'000* |
|---|---|---|
| Interest income | **487** | 114 |
| Government grants *(note)* | **279** | – |
| Interest income from overdue trade receivables | **–** | 166 |
| Gain on disposal of property, plant and equipment | **–** | 99 |
| Others | **3** | 295 |
| | **769** | 674 |

*Note:*

In 2022, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by The Government of the Hong Kong Special Administrative Region. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees. There are no unfulfilled conditions or other contingencies attaching to these grants.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 8 EXPENSES BY NATURE

| | **2022** **HK$'000** | 2021 *HK$'000* |
|---|---|---|
| Materials and subcontractor costs | **28,234** | 31,752 |
| Advertising and promotion expenses | **96** | 795 |
| Auditor's remuneration | | |
| — Audit services | **630** | 630 |
| Depreciation of property, plant and equipment *(Note 15)* | **960** | 600 |
| Depreciation of right-of-use assets *(Note 16)* | **726** | 691 |
| Employee benefit costs (including directors' emoluments) *(Note 9)* | **11,016** | 9,584 |
| Insurance expenses | **270** | 502 |
| Legal and professional fees | **2,266** | 2,867 |
| Motor vehicle expenses | **310** | 636 |
| Travelling expenses | **549** | 131 |
| Expenses rating to short-term leases | **53** | 58 |
| Others | **1,648** | 1,671 |
| Total cost of sales, selling and distribution expenses and administrative expenses | **46,758** | 49,917 |

## 9 EMPLOYEE BENEFIT COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | **2022** **HK$'000** | 2021 *HK$'000* |
|---|---|---|
| Wages and salaries | **9,893** | 8,863 |
| Directors' fee | **360** | 360 |
| Staff welfare and benefits | **490** | 148 |
| Contribution to defined contribution plans | **187** | 213 |
| Provision for long service payments | **86** | – |
| | **11,016** | 9,584 |

As at 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2021: Nil).

## 9 EMPLOYEE BENEFIT COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

### (a) Benefits and interest of directors

#### *(i) Directors' emoluments*

The remuneration of directors for each of the years ended 31 December 2022 and 2021 are set out below:

| | Fees | Salaries, allowances , and benefits | Discretionary bonuses | Employer's contribution to defined contribution plans | Other emoluments paid or receivables | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **For the year ended 31 December 2022** | | | | | | |
| *Executive directors* | | | | | | |
| Mr. Lau King Wai | **–** | **1,800** | **4,000** | **18** | **288** | **6,106** |
| Ms. Leung May Yan | **–** | **408** | **–** | **16** | **–** | **424** |
| Mr. Wong Siu Hong Edward | **–** | **370** | **–** | **18** | **–** | **388** |
| *Independent non-executive directors* | | | | | | |
| Ms. So Patsy Ying Chi | **120** | **–** | **–** | **–** | **–** | **120** |
| Mr. Li Wai Kwan | **120** | **–** | **–** | **–** | **–** | **120** |
| Mr. Hui Harry Chi | **120** | **–** | **–** | **–** | **–** | **120** |
| | **360** | **2,578** | **4,000** | **52** | **288** | **7,278** |
| **For the year ended 31 December 2021** | | | | | | |
| *Executive directors* | | | | | | |
| Mr. Lau King Wai | – | 1,150 | 2,500 | 16 | – | 3,666 |
| Ms. Leung May Yan | – | 496 | 20 | 18 | – | 534 |
| Mr. Wong Siu Hong Edward | – | 373 | 25 | 18 | – | 416 |
| *Independent non-executive directors* | | | | | | |
| Ms. So Patsy Ying Chi | 120 | – | – | – | – | 120 |
| Mr. Li Wai Kwan | 120 | – | – | – | – | 120 |
| Mr. Hui Harry Chi | 120 | – | – | – | – | 120 |
| | 360 | 2,019 | 2,545 | 52 | – | 4,976 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 9 EMPLOYEE BENEFIT COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

### (a) Benefits and interest of directors *(Continued)*

***(i) Directors' emoluments*** *(Continued)*

The remunerations shown above represent remunerations received from the Company and subsidiaries of the Company by these directors in their capacity as employees to the Company and no directors waived any emolument during the year ended 31 December 2022 (2021: Nil).

No emoluments were paid by the subsidiaries of the Company to the directors as an inducement to join the subsidiaries of the Company, or as compensation for loss of office during the year ended 31 December 2022 (2021: Nil).

***(ii) Directors' retirement and termination benefits***

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertaking during the year ended 31 December 2022 (2021: Nil).

No payment was made to the directors as compensation for early termination of the appointment during the year ended 31 December 2022 (2021: Nil).

***(iii) Consideration provided to third parties for making available directors' services***

The Company did not pay consideration to any third parties for making available directors' services for the year ended 31 December 2022 (2021: Nil).

***(iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors***

During the year ended 31 December 2022, there were no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled body corporates and connected entities of such directors (2021: same).

***(v) Directors' material interests in transactions, arrangements or contracts***

Save as disclosed in the Note 28(b), no significant transactions, arrangements and contracts in relation to the Group's business to which the Company or any of the subsidiaries of the Company was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2022 (2021: same).

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 9 EMPLOYEE BENEFIT COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director, whose emoluments were reflected in the analysis presented in Note 9(a) during the year ended 31 December 2022 (2021: two). The emoluments paid/payable to the remaining include four individuals (2021: three) are as follows:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Wages and salaries | **1,947** | 1,615 |
| Contribution to defined contribution plans | **73** | 50 |
| | **2,020** | 1,665 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2022** | 2021 |
| Emolument band | | |
| Nil to HK$1,000,000 | **4** | 3 |

During the year ended 31 December 2022, no emoluments have been paid by the Group to the directors or the five highest paid individuals mentioned above as an inducement to join or upon joining the Group, or as compensation for loss of office (2021: Nil).

## 10 FINANCE COSTS

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Interest expense on lease liabilities | **52** | 46 |

## 11 INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made in the financial statements as the Company did not derives any assessable profit for the years ended 31 December 2022 and 2021.

No PRC Corporate Income Tax provision was made as the PRC subsidiary has sustained a loss for taxation purpose for the year ended 31 December 2022 and 2021.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 11 INCOME TAX EXPENSE *(Continued)*

An analysis of the income tax expense is as follows:

| | **2022** **HK$'000** | 2021 *HK$'000* |
|---|---|---|
| Hong Kong Profits Tax | | |
| — Current year | **–** | – |
| — Under-provision in prior years | **–** | 57 |
| | **–** | 57 |
| Deferred income tax *(Note 21)* | **327** | 565 |
| | **327** | 622 |

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to loss before income tax of the consolidated entities as follows:

| | **2022** **HK$'000** | 2021 *HK$'000* |
|---|---|---|
| Loss before income tax | **(3,075)** | (4,544) |
| Calculated at the application taxation rate of the jurisdictions concerned | **(488)** | (729) |
| Income not subject to taxation | **(125)** | (110) |
| Expense not deductible for taxation purpose | **255** | 498 |
| Tax losses not recognised | **685** | 906 |
| Under-provision in prior years | **–** | 57 |
| | **327** | 622 |

## 12 LOSS PER SHARE

### (a) Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year excluding shares purchased by the Company for the share award scheme.

| | **2022** | 2021 |
|---|---|---|
| Loss attributable to the owners of the Company *(HK$'000)* | **(3,402)** | (5,166) |
| Weighted average number of ordinary shares in issue *(thousands)* | **964,040** | 994,133 |
| Basic loss per share *(HK cents)* | **(0.4)** | (0.5) |

### (b) Diluted

For the years ended 31 December 2022 and 2021, diluted loss per share is the same as basic loss per share as there was no potential dilutive ordinary shares in existence.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 13 DIVIDENDS

| | **2022** **HK$** | 2021 HK$ |
|---|---|---|
| 2020 final dividend paid (HK0.3 cents per share) | **–** | 3,000 |
| 2021 final dividend paid (HK0.3 cents per share) | **2,903** | – |
| 2022 interim dividend paid (HK5.0 cents per share) | **48,031** | – |
| | **50,934** | 3,000 |

The directors did not recommend the payment of final dividend for the year ended 31 December 2022.

## 14 SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2022 and 2021 are as follows. Unless otherwise stated, they have share capital consisting solely of ordinary shares and the proportion of ownership interests held equals the voting rights held by the Group.

| Name of subsidiaries | Place of incorporation and kind of legal entity | Issued and fully paid ordinary share capital | Equity interest attributable to the Group 2022 | 2021 | Principal activities |
|---|---|---|---|---|---|
| **Indirectly held by the Company:** | | | | | |
| K W Nelson Interior Design and Contracting Limited | Hong Kong, limited liability company | HK$10,000 | 100% | 100% | Provision of interior designs, project management services and fitting-out works |
| Guangzhou Nelson Decoration Limited (廣州市立以遜裝飾有限公司) *(note (ii))* | The PRC, limited liability company | HK$1,000,000 | 100% | 100% | Provision of fitting-out and interior designs works |
| Rinson Construction Limited *(note (iii))* | Hong Kong, limited liability company | HK$10,000 | 55% | 55% | Dormant |

*Notes:*

(i) Unless otherwise stated, the principal place of operation of each company is the same as its place of incorporation.

(ii) The English name represent the best effort by the Group's management to translate its Chinese name, as this subsidiary does not have official English name.

(iii) The non-controlling interest is considered immaterial to the Group, so no disclosure on financial information of the subsidiary with non-controlling interest is included.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 15 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements *HK$'000* | Office equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **At 1 January 2021** | | | | |
| Cost | 2,593 | 295 | 2,983 | 5,871 |
| Accumulated depreciation | (2,449) | (218) | (2,402) | (5,069) |
| Net book amount | 144 | 77 | 581 | 802 |
| **Year ended 31 December 2021** | | | | |
| Opening net book amount | 144 | 77 | 581 | 802 |
| Additions | – | 128 | 4,000 | 4,128 |
| Disposal | – | – | (231) | (231) |
| Depreciation | (144) | (41) | (415) | (600) |
| Closing net book amount | – | 164 | 3,935 | 4,099 |
| **At 31 December 2021 and 1 January 2022** | | | | |
| Cost | 2,593 | 424 | 4,344 | 7,361 |
| Accumulated depreciation | (2,593) | (260) | (409) | (3,262) |
| Net book amount | – | 164 | 3,935 | 4,099 |
| **Year ended 31 December 2022** | | | | |
| Opening net book amount | **–** | **164** | **3,935** | **4,099** |
| Additions | **–** | **–** | **385** | **385** |
| Depreciation | **–** | **(47)** | **(913)** | **(960)** |
| Closing net book amount | **–** | **117** | **3,407** | **3,524** |
| **At 31 December 2022** | | | | |
| Cost | **1,729** | **422** | **4,729** | **6,880** |
| Accumulated depreciation | **(1,729)** | **(305)** | **(1,322)** | **(3,356)** |
| Net book amount | **–** | **117** | **3,407** | **3,524** |

Depreciation expense of approximately HK$960,000 (2021: HK$600,000) has been charged in administrative expenses.

## 16 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

This note provides information for leases in respect of office premises where the Group is a lessee.

### (a) Amounts recognised in the consolidated statement of financial position

| | **2022**<br>***HK$'000*** | 2021<br>*HK$'000* |
|---|---|---|
| **Right-of-use assets** | | |
| Current | **1,025** | 635 |
| **Lease liabilities** | | |
| Non-current | **277** | 293 |
| Current | **472** | 360 |
| | **749** | 653 |

Additions to the right-of-use assets during the year were approximately HK$1,116,000 (2021: HK$721,000).

### (b) Amounts recognised in the consolidated statement of profit or loss

| | **2022**<br>***HK$'000*** | 2021<br>*HK$'000* |
|---|---|---|
| Depreciation of right-of-use assets | **726** | 691 |
| Interest expenses on lease liabilities *(Note 10)* | **52** | 46 |
| Expenses relating to short-term leases (included in administrative expenses) | **53** | 58 |

The total cash outflow for leases liabilities and expense relating to short-term leases during the year ended 31 December 2022 was HK$676,000 (2021: HK$803,000).

### (c) The Group's leasing activities and how these are accounted for

The Group leases office premises. Rental contracts for office premises are typically made for fixed periods ranging from 1 to 3 years without extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. There is no securities or covenants on these lease agreements.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 17 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

### (a) Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise of equity securities which held for strategic purpose. The Group has irrevocably elected at initial recognition to recognise in this category as these are strategic investments and the Group considers this classification to be more relevant.

### (b) Equity investments at fair value through other comprehensive income

| | **2022** <br> ***HK$'000*** | 2021 <br> *HK$'000* |
|---|---|---|
| Equities investments listed in Hong Kong | **518** | 85 |

### (c) Amount recognised in other comprehensive income

| | **2022** <br> ***HK$'000*** | 2021 <br> *HK$'000* |
|---|---|---|
| Change in fair value of financial assets at fair value through other comprehensive income | **433** | (18) |

## 18 TRADE AND OTHER RECEIVABLES

| | **2022** <br> ***HK$'000*** | 2021 <br> *HK$'000* |
|---|---|---|
| Trade receivables | **2,489** | 15,026 |
| Less: provision for loss allowance | **(543)** | (2,806) |
| | **1,946** | 12,220 |
| Prepayments | **1,266** | 7,102 |
| Deposits, and other receivables | **751** | 324 |
| | **3,963** | 19,646 |

The amount of prepayments, deposits and other receivables expected to be recovered or recognised as expense after more than one year is HK$97,000 (2021: HK$43,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

The carrying amounts of the Group's trade and other receivables are denominated in HK$.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 18 TRADE AND OTHER RECEIVABLES *(Continued)*

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. The ageing analysis of the trade receivables based on invoice date is as follows:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Within 30 days | **1,000** | 3,392 |
| 31 to 60 days | **55** | 1,698 |
| 61 to 90 days | **–** | 27 |
| Over 90 days | **891** | 7,103 |
| | **1,946** | 12,220 |

The provision for loss allowance of other classes within trade and other receivables is immaterial. The Group does not hold any collateral as security.

The movement in provision for loss allowance on trade receivables are as follows:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| At beginning of the year | **2,806** | 3,880 |
| Reversal of impairment | **(445)** | (659) |
| Written-off | **(1,818)** | (415) |
| At end of the year | **543** | 2,806 |

## 19 CONTRACT ASSETS/(LIABILITIES)

The Group has recognised the following assets and liabilities related to contracts in relation to provision for interior designs, project management services and fitting-out works with customers:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| **Current** | | |
| Contract assets | **423** | 215 |
| Contract liabilities | **(4,517)** | (13,029) |

Contract assets have increased as the Group has provided more construction services ahead of the right to payment upon the construction services performed.

Contract liabilities decreased as less prepayments were received from customers ahead of the construction services performed/recognised.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 19 CONTRACT ASSETS/(LIABILITIES) *(Continued)*

### (a) Revenue recognised in relation to contract liabilities

Revenue of HK$13,029,000 (2021: HK$1,393,000) was recognised in the current reporting period relating to carried-forward contract liabilities of contracts in relation to provision for interior designs, project management services and fitting-out works.

## 20 PLEDGED BANK DEPOSITS, TIME DEPOSITS WITH MATURITY OVER THREE MONTHS AND CASH AND CASH EQUIVALENTS

### (a) Pledged bank deposits

As at 31 December 2022, fixed deposits denominated in HK$ and bore interest rates at 0.05% (2021: 0.21%) per annum were pledged to secure the banking facility of HK$2,000,000 (2021: HK$2,000,000) and performance bond of approximately HK$647,000 (2021: nil) (note 29). As at 31 December 2022 and 2021, no banking facility was utilised.

### (b) Time deposits with original maturity over three months

As at 31 December 2022, bank deposits with original maturity over three months are denominated in HK$ and bore interest rates ranging from 4.35% to 4.38% per annum (2021: 0.125% to 1.25%).

### (c) Cash and cash equivalents

| | **2022**<br>***HK$'000*** | 2021<br>*HK$'000* |
|---|---|---|
| Cash at banks | **25,116** | 80,673 |

The Group's cash and cash equivalents are denominated in the following currencies:

| | **2022**<br>***HK$'000*** | 2021<br>*HK$'000* |
|---|---|---|
| HK$ | **22,378** | 77,449 |
| RMB | **2,738** | 3,224 |
| | **25,116** | 80,673 |

As at 31 December 2022, the cash and cash equivalents of the Group amounted to HK$2,738,000 (2021: HK$3,224,000), were deposited in bank accounts opened with banks in the PRC where the remittance of funds is subject to foreign exchange control.

## 21 DEFERRED INCOME TAX LIABILITIES

| | **2022** *HK$'000* | 2021 *HK$'000* |
|---|---|---|
| Deferred income tax liabilities: | | |
| — To be settled within one year | **(240)** | 373 |
| — To be settled after one year | **(119)** | (405) |
| | **(359)** | (32) |

The movements in deferred income tax liabilities during the year are as follows:

| | **Decelerated/ (accelerated) depreciation** *HK$'000* | **Loss allowance** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| At 1 January 2021 | 62 | 471 | 533 |
| Charged to profit or loss | (489) | (76) | (565) |
| At 31 December 2021 and 1 January 2022 | **(427)** | **395** | **(32)** |
| Charged to profit or loss | **(22)** | **(305)** | **(327)** |
| At 31 December 2022 | **(449)** | **90** | **(359)** |

At 31 December 2022, the Group has unused tax losses of approximately HK$10,196,000 (2021: HK$5,933,000) available for offset against future profits. Tax losses of HK$603,000 (2021: HK$440,000) will expire from 2025 to 2027 (2021: 2025 to 2026) and HK9,593,000 (2021: HK5,493,000) can be carried forward indefinitely under current tax legislation. No deferred income tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

As at 31 December 2022 and 2021, deferred income tax liabilities have not been provided for in the consolidated financial statements in respect of the withholding tax that would be payable on unremitted earnings of the PRC subsidiary of the Company amounting to approximately HK$580,000 (2021: HK$747,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 22 SHARE CAPITAL AND SHARE PREMIUM

### (a) Share capital

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Authorised | | |
| 10,000,000,000 shares at HK$0.01 each | **100,000** | 100,000 |
| Issued and fully paid | | |
| 1,000,000,000 shares at HK$0.01 each | **10,000** | 10,000 |

### (b) 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.

## 23 RESERVE

### (a) 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.

### (b) Fair value reserve

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.

### (c) 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.

### (d) Capital contribution reserve

The capital contribution reserve represents contribution from the controlling shareholder.

## 24 SHARE AWARD SCHEME

The Company adopted a share award scheme (the "Share Award Scheme") on 17 May 2021 (the "Adoption Date") in order to recognise and reward the eligible participants for their contributions to the business and development of the Group. Subject to the terms of the share award scheme and the Listing Rules, the Company may, at its discretion, award eligible participants the Company's shares. The participants of the Share Award Scheme will be granted an award in the form of award shares for nil consideration.

The Share Award Scheme is managed by an independent trustee (the "Trustee") appointed by the Group. The Trustee purchases the award shares under the direction of the Company for the purpose of the Share Award Scheme. Existing shares of the Company will be purchased by the Trustee from the market out of cash contributed by the Group and be held in trust until such shares are awarded and vested in accordance with the provisions of the share award scheme. The shares of the Company held by the trustee are referred to as treasury shares and each treasury share represents one ordinary share of the Company.

No shares shall be purchased pursuant to the Share Award Scheme, nor any amounts paid to the trustee for the purpose of making such a purchase, if as a result of such purchase, the number of shares administered under the share award scheme shall exceed 10% of the issued capital of the Company.

Subject to any early termination as may be determined by the Board, the Share Award Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date.

During the year ended 31 December 2022 and 2021, the Group purchased its own shares through the trustee of the share award scheme from open market and the total amount paid after transaction costs to acquire the shares has been deducted from the owners' equity. The movement of shares held for share award scheme is as follows:

| | **Number of shares** *(in thousand)* | *HK$'000* |
|---|---|---|
| As at 1 January 2021 | – | – |
| Shares repurchased | 16,400 | 4,439 |
| **As at 31 December 2021 and 1 January 2022** | **16,400** | **4,439** |
| **Shares repurchased** | **23,640** | **3,150** |
| **As at 31 December 2022** | **40,040** | **7,589** |

As at 31 December 2022 and 2021, shares repurchased were recorded as treasury shares of the Company. During the year ended 31 December 2022 and 2021, no award shares have been granted under the Share Award Scheme.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 25 PROVISIONS, TRADE AND OTHER PAYABLES

| | **2022** **HK$'000** | 2021 *HK$'000* |
|---|---|---|
| **Non-current** | | |
| Provision for reinstatement cost | **449** | – |
| Provision for long service payments | **86** | – |
| | **535** | – |
| **Current** | | |
| Trade payables | **1,137** | 3,141 |
| Other payables and accruals | **839** | 3,962 |
| | **1,976** | 7,103 |
| **Total** | **2,511** | 7,103 |

The ageing analysis of the trade payables based on invoice date was as follows:

| | **2022** **HK$'000** | 2021 *HK$'000* |
|---|---|---|
| 1 to 30 days | **351** | 376 |
| 31 to 90 days | **208** | 517 |
| Over 90 days | **578** | 2,248 |
| | **1,137** | 3,141 |

The carrying amounts of provisions, trade and other payables approximate their fair values and are denominated in HK$.

## 26 FINANCIAL INSTRUMENTS BY CATEGORY

| | **2022** **HK$'000** | 2021 *HK$'000* |
|---|---|---|
| **Financial assets** | | |
| *At fair value* | | |
| — Financial assets at FVOCI | **518** | 85 |
| *At amortised cost* | | |
| — Trade and other receivables | **2,697** | 12,544 |
| — Pledged bank deposits | **2,647** | 2,000 |
| — Time deposits with original maturity over three months | **38,720** | 38,561 |
| — Cash and cash equivalents | **25,116** | 80,673 |
| | **69,180** | 133,778 |
| | **69,698** | 133,863 |
| **Financial liabilities** | | |
| *At amortised cost* | | |
| — Trade and other payables | **1,976** | 7,103 |
| — Lease liabilities | **749** | 653 |
| | **2,725** | 7,756 |

## 27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Cash generated from operations

| | **2022**<br>***HK$'000*** | 2021<br>*HK$'000* |
|---|---|---|
| Loss before income tax | **(3,075)** | (4,544) |
| Adjustments for: | | |
| Depreciation of property, plant, and equipment | **960** | 600 |
| Depreciation of right-of-use assets | **726** | 691 |
| Interest income | **(487)** | (114) |
| Finance costs | **52** | 46 |
| Gain on disposal of property, plant and equipment | **–** | (99) |
| Provision for long service payments | **86** | – |
| Reversal of impairment losses on trade receivables | **(445)** | (659) |
| Operating loss before working capital changes | **(2,183)** | (4,079) |
| Changes in working capital: | | |
| Trade and other receivables | **16,128** | 16,476 |
| Contract assets | **(208)** | 2,880 |
| Trade and other payables | **(5,127)** | (6,367) |
| Contract liabilities | **(8,512)** | 11,636 |
| Cash generated from operations | **98** | 20,546 |

### (b) Net debt reconciliation

This section sets out the movements in liabilities arising from financing activities for each of the years presented.

| | **Lease liabilities** | |
|---|---|---|
| | **2022**<br>***HK$'000*** | 2021<br>*HK$'000* |
| **As at 1 January** | **653** | 631 |
| Non-cash movements | | |
| — Addition on lease liabilities | **667** | 721 |
| — Interest expenses *(Note 10)* | **52** | 46 |
| Net cash outflows | **(623)** | (745) |
| **As at 31 December** | **749** | 653 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

### (c) Proceeds from disposal of property, plant and equipment

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Net book value disposed | – | 231 |
| Gain on disposal *(Note 7)* | – | 99 |
| Proceeds from disposal | – | 330 |

### (d) Major non-cash transactions

The additions of right-of-use assets and lease liabilities are non-cash activities.

## 28 RELATED PARTY TRANSACTIONS

### (a) Names and relationships with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, to joint control over the party or exercise significant influence over the other party in making financial and operation decisions, or vice versa.

The ultimate holding company of the Company is Sino Emperor Group Limited ("Sino Emperor"), a company incorporated in the British Virgin Islands with limited liability. The ultimate controlling party of Sino Emperor is Mr. Lau King Wai, who is also the director of the Company.

The directors of the Company are of the view that the following parties/companies were related parties with transactions or balances with the Group during the years ended 31 December 2022 and 2021:

| Name of related parties | Relationship with the Group |
|---|---|
| Mr. Lau King Wai | Director and the controlling shareholder of the Company |
| Ms. Chan Pui Shan, Jessica | Personal Assistant to Chief Executive Officer and spouse of the controlling shareholder |
| Mr. Lau Tin Nok | Overseas business assistant and son of the controlling shareholder |
| Further Concept Limited | Controlled by the controlling shareholder |

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 28 RELATED PARTY TRANSACTIONS *(Continued)*

**(b) Transactions and balance with related parties**

Other than those disclosed below and elsewhere in the consolidated financial statements, the Group had no significant transactions or balances with related parties during the year ended 31 December 2022 (2021: same).

| | Amount due to the related company | | Related interest expense | |
|---|---|---|---|---|
| | As at 31 December | | For the year ended 31 December | |
| | **2022** | 2021 | **2022** | 2021 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Lease liabilities to a related company<br>— Further Concept Limited | **456** | – | **29** | 7 |

During the year ended 31 December 2022, repayment of principal and interest portion of lease liabilities to the related party was HK$240,000 (2021: HK$240,000).

The above-mentioned transactions were conducted in the normal course of business and was charged at terms mutually agreed by the relevant parties.

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).

**(c) Key management compensation**

The executive directors of the Company are regarded as key management. Details of the key management compensation are disclosed in Note 9(a) to the consolidated financial statements.

**(d) Other related party transactions**

Remuneration of HK$672,000 (2021: HK$588,000) was paid to the spouse and the son of the controlling shareholder during the year ended 31 December 2022.

## 29 CONTINGENT LIABILITY

As at 31 December 2022, performance bond of HK$647,000 (2021: Nil) 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 has pledged bank deposits for the above performance bond. If the Group fails to provide satisfactory performance to the customer to whom performance bond has been given, the customer may demand the bank to pay to the customer the sum stipulated in the demand. The Group will then become liable to compensate the bank accordingly. The performance bond will be released upon completion of the contract work. At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Group.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

## 30 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

### (a) Statement of financial position of the Company

| | Note | 2022<br>HK$'000 | 2021<br>HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in a subsidiary | | **380** | 380 |
| **Current assets** | | | |
| Other receivables | | **710** | 172 |
| Amount due from a subsidiary | | **7,000** | 19,000 |
| Time deposits with original maturity over three months | | **31,668** | 31,549 |
| Cash and cash equivalents | | **4,635** | 2,721 |
| | | **44,013** | 53,442 |
| **Total assets** | | **44,393** | 53,822 |
| **EQUITY** | | | |
| Share capital | *22(a)* | **10,000** | 10,000 |
| Share premium | *30(b)* | **33,728** | 33,728 |
| Shares held for share award scheme | *30(b)* | **(7,589)** | (4,439) |
| Retained earnings | *30(b)* | **3,156** | 245 |
| **Total equity** | | **39,295** | 39,534 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Amount due to a subsidiary | | **5,098** | 14,288 |
| **Total liabilities** | | **5,098** | 14,288 |
| **Total equity and liabilities** | | **44,393** | 53,822 |

The statement of financial position of the Company was approved by the Board of Directors on 22 March 2023 and was signed on its behalf.

**Lau King Wai**
*Director*

**Wong Siu Hong Edward**
*Director*

## 30 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

### (b) Movement for share premium, shares held for share award scheme and retained earnings of the Company

| | Share premium *HK$'000* | Shares held for share award scheme *HK$'000* | Retained earnings *HK$'000* |
|---|---|---|---|
| As at 1 January 2021 | 33,728 | – | 556 |
| Profit and total comprehensive income for the year | – | – | 2,689 |
| Dividend | – | – | (3,000) |
| Shares purchased for share award scheme *(Note 24)* | – | (4,439) | – |
| **As at 31 December 2021 and 1 January 2022** | **33,728** | **(4,439)** | **245** |
| **Profit and total comprehensive income for the year** | **–** | **–** | **53,845** |
| **Dividend** | **–** | **–** | **(50,934)** |
| **Share purchased for share award scheme** *(Note 24)* | **–** | **(3,150)** | **–** |
| **As at 31 December 2022** | **33,728** | **(7,589)** | **3,156** |

# FIVE-YEAR FINANCIAL SUMMARY

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

| | | For the year ended 31 December | | | | |
|---|---|---|---|---|---|---|
| | | **2022** | 2021 | 2020 | 2019 | 2018 |
| | *Note* | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Revenue** | | **42,521** | 44,086 | 82,365 | 104,884 | 124,385 |
| Cost of sales | | **(30,568)** | (34,952) | (46,728) | (56,253) | (75,496) |
| **Gross profit** | | **11,953** | 9,134 | 35,637 | 48,631 | 48,889 |
| Other income and gains | | **769** | 674 | 1,278 | 1,196 | 633 |
| Expenses and impairment | *1* | **(15,745)** | (14,306) | (16,058) | (16,877) | (14,818) |
| **(Loss)/profit from operations** | *1* | **(3,023)** | (4,498) | 20,857 | 32,950 | 34,704 |
| Finance costs | *1* | **(52)** | (46) | (51) | (67) | – |
| **(Loss)/profit before income tax** | *1* | **(3,075)** | (4,544) | 20,806 | 32,883 | 34,704 |
| Income tax expense | *1* | **(327)** | (622) | (4,058) | (5,690) | (5,970) |
| **(Loss)/profit for the year** | *1* | **(3,402)** | (5,166) | 16,748 | 27,193 | 28,734 |

## ASSET AND LIABILITIES

| | | As at 31 December | | | | |
|---|---|---|---|---|---|---|
| | | **2022** | 2021 | 2020 | 2019 | 2018 |
| | *Note* | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | *1* | **80,359** | 150,337 | 157,525 | 171,995 | 142,714 |
| Total liabilities | *1* | **8,136** | 20,817 | 15,494 | 43,996 | 32,269 |
| Total equity | | **72,223** | 129,520 | 142,031 | 127,999 | 110,445 |

*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.