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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 2022

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2022	2021
	(Audited)	(Audited)
Results:		
Revenue (HK$ million)	**381.0**	455.0
(Loss) profit for the year (HK$ million)	**(59.9)**	1.6
(Loss) profit for the year attributable to owners of the Company (HK$ million)	**(62.4)**	2.9
Financial Information:		
(Loss) earnings per share (HK Cents)		
— basic	**(5.47)**	0.26
— diluted	**(5.47)**	0.26
Net assets value per share (HK$)	**0.30**	0.42

Bank Balances and Cash:

As at 31 December 2022, the Group had bank balances and cash of approximately HK$153.3 million (Previous Year: approximately HK$246.7 million).

Final Dividend:

The Board does not recommend the payment of final dividend for the year ended 31 December 2022.

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 2022 (the "**Year**") together with the audited comparative figures for the corresponding year ended 31 December 2021 (the "**Previous Year**") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	**2022** ***HK$'000***	2021 *HK$'000*
Revenue	*3*	**381,002**	455,035
Cost of sales		**(241,752)**	(266,139)
Gross profit		**139,250**	188,896
Other gains and losses	*5*	**(5,098)**	5,579
Impairment losses on trade receivables and contract assets under expected credit loss model		**(30,351)**	(40,165)
Other income	*6*	**3,191**	7,184
Administrative expenses		**(163,035)**	(151,943)
Finance costs	*7*	**(3,683)**	(4,010)
(Loss) profit before taxation		**(59,726)**	5,541
Income tax expense	*8*	**(162)**	(3,893)
(Loss) profit for the year	*9*	**(59,888)**	1,648
Other comprehensive (expense) income that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(23,293)**	8,819
Total comprehensive (expense) income for the year		**(83,181)**	10,467

	NOTES	2022 HK$'000	2021 HK$'000
(Loss) profit for the year attributable to:			
— Owners of the Company		**(62,441)**	2,940
— Non-controlling interests		**2,553**	(1,292)
		(59,888)	1,648
Total comprehensive (expense) income for the year attributable to:			
— Owners of the Company		**(84,997)**	11,559
— Non-controlling interests		**1,816**	(1,092)
		(83,181)	10,467
(Loss) earnings per share (expressed in Hong Kong cents)	*11*		
— Basic		**(5.47)**	0.26
— Diluted		**(5.47)**	0.26

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	NOTES	2022 HK$'000	2021 HK$'000
Non-current Assets			
Property, plant and equipment		**13,872**	25,655
Right-of-use assets	12	**39,499**	44,128
Intangible assets		**2,028**	2,665
Goodwill		**1,205**	1,319
Deposits paid for acquisition of property, plant and equipment		**4,503**	347
Rental deposits		**6,327**	6,595
Deferred tax assets		**44,280**	32,241
		111,714	112,950
Current Assets			
Inventories		**42**	1,008
Financial assets at fair value through profit or loss	13	**–**	30,300
Trade receivables	14	**174,515**	172,591
Other receivables, deposits and prepayments		**16,430**	19,748
Contract assets	15	**66,781**	65,983
Tax recoverable		**263**	43
Pledged bank deposits		**–**	558
Bank balances and cash		**153,338**	246,661
		411,369	536,892
Current Liabilities			
Trade payables	16	**40,737**	36,996
Other payables and accrued charges	16	**24,336**	27,177
Bank borrowings	17	**30,000**	20,000
Lease liabilities		**16,490**	24,293
Contract liabilities	18	**24,044**	25,353
Tax liabilities		**22,263**	16,001
		157,870	149,820
Net Current Assets		**253,499**	387,072
Total Assets less Current Liabilities		**365,213**	500,022

	NOTES	2022 HK$'000	2021 HK$'000
Capital and Reserves			
Share capital	*19*	**11,414**	11,414
Reserves		**315,007**	455,502
Equity attributable to owners of the Company		**326,421**	466,916
Non-controlling interests		**12,784**	10,968
Total Equity		**339,205**	477,884
Non-current Liabilities			
Deferred tax liabilities		**1,335**	228
Lease liabilities		**24,673**	21,910
		26,008	22,138
		365,213	500,022

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

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 Company's immediate holding company is Eagle Vision Development Limited, a limited liability company incorporated in the British Virgin Islands, whereas the Directors consider that the Company's ultimate holding company is Jangho Group Co., Ltd., a company incorporated in the People's Republic of China ("**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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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.

Going concern assessment

The Directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRS 1, HKFRS 9,HKFRS 16 and HKAS 41	Annual Improvements to HKFRSs 2018–2020

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

Amendments to HKFRS 3 Reference to the Conceptual Framework

The amendments update a reference in HKFRS 3 *Business Combinations* so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

These amendments had no impact on the consolidated financial statements of the Group.

Amendments to HKAS 16 Property, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

These amendments had no impact on the consolidated financial statements of the Group.

Amendments to HKAS 37 Onerous Contracts — Cost of Fulfilling a Contract

The amendments specify that the "cost of fulfilling a contract" comprises the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

These amendments had no impact on the consolidated financial statements of the Group.

Annual Improvements to HKFRSs 2018–2020

The annual improvements make amendments to the following standards:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

- HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

These amendments had no impact on the consolidated financial statements of the Group.

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:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current, Non-current Liabilities with Covenants and related amendments to Hong Kong Interpretation 5 (Revised)[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of accounting estimates[1]
Amendments to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback (amendments)[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined

The Directors anticipate that the application of all of the above 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 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 2022 and 31 December 2021 is as follows:

	2022	2021
	HK$'000	*HK$'000*
Service revenue	**280,387**	361,212
License fee revenue	**2,896**	5,729
Trading income	**97,719**	88,094
	381,002	455,035

Disaggregation of revenue from contracts with customers

For the year ended 31 December 2022

	Interior design services HK$'000	Interior decorating and furnishing services HK$'000	Product design services HK$'000	Total HK$'000
Geographical markets				
Hong Kong	19,721	3,877	30	23,628
PRC	221,568	107,056	1,421	330,045
Other regions	25,141	743	1,445	27,329
	266,430	111,676	2,896	381,002
Timing of revenue recognition				
Over time				
Service revenue	266,430	13,957	–	280,387
At point in time				
License fee revenue	–	–	2,896	2,896
Trading income	–	97,719	–	97,719
	–	97,719	2,896	100,615
	266,430	111,676	2,896	381,002

For the year ended 31 December 2021

	Interior design services HK$'000	Interior decorating and furnishing services HK$'000	Product design services HK$'000	Total HK$'000
Geographical markets				
Hong Kong	26,577	3,561	86	30,224
PRC	281,917	102,601	5,408	389,926
Other regions	30,278	2,781	1,826	34,885
	338,772	108,943	7,320	455,035
Timing of revenue recognition				
Over time				
Service revenue	338,772	20,849	1,591	361,212
At point in time				
License fee revenue	–	–	5,729	5,729
Trading income	–	88,094	–	88,094
	–	88,094	5,729	93,823
	338,772	108,943	7,320	455,035

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

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

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

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

For trading of interior decorative products, revenue is recognised when control of the goods has been transferred, at which time the goods have been delivered to the specific location and confirmed by the customers.

For license arrangement, revenue is recognised when the Group grants our customers the right to use the Group's intellectual property.

The expected timing of recognising revenue on transaction price related to the performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2022 and 2021 is within one year. As permitted under HKFRS 15 *Revenue from Contracts with Customers*, 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.

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 2022				
Revenue				
Segment revenue from external customers	**266,430**	**111,676**	**2,896**	**381,002**
Results				
Segment results	**(33,608)**	**(11,862)**	**(1,383)**	**(46,853)**
Unallocated expenses *(Note 1)*				**(9,621)**
Interest income				**431**
Finance costs				**(3,683)**
Loss before taxation				**(59,726)**

	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 2021				
Revenue				
Segment revenue from external customers	338,772	108,943	7,320	455,035
Results				
Segment results	4,462	12,979	4,600	22,041
Unallocated expenses *(Note 1)*				(13,752)
Change in fair value of financial assets at fair value through profit or loss ("**FVTPL**")				309
Interest income				953
Finance costs				(4,010)
Profit before taxation				5,541

Notes:

1. Unallocated expenses mainly represented headquarters expenses without allocation to segments.

2. 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 expenses, changes in fair value of financial assets at FVTPL, interest income and finance costs. 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

Amounts included in the measure of segment results

	Interior design services *HK$'000*	**Interior decorating and furnishing services** *HK$'000*	**Total** *HK$'000*
For the year ended 31 December 2022			
Amortisation of intangible assets	**424**	**–**	**424**
Written off of inventories	**–**	**974**	**974**
Depreciation of property, plant and equipment	**10,306**	**639**	**10,945**
Depreciation of right-of-use assets	**20,318**	**4,469**	**24,787**
Loss on disposals of property, plant and equipment	**15**	**–**	**15**
Impairment losses on trade receivables under expected credit loss ("**ECL**") model	**20,964**	**9,498**	**30,462**
(Reversal of) impairment losses on contract assets under ECL model	**(701)**	**590**	**(111)**

	Interior design services *HK$'000*	Interior decorating and furnishing services *HK$'000*	Total *HK$'000*
For the year ended 31 December 2021			
Amortisation of intangible assets	482	–	482
Depreciation of property, plant and equipment	13,357	373	13,730
Depreciation of right-of-use assets	19,716	6,340	26,056
Loss on disposals of property, plant and equipment	56	–	56
Loss on disposals of intangible assets	5	5	10
Impairment losses on trade receivables under ECL model	28,105	1,638	29,743
Impairment losses on contract assets under ECL model	10,051	371	10,422

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.

	2022	2021
	HK$'000	*HK$'000*
External revenue:		
Hong Kong	**23,628**	30,224
PRC	**330,045**	389,926
Other regions	**27,329**	34,885
	381,002	455,035

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.

	2022	2021
	HK$'000	*HK$'000*
PRC	**55,659**	53,973
Hong Kong	**11,775**	26,736
	67,434	80,709

Information about major customers

During the years ended 31 December 2022 and 2021, none of the Group's single customer attributed to more than 10% of the Group's total external revenue.

5. OTHER GAINS AND LOSSES

	2022	2021
	HK$'000	*HK$'000*
Exchange (loss) gain, net	**(5,083)**	3,191
Gain on lease modification	**–**	2,145
Changes in fair value of financial assets at FVTPL	**–**	309
Loss on disposals of property, plant and equipment	**(15)**	(56)
Loss on disposals of intangible assets	**–**	(10)
	(5,098)	5,579

6. OTHER INCOME

	2022 HK$'000	2021 HK$'000
Grants received from local government *(Note 1)*	**1,226**	769
Interest income from bank deposits	**431**	953
PRC incentive rebates *(Note 2)*	**85**	2,991
Miscellaneous income	**1,449**	2,471
	3,191	7,184

Notes:

1. The grants were granted by the relevant PRC government 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 government authorities.

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

7. FINANCE COSTS

	2022 HK$'000	2021 HK$'000
Interest on bank borrowings	**1,821**	1,721
Interest on lease liabilities	**1,862**	2,289
	3,683	4,010

8. INCOME TAX EXPENSE

	2022 HK$'000	2021 HK$'000
Current tax:		
Hong Kong Profits Tax	**–**	118
PRC Enterprise Income Tax	**11,584**	11,319
	11,584	11,437
Under (over) provision in prior years:		
Hong Kong Profits Tax	**244**	(30)
PRC Enterprise Income Tax	**31**	207
	275	177
Deferred taxation	**(11,697)**	(7,721)
	162	3,893

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

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

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

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

	2022	2021
	HK$'000	*HK$'000*
(Loss) profit before taxation	**(59,726)**	5,541
Tax at applicable tax rate of 16.5% (2021: 16.5%)	**(9,855)**	914
Tax effect of income not taxable for tax purpose	**(632)**	(2,879)
Tax effect of expenses not deductible for tax purpose	**2,369**	563
Tax effect of tax losses not recognised	**7,773**	2,525
Utilisation of tax losses previously not recognised	**(12)**	–
Effect of different tax rate of the PRC subsidiaries operating in other jurisdiction	**244**	2,593
Under provision in prior years	**275**	177
Income tax expense for the year	**162**	3,893

9. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging:

	2022	2021
	HK$'000	*HK$'000*
Amortisation of intangible assets		
— included in cost of sales	**198**	242
— included in administrative expenses	**226**	240
	424	482
Auditor's remunerations	**1,080**	1,080
Cost of inventories recognised as an expense	**61,307**	55,782
Written off of inventories	**974**	–
Depreciation of right-of-use assets	**24,787**	26,056
Depreciation of property, plant and equipment	**10,945**	13,730
Staff costs *(Note)*:		
Directors' emoluments	**11,670**	12,459
Other staffs		
— basic salaries, allowances and other benefits	**172,393**	167,853
— discretionary bonus	**15,820**	28,484
— retirement benefits scheme contributions	**23,842**	23,837
— expense recognised in respect of Conversion Scheme and share option scheme	**1,048**	1,048
	213,103	221,222
	224,773	233,681

Note: For the year ended 31 December 2022, COVID-19 related government assistance amounted to HK$3,112,000 in relation to the Employment Support Scheme under the Anti-epidemic Fund launched by the Hong Kong Special Administrative Region ("**HKSAR**") Government have been offset against the staff costs.

10. DIVIDEND

	2022	2021
	HK$'000	*HK$'000*
Dividends for ordinary shareholders of the Company recognised as distributions during the year:		
2021 Special dividend-HK5.00 cents (2020 Final dividend: HK3.00 cents) per share	**57,070**	34,228

The Directors do not recommend the payment of any dividend for the year ended 31 December 2022 (2021: a special dividend of HK5.00 cents per share).

11. (LOSS) EARNINGS PER SHARE

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

	2022	2021
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) profit for the year attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	**(62,441)**	2,940

	2022	2021
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**1,141,401,000**	1,140,969,750
Effect of dilutive potential ordinary shares in respect of outstanding share options	**–**	10,665,415
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**1,141,401,000**	1,151,635,165

The computation of diluted loss per share for the year ended 31 December 2022 did not assume the conversion of the Company's outstanding share options since their assumed exercise would result in a decrease in loss per share for the year.

12. RIGHT-OF-USE ASSETS

	Leased properties *HK$'000*	Office equipment *HK$'000*	Motor vehicle *HK$'000*	Total *HK$'000*
As at 31 December 2022				
Carrying amount	**35,838**	**3,661**	**–**	**39,499**
As at 31 December 2021				
Carrying amount	40,728	3,209	191	44,128
For the year ended 31 December 2022				
Depreciation charge	**23,132**	**1,464**	**191**	**24,787**
Expense relating to short-term leases				**138**
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets				**16**
Total cash flow for leases				**27,078**
Additions to right-of-use assets				**22,864**
For the year ended 31 December 2021				
Depreciation charge	24,366	1,363	327	26,056
Effect of lease modification				2,973
Expense relating to short-term leases				416
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets				20
Total cash flow for leases				27,688
Additions to right-of-use assets				8,411

For both years, the Group leased various offices premises for its operations. Lease contracts are entered into for fixed term of 2 years to 5 years (2021: 2 years to 5 years). Lease terms are negotiated on an individual basis and contained different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applied the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for office premises. As at 31 December 2022 and 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term expense disclosed above.

Restriction or covenants on leases

The lease arrangements 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 purpose.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2021
	HK$'000	*HK$'000*
Financial assets at FVTPL		
— Unlisted fund investments	**–**	30,300

14. TRADE RECEIVABLES

	2022	2021
	HK$'000	*HK$'000*
Trade receivables	**169,001**	162,366
Less: allowance for credit losses	**(54,480)**	(38,585)
Trade receivables (net carrying amount)	**114,521**	123,781
Unbilled receivables *(Note)*	**94,904**	75,916
Less: allowance for credit losses	**(34,910)**	(27,106)
Unbilled receivables (net carrying amount)	**59,994**	48,810
	174,515	172,591

Note: Unbilled receivables primarily relate to the Group's unconditional right to consideration for work completed in achieving specified milestones as stipulated in the contracts but the related invoices have not yet been issued as at the year end.

Included in the carrying amount of trade receivables as at 31 December 2022 is an amount of HK$20,192,000 (2021: HK$12,581,000) due from related parties controlled by a controlling shareholder of the Company.

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

	2022	2021
	HK$'000	*HK$'000*
0 to 30 days	**35,838**	47,195
31 to 90 days	**13,165**	19,026
91 to 180 days	**19,162**	12,019
181 days to 1 year	**17,244**	11,734
Over 1 year	**29,112**	33,807
	114,521	123,781

There is no credit period given on billing for its customers.

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$114,521,000 (2021: HK$123,781,000) which are past due as at the reporting date. Out of the past due balances, HK$65,518,000 (2021: HK$57,560,000) 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. As at 31 December 2022, the Group's trade receivables of HK$19,142,000 (31 December 2021: Nil) are collateralised by certain PRC properties of customers, of which HK$16,865,000 are related to debtors with balances due over 1 year.

15. CONTRACT ASSETS

	2022	2021
	HK$'000	*HK$'000*
Interior design services	**78,696**	80,386
Interior decorating and furnishing services	**4,801**	4,071
Less: allowance for credit losses	**(16,716)**	(18,474)
	66,781	65,983

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance in satisfying respective performance obligations as at the reporting date in respect of the design services. The contract assets are transferred to trade receivables when the rights become unconditional, which is typically at the time the Group achieve specified milestones as stipulated in the contracts.

Included in the carrying amount of contract assets as at 31 December 2022 is an amount of HK$2,042,000 (2021: HK$2,314,000) 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 construction period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits range from 10% to 20% of total contract sum as part of its credit risk management policies.

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

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

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:

	2022	2021
	HK$'000	*HK$'000*
0 to 180 days	**21,335**	26,726
Over 180 days	**19,402**	10,270
	40,737	36,996

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

	2022	2021
	HK$'000	*HK$'000*
Accrued staff benefits	**16,526**	20,610
Deposits received from customers	**139**	127
Other payables and accrued charges	**7,671**	6,440
	24,336	27,177

17. BANK BORROWINGS

	2022	2021
	HK$'000	*HK$'000*
Unsecured	**30,000**	20,000
The carrying amounts of the bank loans that contain a repayment on demand clause (shown under current liabilities) and the maturity analysis based on the scheduled repayment dates set out in the loan agreements are within one year	**30,000**	20,000

As at 31 December 2022, included in the Group's borrowings are variable-rate borrowings of HK$30,000,000 (2021: HK$20,000,000) carrying interest ranging from 2.50% to 3.75% (2021: 3.25%) per annum over Hong Kong Interbank Offering Rate.

18. CONTRACT LIABILITIES

	2022	2021
	HK$'000	*HK$'000*
Interior design services	**8,667**	10,486
Interior decorating and furnishing services	**15,377**	14,867
	24,044	25,353

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

Movements in contract liabilities:

	2022	2021
	HK$'000	*HK$'000*
Balance at the beginning of the year	**25,353**	18,336
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	**(13,973)**	(13,333)
Increase in contract liabilities as a result of receiving deposits from the customers	**14,968**	19,350
Exchange realignments	**(2,304)**	1,000
Balance at the end of the year	**24,044**	25,353

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 2021, 31 December 2021 and 31 December 2022	4,000,000,000	40,000,000
Issued and fully paid		
At 1 January 2021	1,140,918,000	11,409,180
Issue of shares upon exercise of share options *(Note)*	483,000	4,830
At 31 December 2021 and 31 December 2022	1,141,401,000	11,414,010

Note: On 22 November 2021, 483,000 ordinary shares of the Company were issued at a price of HK$0.44 per share pursuant to exercise of share option under the Pre-IPO share option scheme adopted on 11 June 2018 by an employee of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

After performing well in 2021, the PRC, having emerged relatively unscathed from the first few waves of the pandemic, finally ushered in a full-scale outbreak in 2022 just as the global economy was beginning its recovery. With the highly contagious Omicron variant spreading like wildfire throughout the country from early 2022 onward, the PRC government began enforcing a series of recurring and progressively larger lockdowns across many cities and provinces in an attempt to contain the virus. From Shenzhen and Guangzhou to Shanghai and Beijing, the entire country was brought to a virtual standstill. It was not until the very end of the Year that the PRC government adjusted course, announcing a series of measures that rolled back some of its anti-COVID-19 restrictions, a process that has been continuing in early 2023.

The ravaging pandemic and continuous lockdowns triggered a drop in real estate sales. As a result, the 100 largest developers recorded RMB7.6 trillion in sales in 2022, down 41.3% from 2021 as per the China Index Academy. By comparison, sales of these same developers only contracted 3% in 2021. The drop further compounded the effect of the credit restrictions imposed on developers, most of whom are dependent on homebuyers' deposits to fund operations. Meanwhile, surging commodity prices and rising US interest rates further dampened the PRC's recovery, with GDP growing only 3%, the second slowest rate in almost half a century. The real estate industry — one of the country's main growth engines — was heavily impacted.

The PRC government has been signalling its willingness to stabilise the sector. After introducing a series of easing measures in November 2022, it also lowered the floor on certain mortgage rates while hinting at the relaxing of the "3 red lines" that have effectively made it virtually impossible for developers to secure new loans.

Given the above, it's not surprising that 2022 proved to be a challenging year for the Group. However, as the Chinese saying goes, 'out of chaos comes order', and we are confident that following the lifting of most anti-pandemic measures, GDP growth will resume in earnest in 2023 and will rebound to 5% as per the Report of the Work of the Government delivered at the National People's Congress of PRC in early 2023. Meanwhile, incentives introduced to support the real estate sector, a more benign financing environment, and the return of buyers will support the recovery of what remains a key economic sector for the PRC. As interior design is increasingly perceived as a key differentiating factor and given the strength of our brand, we believe that we are well positioned as growth resumes.

Business and Operational Review

During the Year, the Group faced severe challenges, as did most of our industry peers. With Omicron variant spreading fast, far and wide, both our Hong Kong and PRC operations were disrupted as stringent prevention, control and quarantine measures were imposed across the country. All our offices were forced to close temporarily — if not all at the same time — and our Shanghai office shut down for nearly two months. Our PRC clients suffered the same fate. The recurring yet unpredictable nature of the pandemic led to many of our projects being postponed, suspended or even terminated, while the number of new projects introduced to the market and awarded to the Group also decreased substantially amid poor market sentiments.

This challenging environment forced us more than ever to rely on creativity and innovation, our core competencies. We joined McDonald's again to design a third CUBE Flagship Restaurant in Shanghai. Located at McDonald's new headquarters for China, it is the first McDonald's restaurant in the country to receive the LEED platinum certification for sustainability. It also features a bookstore and miniature theatre concept, the result of an exclusive partnership between the McCafé brand and CITIC Books, one of the country's largest book retailers. Overall, revenue from hospitality and commercial projects reached approximately HK$54.2 million and HK$35.3 million for the Year, compared with approximately HK$42.7 million and HK$35.2 million for the Previous Year.

To tap the growing mid-high end residential market in the PRC, we have officially launched SL2.0, a design brand tailored to meet the changing lifestyle expectations of new, younger generation of urbanites. Emphasising high quality home design solutions that reflect the contemporary taste and refined aesthetics embodying today's way of living, SL2.0 has been used in several projects across the PRC. Meanwhile, Mr. Steve Leung showcase new products in Salone del Mobile 2022 in Milan, Italy, which were designed as part of exclusive collaborations with Italian leading furniture brands Visionnaire, Lema and Lualdi.

Despite the massive market disruption caused by COVID-19 during the Year, our remaining contract sums stood at approximately HK$429.5 million (31 December 2021: HK$422.2 million), a pipeline of projects that constitutes a robust foundation for the Group as we emerge from the pandemic.

Overall Performance

During the Year, the Group recorded a total revenue of approximately HK$381.0 million (Previous Year: HK$455.0 million), representing a decrease of approximately 16.3%. Gross profit decreased by approximately 26.3%, from approximately HK$188.9 million for the Previous Year to approximately HK$139.3 million for the Year, whereas gross profit margin decreased from approximately 41.5% for the Previous Year to approximately 36.6% for the Year, mainly attributable to the increase in cost of sales and decrease in revenue.

Profit/loss for the Year decreased from approximately HK$1.6 million of profit for the Previous Year to approximately HK$59.9 million of loss for the Year, mainly due to the decrease in revenue and gross profit margin primarily as a result of the decrease in the number of projects awarded to the Group and increase in the number of projects with prolonged progression resulting from mass lockdowns, restrictions across the country and massive infection resulted from the outbreak of the new wave of COVID-19 pandemic in Hong Kong and the PRC in 2022; and the change to exchange loss during the Year as compared to the exchange gain during the Previous Year as a result of the depreciation of Renminbi in 2022. Profit/loss attributable to owners of the Company also decreased from approximately HK$2.9 million of profit for the Previous Year to approximately HK$62.4 million of loss for the Year.

The Board does not recommend the payment of final dividend for the Year (Previous Year: nil final dividend, special dividend of HK5.00 cents per share).

As at 31 December 2022, the Group's total assets were valued at approximately HK$523.1 million (31 December 2021: HK$649.8 million), of which current assets were approximately HK$411.4 million (31 December 2021: HK$536.9 million), being 2.6 times (31 December 2021: 3.6 times) of the current liabilities. Equity attributable to the owners of the Company was approximately HK$326.4 million (31 December 2021: HK$466.9 million).

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

	For the year ended 31 December 2022					For the year ended 31 December 2021				
	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	**152.2**	**107.7**	**–**	**259.9**	**68.2**	222.4	98.9	–	321.3	70.6
Private residence project	**20.1**	**2.0**	**–**	**22.1**	**5.8**	29.0	2.6	–	31.6	6.9
Hospitality	**53.3**	**0.9**	**–**	**54.2**	**14.2**	41.1	1.6	–	42.7	9.4
Commercial project	**34.2**	**1.1**	**–**	**35.3**	**9.3**	30.1	5.1	–	35.2	7.7
Others	**6.6**	**–**	**2.9**	**9.5**	**2.5**	16.2	0.7	7.3	24.2	5.4
Total	**266.4**	**111.7**	**2.9**	**381.0**	**100.0**	338.8	108.9	7.3	455.0	100.0

Interior Design Services

The Group delivered quality interior design services throughout the Year, and the signature projects include: Grand Creek Harbour, Dubai; Bay of Modern Art, Xiamen; The Bayview, Guangzhou; Shikigiku Cafe & Bar at Four Seasons, Hong Kong, etc.

Revenue for the interior design services decreased from approximately HK$338.8 million for the Previous Year to approximately HK$266.4 million for the Year, accounting for approximately 69.9% of the total revenue during the Year (Previous Year: 74.5%). Such decrease was mainly attributable to the decrease in newly awarded projects, and slow down in the overall projects progress during the Year, as a result of the outbreak of the Omicron variant which heavily weighed on the property market sentiment. In-line with the decrease in revenue, segment gross profit also decreased to approximately HK$99.3 million (Previous Year: HK$141.0 million).

As at 31 December 2022, this business segment had a remaining contract sum of approximately HK$311.6 million (31 December 2021: approximately HK$294.6 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 stable growth during the past few years. This segment complements with the interior design services provided by the Group to further perfect our projects, and the signature projects in the Year include Suzhou IFS Sky Villa, Suzhou and Bay of Modern Art, Xiamen, etc.

Revenue for the interior decorating and furnishing services business was largely contributed by the trading of interior decorative products, which would be recognised upon delivery of interior decorative products to the physical sites. Even the PRC market has recovered since the outbreak of COVID-19, demand for show flats and logistics for delivery of furniture and fixtures products were still adversely impacted by the conservative approach of our clients as a consequence of their capital liquidity control and precautionary measures against COVID-19.

During the Year, revenue for this segment recorded a slight increase of approximately 2.6% to approximately HK$111.7 million (Previous Year: HK$108.9 million), contributed approximately 29.3% of total revenue (Previous Year: 23.9%). Gross profit for the Year maintained at approximately HK$40.0 million (Previous Year: HK$40.9 million).

As at 31 December 2022, this business segment had a remaining contract sum of approximately HK$117.9 million (31 December 2021: approximately HK$127.6 million), which is expected to be realised based on the stage of completion of projects and the delivery and handover of interior decorative products.

Leveraging on our extensive experience, deep expertise in interior design and the policies stimulating domestic demand and encouraging consumption fostered by the PRC Government, we expect this segment to quickly recover from the impact of the COVID-19 pandemic, and to further contribute to the Group's operation and financial position, especially as the young generation's demand for simple but delicate furnishing — a trend referred to as "light luxury style" — increases further.

Product Design Services

Another important segment of the Group's operation is the provision of product design services, which in turn adds value to the overall interior design, decorating and furnishing layout of projects, hence enhancing customer satisfaction, being the Group's important marketing and branding strategies. Signature projects in the Year include Visionnaire — Nature's Jewel Box 2022 and Moorgen — Steve Leung Smart Switch.

During the Year, the segment continued to perform steadily, with revenue reaching approximately HK$2.9 million (Previous Year: HK$7.3 million). This segment's revenue and profit depend on royalties received from its customers for the sale of the Group's design products, as well as the time cost incurred in products design. The decrease of revenue of this segment was because of the reduction of sale volume of the Group's design product as a consequence of the lockdowns of different cities during the Year.

AWARDS AND ACCREDITATIONS FOR 2022

The Group received numerous awards over the years for its continuous delivery of high-quality interior design services and outstanding corporate performance.

Corporate Honours

Interior Design Magazine "2022 Top 100 Giants"
Top 5 position in international ranking
Top 20A position in overall global rankings

2022 Top 500 China Real Estate Enterprises Award by China Real Estate Association and E-house China R&D Institute
Top 1 Best Interior Design Firm

Interior Design Awards

International Design Awards
Silver — Interior Design — Residential — Bay of Modern Art III, Xiamen
Bronze — Interior Design — Restaurants & Bars — God of Teppanyaki, Hong Kong

DFA Design for Asia Awards 2022
Silver Award — Service & Experience Design — McDonald's Concept CUBE

IIDA Best of Asia Pacific Design Awards
Winner — Restaurants, Lounges, and Bars — God of Teppanyaki, Hong Kong
Winner — Residences — Large (95 square meters and above) — Bay of Modern Art, Xiamen
Winner — Residences — Large (95 square meters and above) — Changsha IFS Sky Villa, Changsha

2022 CBDA Decoration Design Awards
1st Prize — Healthcare Engineering — Phase I, Lot B, Lixia Medical & Nursing Center Jinan, Shandong
1st Prize — Commercial Space — Block 1 of Commercial Building, Lot B02C, Sunac Haiyan Hangzhou Bay Cultural Tourism City
1st Prize — Hotel Space — Zhejiang Wyndham Hotels and Resorts
1st Prize — Office Space — Block A1, Guangzhou Jet Bio-Filtration Co., Ltd.

Grand Prix Du Design Paris 2022
Innovative Design — Hotel Space — Intercontinental Resort Jiuzhai Paradise

Product Design Awards

International Design Awards
Gold — Home Interior Products – Switches, Temperature Control Systems — Moorgen x Steve Leung Smart Switch

Red Dot Award 2022
Winner — Moorgen x Steve Leung Smart Switch

Financial Review

Revenue and Gross Profit

During the Year, the Group's revenue decreased by approximately HK$74.0 million or 16.3%, from approximately HK$455.0 million for the Previous Year to approximately HK$381.0 million for the Year. Revenue from the interior design services decreased from approximately HK$338.8 million for the Previous Year to approximately HK$266.4 million for the Year, representing approximately 74.5% and approximately 69.9% of the total revenue, respectively. Revenue from the interior decorating and furnishing services increase slightly from approximately HK$108.9 million for the Previous Year to approximately HK$111.7 million for the Year, representing approximately 23.9% and approximately 29.3% of the total revenue, respectively.

The following states the Group's revenue and gross profit by segment during the Year:

Gross Profit by Segment

	For the year ended 31 December 2022			For the year ended 31 December 2021		
	Revenue ***HK$ million***	**Gross profit** ***HK$ million***	**Gross profit margin**	Revenue *HK$ million*	Gross profit *HK$ million*	Gross profit margin
Interior Design Services	**266.4**	**99.3**	**37.3%**	338.8	141.0	41.6%
Interior Decorating & Furnishing Services	**111.7**	**40.0**	**35.8%**	108.9	40.9	37.6%
Product Design Services	**2.9**	**–**	**0%**	7.3	7.0	95.9%
Overall	**381.0**	**139.3**	**36.6%**	455.0	188.9	41.5%

The Group's gross profit decreased by approximately HK$49.6 million or 26.3%, from approximately HK$188.9 million for the Previous Year to approximately HK$139.3 million for the Year, which was in line with the decrease in revenue for the Year. Gross profit margin decreased to approximately 36.6% (Previous Year: 41.5%), of which the interior design services and interior decorating and furnishing services both showed a decline. The decrease was primarily due to the increase in the number of projects with prolonged progression as an impact of the pandemic and lock down of various cities in the PRC during the Year.

Remaining Contract Sum

The following states the Group's remaining contract sum to be recognised in profit or loss and its movement during the Year:

	Interior Design Services *HK$ million*	Interior Decorating and Furnishing Services *HK$ million*	Total *HK$ million*
Remaining contract sum as at 1 January 2021	281.0	212.4	493.4
Add: New contract sum awarded during the year	426.4	182.8	609.2
Less: VAT for newly awarded contracts	(21.3)	(19.5)	(40.8)
Less: Revenue recognised during the year	(338.8)	(108.9)	(447.7)
Less: Purchase made	–	(5.0)	(5.0)
Less: Variation order	(65.1)	(137.7)	(202.8)
Add: Exchange realignments	12.4	3.5	15.9
Remaining contract sum as at 31 December 2021	**294.6**	**127.6**	**422.2**
Add: New contract sum awarded during the year	**383.5**	**168.3**	**551.8**
Less: VAT for newly awarded contracts	**(19.4)**	**(17.7)**	**(37.1)**
Less: Revenue recognised during the year	**(266.4)**	**(111.7)**	**(378.1)**
Less: Variation order	**(54.0)**	**(37.7)**	**(91.7)**
Add: Exchange realignments	**(26.7)**	**(10.9)**	**(37.6)**
Remaining contract sum as at 31 December 2022	**311.6**	**117.9**	**429.5**

The remaining contract sum for the interior design services increase slightly from approximately HK$294.6 million as at 31 December 2021 to approximately HK$311.6 million as at 31 December 2022 while the remaining contract sum for the interior decorating and furnishing services reduced slightly from approximately HK$127.6 million as at 31 December 2021 to approximately HK$117.9 million as at 31 December 2022.

Other Gains and Losses

The Group recorded other losses of approximately HK$5.1 million for the Year (Previous Year: other gains of HK$5.6 million), which were primarily due to the change from net exchange gain in the Previous Year to net exchange loss in the Year as a result of the depreciation of Renminbi.

Impairment Losses on Trade Receivables and Contract Assets under ECL Model

The impairment losses on trade receivables and contract assets decreased from approximately HK$40.2 million for the Previous Year to approximately HK$30.4 million for the Year. For details, please refer to the section headed "Corporate Finance and Risk Management — Credit Risk Exposure" of this announcement.

Other Income

Other income mainly includes government grants, the interest income from bank deposits and the PRC incentive rebates. The decrease of other income from approximately HK$7.2 million to approximately HK$3.2 million during the Year was mainly contributed from the decrease in the PRC incentive rebates during the Year upon the decrease in tax liabilities of certain PRC subsidiaries. For details, please refer to note 6 to the consolidated financial information of this announcement.

Administrative Expenses

The Group's administrative expenses increased from approximately HK$151.9 million to approximately HK$163.0 million, representing an increase of approximately 7.3% during the Year. The increase was primarily due to the increase in staff costs from severance payments to employees for layoffs in December 2022 and the increased non-project-related time costs incurred in interior design services as a result of the slow down in the overall projects progress during the Year.

Finance Costs

The finance costs comprised interest on lease liabilities and the bank borrowings for financing the Group's operations. The finance costs of the Group maintained at approximately HK$3.7 million during the Year (Previous Year: HK$4.0 million). For details, please refer to note 7 to the consolidated financial information of this announcement.

Loss/Profit for the Year

As a result of the foregoing, the Group recorded a loss for the Year amounted to approximately HK$59.9 million (Previous Year: profit of HK$1.6 million).

Basic Loss/Earnings Per Share

The Company's basic loss per share for the Year was approximately HK5.47 cents (Previous Year: earnings of HK0.26 cents), representing a decrease of approximately HK5.73 cents, which was in line with the decrease in profit for the Year. Details of loss/earnings per share are set out in note 11 to the consolidated financial information of this announcement.

Dividend

The Board does not recommend the payment of final dividend for the Year (Previous Year: nil final dividend; special dividend of HK5.00 cents per share).

Outlook and Prospects

As we emerge from the COVID-19 pandemic, there are reasons to be optimistic even as challenges abound. PRC's residential market seems to be on the mend, as the area of new residential building transactions in Chinese cities during the new year holiday increased by more than 20% year-on-year, with Beijing, Shanghai, and Guangzhou's transaction areas increasing by 80%, 131%, and 74%, respectively as per the China Index Research Institute. Meanwhile, PRC's financial regulatory authorities appear set to ease the "3 red lines" regulatory criteria that have effectively shut access to loans for real estate developers. Other measures being considered are the establishment of a substantial loan support program to ensure the successful delivery of residential properties as well as special loans to support mergers and acquisitions to reduce risk across the real estate industry. The opening of the country's borders and the elimination of onerous quarantine requirements are other factors likely to support the revival of sector. With the various market stabilisation measures implemented and the recovering market sentiment, the demand for homes as well as the residential market are expected to perk up.

At the same time, having experienced the long isolation period at home during the pandemic, more homeowners are seeking to upgrade their living standards by creating comfortable and stylish homes with unique and functional living spaces that reflect their tastes and lifestyles. As a leading brand known for its quality, creativity and innovative spirit, the Group is ideally positioned to capitalise on this upcoming recovery. We expect both the hospitality and residential markets will lead the way, especially in the first-tier cities of Beijing, Shanghai, Guangzhou and Shenzhen. Meanwhile, we intend to internationalise our revenue streams by looking to launch our brands in new markets in Asia, as well as further consolidate and gradually extend the Group's presence in Europe.

While the COVID-19 pandemic has been very challenging for the Group, the measures that we have taken to reduce costs and increase our focus have laid the foundations for a strong and sustainable growth that will deliver compelling returns to our shareholders.

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 proceeds from the issue of shares by way of Hong Kong public offering and international placing on 5 July 2018 (the "**Global Offering**") to finance its operations and expansion.

As at 31 December 2022, the Group's total debt (representing total interest-bearing borrowings excluding lease liabilities arising from the adoption of HKFRS 16) to total assets ratio was approximately 5.7% (Previous Year: 3.1%). The gearing ratio (net debt excluding lease liabilities arising from the adoption of HKFRS 16 to equity attributable to Owners of the Company) was approximately 9.2% (Previous Year: 4.3%). As at 31 December 2022, the Group had net cash (i.e. bank balances and cash (including pledged bank deposits) less total debt) of approximately HK$123.3 million (Previous Year: HK$227.2 million). The reduction in net cash was mainly contributed by the payment of special dividend for the year ended 31 December 2021 and the slow down of receivables collections from our clients during the Year.

No bank borrowings as at 31 December 2022 were secured by pledged bank deposits and HK$30.0 million bank borrowings were unsecured and guaranteed by the Company. No bank borrowings as at 31 December 2021 were secured by pledged bank deposits and approximately HK$20.0 million bank borrowings were unsecured and guaranteed by the Company. For details, please refer to note 17 to the consolidated financial information of this announcement. Further costs for operations and expansion will be partially financed by the Group's unutilised bank facilities. As at 31 December 2022 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 31 December 2022 was approximately 2.6 (Previous Year: 3.6). 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 2022, the share capital and equity attributable to owners of the Company amounted to approximately HK$11.4 million and approximately HK$326.4 million, respectively (Previous Year: HK$11.4 million and HK$466.9 million, respectively).

Pledge of Assets

As at 31 December 2022, no bank deposit was pledged to a bank to secure a performance bond. As at 31 December 2021, a bank deposit of HK$558,000 was pledged to a bank to secure a performance bond.

Contingent Liabilities and Capital Commitments

The Group did not have any significant contingent liabilities as at 31 December 2022 and 31 December 2021.

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

The Group's bank borrowings as at 31 December 2022 were in Hong Kong dollars at floating rates. The Group operates in various regions with different foreign currencies including Renminbi and United States Dollar. The exchange rate 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's credit risk is primarily attributable to its trade receivables and contract assets. Although the Group's major clients are institutional organisations and reputable property developers, due to forward-looking uncertainties arising from the external market and financing environment, the credit risk continued to maintain at high level.

The Group has adopted prudent credit policies to deal with credit risk exposure. The Group has performed continuous credit evaluation of the financial conditions of our clients and other monitoring procedures to ensure that appropriate follow-up actions taken to recover any overdue debts. Although the Group generally does not grant any credit period to our clients, for some specific individual clients, credit period is considered on case-by-case basis. The Group performs monthly review on ageing periods of receivables and quarterly review of project progress, and takes debts recovery actions for long aged debts or slow-moving projects unless the Group has reasonable and supportable information justifying not to do so. The Group will also actively seek collaterals for trade receivables from client group with significantly increased credit risk or credit-impaired.

The Group reviews the recoverable amount of trade receivables and contract assets on a collective basis other than clients with different historical loss patterns or credit-impaired which are reviewed individually, so as to ensure that adequate impairment losses would be made for irrecoverable amounts. In the impairment loss assessment, the Group takes into account the characteristics and credit risks of different clients, ageing analysis, historical and subsequent settlement, any litigations or business disputes with clients, and other observable changes in economic conditions that correlate with default on receivables. By reference to historical settlement record, normally it takes approximately 3 years for the Group to collect its outstanding debts. Despite seemingly longer recovery period, in general, the Group can subsequently collect and/or realise most of the trade receivables and contract assets through the Group's debt collection mechanism.

As at 31 December 2022, trade receivables (in gross amount) was approximately HK$263.9 million (31 December 2021: HK$238.3 million), represented an increase of approximately HK$25.6 million while contract assets (in gross amount) remained constant of approximately HK$83.5 million (31 December 2021: HK$84.5 million). The increase in trade receivables was mainly resulted from the rebound of COVID-19 pandemic and lockdowns in various cities in the PRC during the Year, which dragged down the project progress, invoicing and settlements. As at 31 December 2022, the accumulated allowance for credit losses was approximately HK$106.1 million (31 December 2021: HK$84.2 million), among which the accumulated allowance for credit losses for trade receivables and contracts assets were approximately HK$89.4 million (31 December 2021: HK$65.7 million) and HK$16.7 million (31 December 2021: HK$18.5 million) respectively. The average loss rate was approximately 30.5% (31 December 2021: 26.1%), among which the average loss rate for trade receivables and contract assets were approximately 33.9% (31 December 2021: 27.6%) and 20.0% (31 December 2021: 21.9%) respectively. The increase in the accumulated allowance and average loss rate of trade receivables is consistent with the increase in its gross balance, which is mainly due to the increased uncertainty on the settlement from clients. As of the date of this announcement, HK$33.2 million of the trade receivables as at 31 December 2022 have been subsequently settled.

Based on the Group's review of the project progress, ageing period, settlement record and financial positions of clients and other available forward-looking information as mentioned above, the Directors believe that the impairment loss assessment on the trade receivables and contract assets as at 31 December 2022 has been performed appropriately and sufficient impairment losses has been made.

Risk Management

In order to broaden the sources of revenue of the Group, the Group is actively looking for opportunities to diversify its project nature and business. The Group will evaluate the market conditions and make decisions to ensure 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 (include foreign exchange risk and interest rate risk), operation risk, finance risk, policy risk, legal risk, political risk, contract risk and credit risk of clients and the markets.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events subsequent to 31 December 2022 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 19 to the consolidated financial information of this announcement.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group had 442 (31 December 2021: 562) full-time employees. The total remuneration of the employees (including the Directors' remuneration) were approximately HK$224.8 million for the Year (Previous Year: HK$233.7 million). The decrease of total remuneration of the employees was mainly due to the implementation of hiring freeze or voluntary attrition since mid-2022 as a consequence of the reduction of number of active projects amid the pandemic, and the employee layoffs in December 2022 for the purpose of improving operations effectiveness and efficiency of the Group. Such decrease was partially offset by the increase in costs and severance payments in connection with the layoffs.

To retain our competitiveness, the Group continues to offer 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

The Group did not hold any significant investments as at 31 December 2022. As at 31 December 2021, the Group held the investment fund of Cithara Global Multi-Strategy SPC — Cithara Series One Fund SP of approximately HK$30.3 million, and the fund was fully redeemed in January 2022 at a redemption price closed to its carrying value. The Group has no further investment plan after the redemption of all the investment funds under the current volatile investment market. The Group's management, investment committee and the Board will review investment opportunities and market risk from time to time, and monitor the financial position of the Group in order to balance the risk and investment opportunities in maximising shareholders' value.

The Group made no material acquisition and disposal of subsidiaries, associates or joint ventures during the Year.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have any plans for material investments and capital assets as at 31 December 2022.

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 of the Company dated 22 June 2018 (the "**Prospectus**") and the announcements regarding the change in use of proceeds dated 6 June 2019 and 16 November 2021 respectively. As at 31 December 2022, the Net Proceeds received were applied, reallocated and fully utilised as follows:

	Original allocation of Net Proceeds *HK$ million*	Reallocation of unutilised Net Proceeds on 6 June 2019 *HK$ million*	Reallocation of unutilised Net Proceeds on 16 November 2021 *HK$ million*	Utilised Net Proceeds up to 31 December 2021 *HK$ million*	Unutilised Net Proceeds up to 31 December 2021 *HK$ million*	**Utilised Net Proceeds up to 31 December 2022** ***HK$ million***	**Unutilised Net Proceeds up to 31 December 2022** ***HK$ million***
Strengthening the Group's interior design services and developing specialisation	67.0	(28.1)	–	(38.9)	–	**-**	**-**
Further developing the Group's interior decorating & furnishing services	31.1	7.2	–	(37.0)	1.3	**(1.3)**	**-**
Pursuing growth through selective mergers and acquisitions	28.4	11.6	(40.0)	–	–	**-**	**-**
Improving the Group's information technology systems	22.1	(5.7)	–	(16.4)	–	**-**	**-**
Repaying existing bank borrowings	19.0	–	–	(19.0)	–	**-**	**-**
Enhancing the Group's brand recognition	11.0	–	–	(9.9)	1.1	**(1.1)**	**-**
Further developing the Group's product design services	3.1	–	–	(3.1)	–	**-**	**-**
Working capital and other general corporate purposes	13.3	–	40.0	(28.0)	25.3	**(25.3)**	**-**
Developing a new brand (i.e. SL2.0) and teams for middle-end and specialised interior design services market	–	15.0	–	(15.0)	–	**-**	**-**
Total	195.0	–	–	(167.3)	27.7	**(27.7)**	**-**

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIVIDEND

The Board does not recommend the payment of final dividend for the Year.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and voting at the annual general meeting to be held on 25 May 2023, the register of members of the Company will be closed from 22 May 2023 to 25 May 2023, 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 19 May 2023 (Friday).

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, policies 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 Corporate Governance Code (the "**CG Code**") under Appendix 14 to the Listing Rules for the Year and up to the date of this announcement, except the following deviation:

Code provision C.5.1 of the CG Code specifies that regular Board meetings should be held at least four times a year at approximately quarterly internals. In view of the Group's business nature and that no quarterly results is published, the Company only held two regular Board meetings during the Year. Other specific matters were dealt with by the Board through ad hoc Board meetings or written resolutions.

The Company regularly reviews its corporate governance practices to ensure on-going compliance with the requirements of the CG Code, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**").

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, BDO Limited, 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 BDO LIMITED

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2022 as set out in this preliminary announcement have been compared by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the Year and the amounts were found to be in agreement. The work performed by BDO Limited in this respect did not constitute an audit, review or other 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 HKICPA and consequently no assurance has been expressed by BDO Limited on the 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 2022 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 staff, 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, 28 March 2023

As at the date of this announcement, the executive Directors are Mr. Leung Chi Tien Steve, Mr. Siu Man Hei (Chief Executive Officer), Mr. Yip Kwok Hung Kevin (Chief Financial Officer), and Mr. Ding Chunya, the non-executive Directors are Mr. Xu Xingli (Chairman) and Mr. Ding Jingyong, and the independent non-executive Directors are Mr. Liu Yi, Mr. Sun Yansheng and Mr. Tsang Ho Ka Eugene.