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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2262)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2019 (Audited)	2018 (Audited)	% Change
Results:			
Profit for the year (HK$ million)	**40.1**	58.0	(30.9%)
Financial Information per Share:			
Earnings (HK Cents)			
– basic	**3.39**	5.70	(40.5%)
– diluted	**3.36**	5.67	(40.7%)
Net assets value per share (HK$) (Net assets/number of issued ordinary shares of the Company)	**0.41**	0.43	(4.7%)

Bank Balances and Cash:

As at 31 December 2019, the Group had bank balances and cash (excluding pledged bank deposits) of approximately HK$273.6 million (Previous Year: approximately HK$284.2 million).

Final Dividend:

The Board proposed a final dividend of HK1.30 cents per share for the year ended 31 December 2019.

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of STEVE LEUNG DESIGN GROUP LIMITED 梁志天設計集團有限公司 (the "**Company**") hereby announces the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 (the "**Year**") together with the audited comparative figures for the corresponding year ended 31 December 2018 (the "**Previous Year**") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	**2019**	2018
		HK$'000	*HK$'000*
Revenue	*3*	**504,686**	503,890
Cost of sales		**(310,049)**	(277,388)
Gross profit		**194,637**	226,502
Other gains and losses	*5*	**(3,059)**	4,707
Impairment losses on trade receivables under expected credit loss model		**(4,124)**	(1,388)
Other income	*6*	**13,672**	2,539
Administrative expenses		**(137,329)**	(129,811)
Listing expense		**–**	(13,412)
Finance costs	*7*	**(2,662)**	(916)
Profit before taxation		**61,135**	88,221
Income tax expense	*8*	**(21,009)**	(30,208)
Profit for the year	*9*	**40,126**	58,013
Other comprehensive expense that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(6,896)**	(11,573)
Total comprehensive income for the year		**33,230**	46,440

	NOTES	2019	2018
		HK$'000	*HK$'000*
Profit for the year attributable to:			
– Owners of the Company		**38,648**	56,727
– Non-controlling interests		**1,478**	1,286
		40,126	58,013
Total comprehensive income for the year attributable to:			
– Owners of the Company		**31,923**	44,937
– Non-controlling interests		**1,307**	1,503
		33,230	46,440
Earnings per share (expressed in Hong Kong cents)	*11*		
– Basic		**3.39**	5.70
– Diluted		**3.36**	5.67

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	**2019**	2018
		HK$'000	*HK$'000*
Non-current Assets			
Property, plant and equipment		**20,266**	24,315
Right-of-use assets	*12*	**63,053**	–
Intangible assets		**3,546**	4,355
Goodwill		**1,203**	1,231
Deposits paid for acquisition of property, plant and equipment		**9,314**	3,769
Rental deposits		**2,310**	6,042
Deferred tax assets		**21,266**	11,797
		120,958	51,509
Current Assets			
Inventories		**1,162**	1,444
Note receivables	*13*	**–**	60,000
Trade receivables	*14*	**198,946**	145,342
Other receivables, deposits and prepayments		**27,949**	16,734
Contract assets	*15*	**51,935**	62,950
Tax recoverable		**155**	–
Pledged bank deposit		**3,091**	–
Bank balances and cash		**273,595**	284,218
		556,833	570,688
Current Liabilities			
Trade payables	*16*	**37,683**	24,264
Other payables and accrued charges	*16*	**54,113**	58,098
Bank borrowings	*17*	**33,618**	20,000
Lease liabilities		**22,226**	–
Obligations under a finance lease		**–**	223
Contract liabilities	*18*	**13,841**	20,316
Tax liabilities		**9,890**	12,592
		171,371	135,493
Net Current Assets		**385,462**	435,195
Total Assets less Current Liabilities		**506,420**	486,704

	NOTE	**2019**	2018
		HK$'000	*HK$'000*
Capital and Reserves			
Share capital	*19*	**11,400**	11,400
Reserves		**441,364**	465,011
Equity attributable to owners of the Company		**452,764**	476,411
Non-controlling interests		**10,786**	9,479
Total Equity		**463,550**	485,890
Non-current Liabilities			
Deferred tax liabilities		**2,450**	82
Lease liabilities		**40,420**	–
Obligations under a finance lease		**–**	732
		42,870	814
		506,420	486,704

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND BASIS OF PREPARATION

Steve Leung Design Group Limited (the "**Company**") was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 December 2016 and its shares were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 5 July 2018 (the "**Listing Date**"). The Company's immediate holding company is Eagle Vision Development Limited, a limited liability company incorporated in the British Virgin Islands ("**BVI**"), whereas the Directors of the Company consider that the Company's ultimate holding company is Jangho Group Co., Ltd., a company incorporated in the People's Republic of China (the "**PRC**") with its shares listed on the Shanghai Stock Exchange.

The Company acts as an investment holding company and provides corporate management services.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Application of new and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

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

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases*

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

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

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

As a lessee

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

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

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

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

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

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKAS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

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

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

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

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

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

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

3. REVENUE

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

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

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

Disaggregation of revenue from contracts with customers

For the year ended 31 December 2019

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

For the year ended 31 December 2018

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

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

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

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

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

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

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

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

4. OPERATING SEGMENTS

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

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

1. Interior design services: Provision of interior design services

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

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

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

Segment revenue and results

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

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

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

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

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

Other segment information

For the year ended 31 December 2019

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

For the year ended 31 December 2018

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

Geographical information

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

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

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

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

Information about major customers

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

5. OTHER GAINS AND LOSSES

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

6. OTHER INCOME

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

Notes:

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

2. The amounts include certain incentives to attract foreign investment from the relevant PRC tax authorities in the form of profits tax rebate in Tianjin, the PRC.

7. FINANCE COSTS

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

8. INCOME TAX EXPENSE

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

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

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

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

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

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

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

9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

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

10. DIVIDEND

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

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

11. EARNINGS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**38,648**	56,727
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,140,021,584**	995,547,945
Effect of dilutive potential ordinary shares in respect of outstanding share options	**11,335,875**	4,793,428
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,151,357,459**	1,000,341,373

12. RIGHT-OF-USE ASSETS

	Leased properties	**Office equipment**	**Motor vehicle**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
As at 1 January 2019				
Carrying amount	39,913	5,203	1,171	46,287
As at 31 December 2019				
Carrying amount	58,410	3,798	845	63,053
For the year ended 31 December 2019				
Depreciation charge	21,679	1,365	327	23,371
Expense relating to short-term leases				102
Expense relating to leases of low-value assets, excluding short-term leases of low value assets				134
Total cash outflow for leases				25,252
Additions to right-of-use assets				40,835

13. NOTE RECEIVABLES

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

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

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

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

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

14. TRADE RECEIVABLES

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

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

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

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

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

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

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$198,946,000 (2018: HK$145,342,000) which are past due as at the reporting date. Out of the past due balances, HK$58,144,000 (2018: HK$26,891,000) has been past due more than 90 days and is not considered as in default since the amounts are still considered as recoverable based on historical experience and forward-looking estimates. The Group does not hold any collateral over these balances.

15. CONTRACT ASSETS

	2019	2018
	HK$'000	*HK$'000*
Contract assets		
Interior design services	**48,551**	59,474
Interior decorating and furnishing design services	**3,384**	2,978
Product design services	**–**	498
	51,935	62,950

At 1 January 2018, contract assets amounted to HK$55,005,000.

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

Included in the carrying amount of contract assets as at 31 December 2019 is an amount of HK$4,722,000 (2018: HK$10,831,000) from related parties controlled by a controlling shareholder of the Company.

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

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

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

16. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	2019 HK$'000	2018 HK$'000
0 to 180 days	**26,303**	21,128
Over 180 days	**11,380**	3,136
	37,683	24,264

The following is the analysis of other payables and accrued charges at the end of each reporting period:

	2019 HK$'000	2018 HK$'000
Accrued staff benefits	**22,569**	30,851
Deposits received from customers	**24,229**	16,018
Liability associated with long-term employee benefits	**–**	4,905
Other payables and accrued charges	**7,315**	6,324
	54,113	58,098

17. BANK BORROWINGS

	2019 HK$'000	2018 HK$'000
Secured	**3,618**	–
Unsecured	**30,000**	20,000
	33,618	20,000
The carrying amounts of the above borrowings that do not contain a repayment on demand clause and are repayable based on the scheduled repayment dates set out in the loan agreements within one year	**2,232**	–
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) and the maturity analysis based on the scheduled repayment dates set out in the loan agreements are within one year	**31,386**	20,000
	33,618	20,000

As at 31 December 2019, included in the Group's borrowings of HK$30,000,000 and HK$3,618,000 are variable-rate borrowings carrying interest at 2% to 3.75% over Hong Kong Interbank Offering Rate ("**HIBOR**") and 15% to 25% above benchmark interest rates set by the People's Bank of China respectively. The secured borrowings were secured by pledged bank deposit amounting to HK$3,091,000, bear interest ranges from 1.4% to 2.3% per annum. HK$10,000,000 of the Group's unsecured borrowings are guaranteed by the Company.

As at 31 December 2018, the Group has a variable rate borrowing, which is unsecured, bears interest at 3.5% over HIBOR per annum and the interest is repriced every month and repayable within one year. As at 31 December 2018, the average effective interest rate (which is equal to contracted interest rate) on the Group's bank loan is 5.95% per annum. The loan is guaranteed by the Company.

18. CONTRACT LIABILITIES

	2019	2018
	HK$'000	*HK$'000*
Contract liabilities		
Interior design services	**3,296**	5,433
Interior decorating and furnishing services	**10,545**	14,883
	13,841	20,316

At 1 January 2018, contract liabilities amounted to HK$17,665,000.

The contract liabilities represent the Group's obligation to transfer performance obligation to customers for which the Group has received consideration from the customers.

Movements in contract liabilities:

	2019	2018
	HK$'000	*HK$'000*
Balance at the beginning of the year	**20,316**	17,665
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(19,087)**	(14,551)
Increase in contract liabilities as a result of receiving deposits from the customers	**12,657**	17,365
Exchange realignments	**(45)**	(163)
Balance at the end of the year	**13,841**	20,316

When the Group receives a deposit before the design services commence, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

19. SHARE CAPITAL

	Number of shares	*HK$*
Ordinary share of the Company of HK$0.01 each		
Authorised		
At 1 January 2018	39,000,000	390,000
Increase on 11 June 2018 *(Note (a))*	3,961,000,000	39,610,000
At 31 December 2018 and 31 December 2019	4,000,000,000	40,000,000
Issued and fully paid		
At 1 January 2018	1,000	10
Capitalisation issue *(Note (b))*	854,999,000	8,549,990
Issue of shares *(Note (c))*	285,000,000	2,850,000
At 31 December 2018	1,140,000,000	11,400,000
Issue of shares upon exercise of share options *(Note (d))*	39,000	390
At 31 December 2019	1,140,039,000	11,400,390

Notes:

(a) On 11 June 2018, the authorised share capital of the Company was increased from HK$390,000 divided into 39,000,000 shares of par value HK$0.01 each to HK$40,000,000 divided into 4,000,000,000 shares of par value HK$0.01 each, by the creation of 3,961,000,000 shares of par value HK$0.01 each.

(b) On 5 July 2018, the Company capitalised HK$8,550,000 standing to the credit of share premium of the Company and applied such amount in paying up in full 854,999,000 shares of the Company for allotment. The new shares rank pari passu in all respects with the issued ordinary shares of the Company.

(c) On 5 July 2018, 285,000,000 ordinary shares of the Company were issued at a price of HK$0.88 by way of initial public offering. Those shares rank pari passu with the existing ordinary shares of the Company. On the same date, the Company's shares were listed on the Stock Exchange. The proceeds of HK$2,850,000 and HK$247,950,000, (net of transaction cost of HK$20,977,000), were credited to the Company's share capital and share premium, respectively.

(d) On 13 June 2019, 39,000 ordinary shares of the Company were issued at a price of HK$0.44 per share pursuant to exercise of share options under the Pre-IPO share option scheme adopted on 11 June 2018 by an employee of the Group.

20. CAPITAL COMMITMENTS

	2019	2018
	HK$'000	*HK$'000*
Capital expenditures in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**725**	1,713

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

2019 was inevitably a very challenging year for real estate industry in the PRC as a result of the slowing economy, the Sino-US trade war, increasing government intervention and financing difficulties for enterprises.

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

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

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

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

Business and Operational Review

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

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

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

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

Overall Performance

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

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

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

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

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

Interior Design Services

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

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

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

Interior Decorating and Furnishing Services

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

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

Product Design Services

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

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

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

Awards and Accreditations for Year 2019

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

Corporate Honours:

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

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

Asia Pacific Eldercare Innovation Awards
Interior Design Firm of the Year

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

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

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

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

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

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

Interior Design Awards:

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

Hospitality Design Awards
Winner – Upscale Restaurant – Ta-ke

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

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

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

Financial Review

Revenue and Gross Profit

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

Gross Profit by Segment

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

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

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

Remaining Contract Sum Movement

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

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

Other gains and losses

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

Other income

The other income includes the interest income from bank deposits, note receivables, government grants and PRC tax rebates. The increase from approximately HK$2.5 million to HK$13.7 million during the Year was mainly contributed from the interest income from the note receivables, increase in PRC government grants and PRC tax rebates during the Year. For details, please refer to note 6 to the consolidated financial statements of this announcement.

Administrative expenses

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

Finance costs

The finance costs are arising from the bank borrowings for financing the Group's operations and interest in lease liabilities arising from the application of HKFRS 16. The increase in finance costs was mainly due to the effect from the adoption of HKFRS 16. For details, please refer to note 7 to the consolidated financial statements of this announcement.

Profit for the year

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

Basic earnings per share

The Company's basic earnings per share for the Year was HK3.39 cents (Previous Year: HK5.70 cents), representing a decrease of HK2.31 cents or 40.5% which was in line with the decrease in profit for the Year. In addition, the basic earnings per share for the Year was calculated based on the weighted average number of 1,140,021,584 shares in issue during the Year, whilst basic earnings per share for the Previous Year was calculated based on the weighted average number of 995,547,945 shares then in issue. As such, the basic earnings per share for the Year was relatively lower than those for the Previous Year. Details of earnings per share are set out in note 11 to the consolidated financial statements of this announcement.

Dividend

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

Outlook and Prospects

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

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

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

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

CORPORATE FINANCE AND RISK MANAGEMENT

Liquidity and Financial Resources

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

As at 31 December 2019, the Group's total debt (representing total interest-bearing borrowings excluding lease liabilities arising from the adoption of HKFRS 16) to total asset ratio was approximately 5.0% (Previous Year: 3.3%). The gearing ratio (net debt excluding lease liabilities arising from the adoption of HKFRS 16 to equity attributable to owners of the Company) was 7.4% (Previous Year: 4.4%) and the Group has net cash (i.e. bank balances and cash (including pledged bank deposit) less total debt) of approximately HK$243.1 million as at 31 December 2019 (Previous Year: HK$263.3 million).

The bank borrowings of the Group mainly comprised the bank borrowings for financing the Group's daily operation and our equity capital raising expenses. The bank borrowings of HK$3.6 million as at 31 December 2019 were secured by a pledged bank deposit and HK$10.0 million bank borrowings were unsecured and guaranteed by the Company as disclosed in note 17 to the consolidated financial statements of this announcement. The bank borrowings of HK$20.0 million as at 31 December 2018 were secured by corporate guarantee of the Company, with one-year term from drawdown date and fully repaid in January 2019 by net proceeds from the Global Offering as stated in the prospectus of the Company dated 22 June 2018 ("**Prospectus**") and operating cash. Further costs for operations and expansion will be partially financed by the Group's unutilised bank facilities. As at 31 December 2019 and up to this announcement date, the bank borrowings are mainly for financing the Group's daily operation only.

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

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

Pledge of Assets

As at 31 December 2019, a bank borrowing of the Group was secured by pledged bank deposit of HK$3.1 million as disclosed in note 17 to the consolidated financial statements of this announcement. Other bank borrowings of the Group were unsecured in which HK$10.0 million were guaranteed by the Company.

Contingent Liabilities and Capital Commitments

The Group did not have any significant contingent liabilities as at 31 December 2019 and 31 December 2018. For capital commitments, please refer to note 20 to the consolidated financial statements of this announcement. The Group intends to meet its capital commitments by internally generated funds.

Exposure to Fluctuations in Exchange Rates and Interest Rates and Corresponding Hedging Arrangement

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

Credit Risk Exposure

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

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

Risk Management

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

EVENTS AFTER THE REPORTING PERIOD

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

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

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 9 to the consolidated financial statements of this announcement.

EMPLOYEES AND REMUNERATION POLICIES

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

SIGNIFICANT INVESTMENTS/MATERIAL ACQUISITION AND DISPOSALS

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

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

USE OF PROCEEDS FROM THE GLOBAL OFFERING

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

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

FINAL DIVIDEND

The Board proposed a final dividend for the Year in the amount of HK1.30 cents per share, which amounts to approximately HK$14.8 million in total. The payment of such final dividend will be subject to the approval of the shareholders at the forthcoming AGM. Subject to the approval of the shareholders at the AGM, it is expected that the proposed final dividend will be paid on 30 November 2020. Notice of the AGM will be published on the Company's website and despatched to the shareholders in the manner required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and voting at the AGM to be held on 19 June 2020, the register of members of the Company will be closed from 16 June 2020 to 19 June 2020, both days inclusive, during which no transfer of shares will be registered. All transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Link Market Services (Hong Kong) Pty Limited, at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong, for registration not later than 4:30 p.m. on 15 June 2020 (Monday).

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 26 June 2020 to 30 June 2020, accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Link Market Services (Hong Kong) Pty Limited, at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong, for registration not later than 4:30 p.m. on 24 June 2020 (Wednesday).

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

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

CORPORATE GOVERNANCE

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

In the opinion of the Directors, the Company has complied, to the extent applicable and permissible with the code provisions as set out in the Code of Corporate Governance Practices and Corporate Governance Report as contained in Appendix 14 to the Listing Rules (the "**Code Provisions**") for the Year and up to the date of this announcement, except for the following deviation: Paragraph A.6.7 of the Code Provisions specifies that the independent non-executive Directors and other non-executive Directors should attend general meetings of the Company and develop a balanced understanding of the views of the shareholders. Two independent non-executive Directors and two non-executive Directors were absent from the annual general meeting of the Company held on 3 June 2019 due to other important business commitments.

On 30 March 2020, due to other personal career development, Mr. Cheung Henry has resigned as the company secretary, the authorised representative ("**Authorised Representative**") under Rule 3.05 of the Listing Rules and the member of the risk management committee (the "**Risk Management Committee**") of the Company. Mr. Yip Kwok Hung Kevin and Ms. Choi Mei Bik have been appointed as joint company secretaries of the Company and Mr. Siu Man Hei has been appointed as the Authorised Representative and a member of the Risk Management Committee.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by directors and employees (the "**Securities Code**") with standards no less exacting than that of the Model Code for Securities Transactions by Directors of Listed Issuer (the "**Model Code**") set out in Appendix 10 of the Listing Rules. Having made specific enquiries, all directors and relevant employees of the Group confirmed that they have complied with the Securities Code and the Model Code during the Year.

AUDIT COMMITTEE REVIEW

The audit committee of the Board (the "**Audit Committee**") has reviewed with the Group's management and auditor, Messrs. Deloitte Touche Tohmatsu, the accounting principles and policies adopted by the Group, and discussed the financial information of the Group and the annual results of the Group for the Year.

The Audit Committee, which comprises all of the three independent non-executive directors, namely Mr. Tsang Ho Ka Eugene (Chairman of the Audit Committee), Mr. Liu Yi and Mr. Sun Yansheng. Members of the Audit Committee agree with the accounting treatments adopted in the preparation of the consolidated financial statements for the Year.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountant and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is available for reviewing on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.sldgroup.com) and the annual report of the Company for the year ended 31 December 2019 containing also the information required by the Listing Rules will be despatched to the Company's shareholders and published on the above websites in due course.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our staffs, shareholders, business partners and other professional parties for their support and commitment to the Group during these challenging years.

By Order of the Board
Steve Leung Design Group Limited
梁志天設計集團有限公司
Xu Xingli
Chairman

Hong Kong, 30 March 2020

As at the date of this announcement, the executive Directors are Mr. Siu Man Hei (Chief Executive Officer), Mr. Yip Kwok Hung Kevin (Chief Financial Officer), Mr. Ding Chunya, Ms. Kau Wai Fun, the non-executive Directors are Mr. Xu Xingli (Chairman) and Mr. Huang Jianhong, and the independent non-executive Directors are Mr. Liu Yi, Mr. Sun Yansheng and Mr. Tsang Ho Ka Eugene.