



K W Nelson

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

Stock Code: 8411

Annual Report 2018

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lau King Wai

(Chairman and Chief Executive Officer)

Ms. Leung May Yan

Mr. Wong Siu Hong Edward

Independent non-executive Directors

Mr. Li Wai Kwan

Mr. Hui Harry Chi

Ms. So Patsy Ying Chi

COMPLIANCE OFFICER

Mr. Lau King Wai

AUTHORISED REPRESENTATIVES

Mr. Lau King Wai

Mr. Or Kevin

COMPANY SECRETARY

Mr. Or Kevin

AUDIT COMMITTEE MEMBERS

Ms. So Patsy Ying Chi *(Chairlady)*

Mr. Li Wai Kwan

Mr. Hui Harry Chi

REMUNERATION COMMITTEE MEMBERS

Mr. Hui Harry Chi *(Chairman)*

Mr. Li Wai Kwan

Ms. So Patsy Ying Chi

NOMINATION COMMITTEE MEMBERS

Mr. Li Wai Kwan *(Chairman)*

Ms. So Patsy Ying Chi

Mr. Hui Harry Chi

LEGAL ADVISERS TO THE COMPANY

Conyers Dill & Pearman

Cricket Square

Hutchins Drive

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Grand Cayman, KY1-1111

Cayman Islands

AUDITOR

KPMG

Certified Public Accountants

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Cricket Square

Hutchins Drive

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Grand Cayman, KY1-1111

Cayman Islands

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

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Hong Kong

CORPORATE INFORMATION

PLACE OF BUSINESS IN THE PRC

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Guangzhou
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

COMPLIANCE ADVISER

Sunfund Capital Limited

COMPANY WEBSITE

www.kwnelson.com.hk

GEM STOCK CODE

8411

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of K W Nelson Interior Design and Contracting Group Limited (the "Company") and its subsidiaries (collectively the "Group"), I am delighted to present the annual report of the Group for the year ended 31 December 2018.

APPRECIATION

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

OVERVIEW

During the year ended 31 December 2018 (the "Year" or "2018"), the Group achieved an increase in revenue of approximately 39.2% to approximately HK\$124.4 million from approximately HK\$89.3 million for the year ended 31 December 2017 (the "Previous Year" or "2017"). The growth was mainly driven by large decoration projects for commercial premises. In line with the increase in revenue, the Group's gross profit increased to approximately HK\$48.9 million for the Year from approximately HK\$38.8 million for the Previous Year, representing an increase of approximately 25.9%.

The Group's profit attributable to shareholders increased to approximately HK\$28.7 million for the Year from approximately HK\$26.1 million for the Previous Year. The increase in profit attributable to shareholders was mainly due to the increase in gross profit from decoration projects.

The Board is pleased to share the Group's performance with our shareholders and recommends the payment of a final dividend of HK0.25 cent per share for the Year (2017: HK0.20 cent).

FORWARD

In 2018, the Company has submitted an application for transfer of listing from GEM to the Main Board. The transfer is aiming to strengthen the Group's business development and create long term values to shareholders.

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

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

Lau King Wai

Chairman and Chief Executive Officer

Hong Kong, 28 January 2019

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

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

Executive Directors

Mr. Lau King Wai (劉經緯) (“Mr. Nelson Lau”), aged 54, was appointed as an executive Director, the chairman of the Board and the chief executive officer on 7 January 2016. Mr. Nelson Lau is the Founder and he is responsible for the overall business development, strategic planning and major decision-making of the Group.

Mr. Nelson Lau has over 30 years of experience in the interior design and decoration industry. Mr. Nelson Lau started working as an architectural draftsman of King Yip Engineering & Architectural Co., whose principal business is architectural and building services, from July 1985 to July 1987, and he was responsible for preparing architectural drawings. Mr. Nelson Lau then worked as a site co-ordinator of OGLE Contracting Co., whose principal business is interior design services, from September 1987 to February 1988, and he was responsible for work coordination at construction sites. He worked at Frankwell Commodities Ltd, whose principal business is trading of commodities, from April 1988 to 1989, and his last position was account executive responsible for supervising trading accounts of clients. Mr. Nelson Lau was a project director, operator and owner of FCS Interior Design & Contracting Co., which was an interior design firm, from October 1989 to December 1990, and he was responsible for project management. He was a project director and operator of FCS Interior Design & Contracting Co., which was engaged in interior design and project management and was a branch office of Further Concept Limited (a company controlled by Mr. Nelson Lau), from January 1991 to December 1999, and he was responsible for project management. Mr. Nelson Lau was a chief executive officer of F.C.S. Interior Design and Contracting Co. Limited, whose principal business was interior design and project management services, from January 2000 to April 2011, and he was responsible for the overall business development. F.C.S. Interior Design and Contracting Co. Limited (which was deregistered in April 2011) was controlled by Mr. Nelson Lau. In February 2009, Mr. Nelson Lau established K W Nelson Interior Design and Contracting Limited (formerly known as “K W Nelson Interior Architect Limited”) (“K W Nelson”) which incorporates his name in the company name, both English and Chinese, in order to better position and brand his business in the market as well as to differentiate his business and management team from other players in the industry. As confirmed by Mr. Nelson Lau, F.C.S. Interior Design and Contracting Co. Limited did not have active operations after the establishment of K W Nelson in February 2009 and had not been subject to any material noncompliant incidents, claims, litigation or legal proceedings. Subsequent to the receipt of certain trade receivables, an application for deregistration was made in November 2010 and F.C.S. Interior Design and Contracting Co. Limited was dissolved in April 2011.

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

Ms. Leung May Yan (梁美恩), aged 43, was appointed as an executive Director on 24 February 2016. She joined the Group in February 2009 and has been a design director of the Group. Ms. Leung is responsible for overseeing the operation of projects of the Group.

Ms. Leung has approximately 22 years of experience in interior design. Prior to joining the Group, she was an assistant interior designer of FCS Interior Design & Contracting Co., whose principal business was interior design and project management services, from July 1996 to September 1998, and she was responsible for assisting in the preparation of interior design drawings and floor plan design. She served as an interior designer of F.C.S. Interior Design and Contracting Co. Limited, which was engaged in the provision of interior design and project management services, from January 2000 to February 2009, and she was responsible for developing design concepts and preparing design proposals.

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

Mr. Wong Siu Hong Edward (黃兆康), aged 42, was appointed as an executive Director on 24 February 2016. He joined the Group in February 2009. He has been an interior designer responsible for creating three-dimensional virtual walk-through animations for the Group.

Mr. Wong has approximately 15 years of experience in three-dimensional interior design. Prior to joining to the Group, he was a three-dimensional designer of F.C.S. Interior Design and Contracting Co. Limited, whose principal business was interior design and project management services, from April 2003 to February 2009, and he was responsible for preparing three-dimensional drawings and graphic design. He was a three-dimensional animator of Flapper Computer Trainer Limited, whose principle business was provision of information technology training courses, from January 1999 to May 1999, and he was responsible for preparing three-dimensional drawings.

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Wai Kwan (李偉君), aged 47, was appointed as an independent non-executive Director on 18 November 2016. He is the chairman of the nomination committee and a member of the audit committee, remuneration committee and nomination committee.

Mr. Li is the chief financial officer of Crystal International Group Limited (stock code: 2232), which is principally engaged in manufacturing of fashion products since November 2018, while he is responsible for finance matters for the Group. From December 2013 to October 2018, he was the chief financial officer of Zhuhai Da Heng Qin Company Limited, which is principally engaged in primary land development and asset management, while he was responsible for finance and asset management matters. From March 2005 to September 2006, he worked for Esprit Holdings Limited, which is listed on the Main Board (stock code: 330) and principally engaged in manufacturing, retail and wholesale distribution of lifestyle products, and he served as a vice president of operational finance and a vice president of finance in Asia Pacific from March 2005 to July 2006 and from August 2006 to September 2006 respectively, and he was responsible for finance and operational matters. From October 2006 to September 2010, he was a vice president of China-Agri Industries Holdings Limited, which is listed on the Main Board (stock code: 606) and principally engaged in trading on agricultural raw materials, manufacturing and distributing food products, and he was responsible for finance, investment and company secretarial matters. He was a managing director and director of the board of COFCO Agricultural Industrial Investment Fund Management Company Limited, which is principally engaged in asset management, from September 2010 to October 2011, and he was responsible for managing overall business and investment matters. He was a managing director of Origo Partners Plc, whose shares are listed on alternative investment market of the London Stock Exchange and principal business is private equity investment, from November 2011 to January 2013, and he was responsible for investment matters.

Since 19 December 2016, he has become the independent non-executive director of Miricor Enterprises Holdings Limited, which is listed on GEM (stock code: 8358). Since 27 April 2017, he has become the independent non-executive director of Enterprise Development Holdings Limited, which is listed on the Main Board (stock code: 1808). From 1 February 2018 to 30 November 2018, he was an independent non-executive director of China Graphene Group Limited (stock code: 63). Since 18 May 2018, he has become the independent non-executive director of TL Natural Gas Holdings Limited (stock code: 8536). Since 20 July 2018, he was an independent non-executive director of China Greenfresh Group Co., Ltd. (stock code: 6183).

Mr. Li is a national distinguished expert recognised by All-China Federation of Returned Overseas Chinese. Mr. Li is an executive committee member and treasurer of Hong Kong-ASEAN Economic Cooperation Foundation since 2015 and a honorary president of the Institute of Certified Management Accountants — Hong Kong & Macau Branch since 2018. He is a director of the board of Chartered Professional Accountants of Canada — Hong Kong Chapter since 2017. Mr. Li was a committee member of Public Awareness Committee of Hong Kong Society of Financial Analysts in 2016. He was a member of the general committee and the chairman of the investor relations committee of The Chamber of Hong Kong Listed Companies from 2008 to 2010. He was appointed as an honorary vice chairman of China Enterprise Reputation & Credibility Association (Overseas) in 2009. He was the chairman of the partnership and promotion committee of Hong Kong Investor Relations Association from 2009 to 2010. He was a member of the Organising Committee of Directors of the Year Awards 2010 organised by The Hong Kong Institute of Directors. He was a committee member of the PRC committee of the Hong Kong Venture Capital and Private Equity Association in 2011. He was a member of finance committee of Hong Kong Housing Authority from 2010 to 2012.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

Mr. Li graduated from University of Toronto in Canada with a bachelor of commerce degree in November 1995. He further obtained a master of business administration degree from York University in Canada in November 1996. Mr. Li was the guest lecturer of the Macau University of Science and Technology in 2016. Mr. Li was admitted as a certified member of The Institute of Certified Management Accountants in August 2000 and the Certified General Accountants Association of Canada in October 2002. He became a chartered financial analyst of the Chartered Financial Analysts Institute in September 2001 and a certified public accountant of Hong Kong Institute of Certified Public Accountants in October 2004. In addition, he was admitted as an associate of The Institute of Chartered Accountants in England and Wales in June 2008 and a fellow member of Association of Chartered Certified Accountants in April 2010, and a chartered professional accountant member of the Chartered Professional Accountants of British Columbia, Canada in June 2015. He became a member of Hong Kong Business Accountants Association in December 2015. He became a fellow member of The Institute of Certified Management Accountants in April 2016, and a fellow chartered accountant of the Institute of Chartered Accountant in England & Wales in June 2018.

Ms. So Patsy Ying Chi (蘇瑩枝), aged 59, was appointed as an independent non-executive Director on 18 November 2016. She is the chairlady of the audit committee and a member of the remuneration committee and nomination committee.

Ms. So has approximately 18 years of experience in investment and institutional banking and approximately 6 years of experience in financial management in a listed company. Currently, she is a consultant to a management consultancy firm. Ms. So worked at Westpac Banking Corporation from December 1988 to April 2004, the last position she served was the head of operations and finance responsible for overseeing the overall operations. Subsequently, she worked at VXL Capital Limited (currently known as Crown International Corporation Ltd.), which is listed on the Main Board (stock code: 727) and principally engaged in property investment and hotel investment and operations, and she served as a financial controller responsible for financial management and an executive director responsible for overseeing business development from June 2004 to July 2009 and from February 2005 to July 2008, respectively.

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

Mr. Hui Harry Chi (許志偉), aged 55, was appointed as an independent non-executive Director on 18 November 2016. He is the chairman of the remuneration committee and a member of the audit committee, remuneration committee and nomination committee.

Mr. Hui has approximately 15 years of experience in marketing and business management. He is a managing director of ClearVue Partners (Shanghai) Limited, which is principally engaged in private equity investment, since 31 October 2012, and he is responsible for the overall business development and investment strategies. He was a president of Universal Music International Limited, which is principally engaged in music production, from 2002 to 2006, and he was responsible for managing overall business in Asia (except Japan). From December 2006 to 2010, he was a vice president of China beverages business unit of Pepsico Investment (China) Limited in China, which is principally engaged in sale and distribution of beverages, and he was responsible for customer service relation strategies.

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

COMPANY SECRETARY

Mr. Or Kevin (柯衍峰), aged 47, was appointed as the Group's company secretary and authorised representative on 1 April 2018. Mr. Or is primarily responsible for overseeing the overall financial management and company secretarial matters of the Company. Mr. Or graduated from Royal Melbourne Institute of Technology in Australia with a degree of Bachelor of Business in 1994. He was admitted as a certified practicing accountant of the Australian Society of Certified Practising Accountants in 1997 and a member of the Hong Kong Institute of Certified Public Accountants in 1998. Mr. Or has over 20 years of experience in audit field. He had worked for PricewaterhouseCoopers for 20 years and his last position was senior manager.

Mr. Or is an independent non-executive director of DLC Asia Limited, which is listed on GEM (stock code: 8210).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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

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

During the Year, the Group achieved an increase in revenue of approximately 39.2% to approximately HK\$124.4 million from approximately HK\$89.3 million for the Previous Year. The growth was mainly driven by the increase in revenue from decoration projects for commercial premises. In line with the increase in revenue, the Group's gross profit increased to approximately HK\$48.9 million for the Year from approximately HK\$38.8 million for the Previous Year, representing an increase of approximately 25.9%.

The Group's profit attributable to shareholders increased to approximately HK\$28.7 million for the Year from approximately HK\$26.1 million for the Previous Year.

OUTLOOK

During the Year, the Group had obtained a major decoration project with a telecommunication corporate client for 4 storeys. In addition, the Group's international team has secured certain projects in Macau ranging from PRC telecommunication clients to food and beverage client.

With the new contracts on hand, and the recent completed decoration project for a famous professional medical tower in Central, the management believes that the Group would be able to perform multidimension design and decoration services to different sectors of clients in Hong Kong, Macau and the PRC.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

FINANCIAL REVIEW

Revenue

The Group's revenue is principally generated from (i) design & decoration projects; (ii) decoration projects; and (iii) other interior design and fitting-out services. During the Year, the Group's revenue increased by approximately 39.2% to approximately HK\$124.4 million (2017: HK\$89.3 million).

The following table sets forth a breakdown of the Group's revenue by use of premises of our projects for the years ended 31 December 2018 and 2017:

Use of premises	For the year ended 31 December			
	2018		2017	
	HK\$'000	%	HK\$'000	%
Office	69,307	55.7	56,238	63.0
Medical centre	48,284	38.8	7,924	8.8
Retail and restaurant	364	0.3	17,092	19.1
Others ^(Note)	6,430	5.2	8,089	9.1
Total	124,385	100.0	89,343	100.0

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth a breakdown of the Group's revenue and number of projects by project types and geographical locations for the years ended 31 December 2018 and 2017:

Project types and locations	For the year ended 31 December					
	2018			2017		
	No. of projects	HK\$'000	%	No. of projects	HK\$'000	%
Design & decoration						
Hong Kong	21	40,946	32.9	22	65,756	73.6
The PRC and Macau	2	3,385	2.7	1	1,508	1.7
	23	44,331	35.6	23	67,264	75.3
Decoration						
Hong Kong	21	76,789	61.7	8	16,208	18.1
The PRC and Macau	3	2,815	2.3	–	–	–
	24	79,604	64.0	8	16,208	18.1
Others						
Hong Kong		450	0.4		5,590	6.3
PRC		–	–		281	0.3
		450	0.4		5,871	6.6
Total	47	124,385	100.0	31	89,343	100.0

Increase in revenue during the year was principally attributed to (i) increase of approximately HK\$40.4 million derived from medical centre from approximately HK\$7.9 million in 2017 to approximately HK\$48.3 million in 2018; and (ii) increase of approximately HK\$13.1 million derived from office premises from approximately HK\$56.2 million in 2017 to approximately HK\$69.3 million in 2018.

Cost of Services and Gross Profit

The Group's cost of services mainly comprised subcontracting costs and direct staff costs; the increase in cost of services was generally in line with the increase in revenue for the Year.

The following table sets forth the breakdown of the Group's gross profit and gross profit margin by use of premises for the years ended 31 December 2018 and 2017:

Use of premises	For the year ended 31 December			
	2018		2017	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	HK\$'000	%	HK\$'000	%
Office	27,142	39.2	24,826	44.1
Medical centre	20,142	41.7	3,010	38.0
Retail and restaurant	94	25.8	8,978	52.5
Others	1,511	23.5	2,027	25.1
Total	48,889	39.3	38,841	43.5

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margin of the Group's office projects decreased from approximately 44.1% in 2017 to approximately 39.2% in 2018 was mainly due to an office management project with approximately HK\$1.9 million project management fee received in 2017, while no such type of projects in 2018. Gross profit margin of the Group's medical centre projects increased from approximately 38.0% in 2017 to approximately 41.7% in 2018 was mainly due to a decoration project with a 42.5% gross profit margin in 2018 while there was a project with a below average profit margin of 31.0% in 2017.

The following table sets forth the breakdown of the Group's gross profit and gross profit margin by project types for the years ended 31 December 2018 and 2017:

Project types	For the year ended 31 December			
	2018		2017	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	HK\$'000	%	HK\$'000	%
Design & decoration	17,801	40.2	27,815	41.4
Decoration	31,047	39.0	6,974	43.0
Others	41	9.1	4,052	69.0
Total	48,889	39.3	38,841	43.5

The overall gross profit increased by approximately HK\$10.0 million or 25.9% from approximately HK\$38.8 million in 2017 to approximately HK\$48.9 million in 2018, was mainly due to the offsetting impact of the increase in gross profit from decoration projects of approximately HK\$24.1 million; and the decrease in gross profit from design & decoration projects of approximately HK\$10.0 million.

Gross profit margin of the Group's design & decoration projects remained stable which range from approximately 41.4% in 2017 to approximately 40.2% in 2018. Gross profit margin of the Group's decoration projects decreased from approximately 43.0% in 2017 to approximately 39.0% in 2018, which was mainly due to a premium decoration project for a restaurant with over 50% gross profit margin in 2017 and a major decoration project for an office with gross profit margin of 39.2% in 2018.

Considering of the above, the Group's overall gross profit margin decreased from 43.5% in 2017 to 39.3% in 2018.

General and Administrative Expenses

The Group's general and administrative expenses amounted to approximately HK\$14.8 million and approximately HK\$7.7 million for the years ended 31 December 2018 and 2017 respectively, representing an increase of approximately 92.2%, which mainly due to the increase in staff costs and marketing expenses incurred during the Year.

Income tax

Income tax of the Group for the Year was approximately HK\$6.0 million (2017: HK\$5.2 million) and such growth was consistent with the increase in assessable profits during the Year as compared to the Previous Year. Expenses relating to transfer of listing incurred during the Year were not deductible for tax purpose.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year

Profit for the year of the Group increased from approximately HK\$26.1 million for the Previous Year to approximately HK\$28.7 million for the Year was mainly due to the increase in gross profit from decoration projects, which offset by increase in staff costs and marketing expenses.

Dividend

The Board recommended a final dividend of HK0.25 cent per share for the Year (2017: HK0.20 cent per share) which is subject to the approval of shareholders at the forthcoming annual general meeting of the Company. The total payout will amount to HK\$2.5 million (2017: HK\$2 million). Conditional upon the passing of an ordinary resolution by the shareholders at the annual general meeting of the Company to be held on 9 April 2019, the proposed final dividend will be payable on or around 8 May 2019 to the shareholders whose names appear on the register of members of the Company on 18 April 2019, being the record date for determining shareholders' entitlement to the proposed final dividend.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business objectives as set out in the Company's prospectus dated 29 November 2016 (the "Prospectus") with the Group's actual business progress up to 31 December 2018:

Business objectives up to 31 December 2018 as set out in the Prospectus

Actual business progress up to 31 December 2018

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

- | | |
|--|--|
| <ul style="list-style-type: none"> — Recruit staff, rent and decorate a new office, procure new projects for the international team | <p>The Group has appointed two consultants to coordinate and negotiate in the process of staff recruitment, office rental and decoration and equipment procurement.</p> <p>The Group has recruited a design director, two designers, a marketing director and a project manager to conduct overseas travelling to explore business opportunities and handle new projects.</p> <p>The Group has rented a new office in North Point for its office expansion, and has completed the decoration of its new and existing office.</p> |
| <ul style="list-style-type: none"> — Purchase equipment for interior design and technical use, office facilities and a vehicle | <p>The Group is in the process of exploring and identifying suitable interior design and technical use equipment, office facilities and vehicle.</p> |
| <ul style="list-style-type: none"> — Expand and renovate Hong Kong office | <p>The Group has rented a new office in North Point for its office expansion, and has completed the decoration of its new and existing office.</p> |

MANAGEMENT DISCUSSION AND ANALYSIS

Business objectives up to 31 December 2018 as set out in the Prospectus

Actual business progress up to 31 December 2018

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

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

Increase our capacity to capture more business opportunities

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

Expand our business in the PRC market

- Expand our office facilities and recruit marketing staff in the PRC
The Group has been pitching for projects continuously, and plans to expand our office facilities and recruit marketing staff after securing new business in the PRC.

The Group has recruited six marketing executives to participate in marketing activities for its PRC expansion.

The Group had set up a new office in Hengqin, the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE PLACING

The following table sets forth the status of the use of proceeds from the placing up to 31 December 2018:

	Planned use of proceeds as stated in the Prospectus up to 31 December 2018 <i>HK\$ million</i>	Actual use of proceeds up to 31 December 2018 <i>HK\$ million</i>	Balance as at 31 December 2018 <i>HK\$ million</i>
Establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities	13.8	8.5	5.3
Maintain and strengthen our market position in Hong Kong and the PRC and focus on reputable customers	6.0	5.8	0.2
Increase our capacity to capture more business opportunities	4.6	3.7	0.9
Expand our business in the PRC market	3.1	1.0	2.1
General working capital	3.1	3.1	–
	30.6	22.1	8.5

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

The Group delayed the use of some planned proceeds as disclosed in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group expects the remaining unutilised use of proceeds will be fully utilised by 30 June 2019. Set out below is the revised expansion plan of the Group including the actual use of proceeds since Listing and up to 31 December 2018.

Use of proceeds	Actual use of proceeds since Listing to 31 December 2018 <i>HK\$ million</i>	Proceeds planned to be used from 31 December 2018 to 30 June 2019 <i>HK\$ million</i>
1. Establish an international team with corresponding expansion of Hong Kong office and improvement of the Group's equipment and facilities	8.5	5.3
2. Maintain and strengthen the Group's market position in Hong Kong and the PRC and focus on reputable customers	5.8	0.2
3. Increase the Group's capacity to capture more business opportunities	3.7	0.9
4. Expand the Group's business in the PRC market	1.0	2.1
5. General working capital	3.1	–
Total	22.1	8.5

Business strategies	Implementation activities	Amount of use of proceeds to be utilised
Establish international team with corresponding expansion of Hong Kong office and improvement of the Group's equipment and facilities	— Retain existing designers and marketing executives	Net proceeds of approximately HK\$2.7 million
	— Additional rental and management fees for Hong Kong office expansion	
Maintain and strengthen the Group's market position in Hong Kong and the PRC	— Retain existing marketing executives	Net proceeds of approximately HK\$0.1 million
	— Providing trainings to marketing executives	
Focus on reputable customers	— Prepare and distribute marketing materials in core business districts to enhance and promote the Group's corporate image	Net proceeds of approximately HK\$0.1 million

MANAGEMENT DISCUSSION AND ANALYSIS

Business strategies	Implementation activities	Amount of use of proceeds to be utilised
Increase the Group's capacity to capture more business	— Retain existing designers	Net proceeds of approximately HK\$0.5 million
Expand the Group's business in the PRC market	— Retain existing marketing executives and recruit new marketing executives	Net proceeds of approximately HK\$1.0 million
	— Additional marketing expenses for procuring new projects	
Establish international team with corresponding expansion of Hong Kong Office and improvement of the Group's equipment and facilitates	— Retain existing designers and marketing executives	Net proceeds of approximately HK\$2.6 million
	— Additional rental and management fees for Hong Kong office expansion	
Increase the Group's capacity to capture more business opportunities	— Retain existing designers	Net proceeds of approximately HK\$0.4 million
	— Retain existing project managers	
Expand the Group's business in the PRC market	— Retain existing marketing executives	Net proceeds of approximately HK\$1.1 million
	— Expand the facilitates and maintain the offices in the PRC	

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

During the Year, the Group financed its operations by its internal resources. As at 31 December 2018, the Group had net current assets of approximately HK\$107.7 million (2017: HK\$83.4 million), including cash and cash equivalents balances of approximately HK\$69.1 million (2017: HK\$71.3 million) mainly denominated in Hong Kong dollars. As at 31 December 2018, the Group had an unutilised banking facility of HK\$2.0 million (2017: HK\$2.0 million) which was secured by pledged bank deposits.

The current ratio, being the ratio of current assets to current liabilities, was approximately 4.3 times as at 31 December 2018 (2017: 6.6 times). The decrease was mainly due to (i) the increase in trade and other payables of approximately HK\$16.3 million and (ii) the increase in contract liabilities and gross amount due to customers for contract work of approximately HK\$2.2 million.

The gearing ratio of the Group as at 31 December 2018 was nil (2017: Nil) as the Group was not in need of any material debt financing during the Year. The gearing ratio is calculated as total debt divided by total equity as at the respective year end.

MANAGEMENT DISCUSSION AND ANALYSIS

The shares of the Company were listed on GEM of the Stock Exchange on 8 December 2016 by way of placing and 250,000,000 new shares offered by the Company at a placing price of HK\$0.2 per share were issued under the placing. There has been no change in capital structure of the Company since then. The equity attributable to owners of the Company amounted to approximately HK\$110.4 million as at 31 December 2018 (2017: HK\$83.9 million).

PLEDGE OF ASSETS

As of 31 December 2018, bank deposits of HK\$2.0 million (2017: HK\$2.0 million) and HK\$6.7 million (2017: Nil) were pledged to secure the banking facilities and a performance bond respectively. Save for the above, the Group did not have any charges on its assets.

FOREIGN EXCHANGE EXPOSURE AND TREASURY POLICY

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

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

CAPITAL COMMITMENTS

As at 31 December 2018 and 2017, the Group did not have any material capital commitment.

HUMAN RESOURCES MANAGEMENT

As at 31 December 2018, the Group had a total of 19 (2017: 13) employees. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance.

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

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

CONTINGENT LIABILITIES

Save as disclosed in note 21 to the consolidated financial statements, the Group had no other contingent liabilities as at 31 December 2018.

DIRECTORS' REPORT

The Board is pleased to present its annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018. The shares of the Company (the "Shares") were listed on the GEM of the Stock Exchange (the "Listing") on 8 December 2016 (the "Listing Date").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 2 to the consolidated financial statements. The Group is principally engaged in the provision of interior designs, project management services and fitting-out works for commercial premises, including office and retail space.

SEGMENTAL INFORMATION

The Group's segment information and revenue for the year ended 31 December 2018 are set out in Note 2 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Company and of the Group as at that date are set out in the consolidated financial statements on pages 45 to 93.

On 28 January 2019, the Board recommended a final dividend of HK0.25 cent per share for the year ended 31 December 2018 (2017: HK0.20 cent) which is subject to the approval of shareholders at the forthcoming annual general meeting of the Company. The total payout will amount to HK\$2.5 million.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 3 April 2019 to Tuesday, 9 April 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 2 April 2019.

For determining the entitlement to the proposed final dividend payable to shareholders of the Company, the register of members of the Company will be closed from Tuesday, 16 April 2019 to Thursday, 18 April 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 15 April 2019. The expected date of payment of the final dividend is Wednesday, 8 May 2019.

BUSINESS REVIEW

A fair review of the business of the Group as well as discussion and analysis of the Group's performance during the year under review and the material factors underlying its financial performance and financial position can be found in the "Chairman's Statement" and "Management Discussion and Analysis" set out on page 4 and pages 10 to 19 respectively.

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

DIRECTORS' REPORT

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

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

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

DIRECTORS' REPORT

PERMITTED INDEMNITY

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

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on Tuesday, 9 April 2019. A circular containing the details of AGM and the notice of the AGM and form of proxy accompanying thereto will be despatched to shareholders of the Company in due course.

RESERVES

Details of movements in the reserves of the Company and the Group during the year under review are set out in Note 17 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$32,816,000 (2017: HK\$33,869,000).

PROPERTY, PLANT AND EQUIPMENT

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

INTEREST CAPITALISED

No interest was capitalised by the Group during the year ended 31 December 2018.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group, as extracted from the consolidated financial statements, is set out on page 94 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital and movements during the year under review are set out in Note 17 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	31.4%	–
Five largest customers in aggregate	64.1%	–
The largest supplier	–	6.6%
Five largest suppliers in aggregate	–	26.1%

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

DIRECTORS

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

Executive Directors

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

Ms. Leung May Yan

Mr. Wong Siu Hong Edward

Independent non-executive Directors

Mr. Li Wai Kwan

Mr. Hui Harry Chi

Ms. So Patsy Ying Chi

Pursuant to article 84 of the Articles of Association, Mr. Wong Siu Hong Edward and Mr. Li Wai Kwan shall retire from office as Directors by rotation at the AGM and, being eligible, offer themselves for re-election at the AGM.

DIRECTORS' AND COMPANY SECRETARY'S BIOGRAPHIES

Biographical details of the Directors and company secretary are set out on pages 5 to 9 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. Lau King Wai has entered into a service agreement with the Company on 24 February 2016 for an initial period from 7 January 2016 to the Listing Date and three years from the Listing Date unless terminated by not less than three months' notice in writing served by either party on the other or otherwise in accordance with the service agreement.

Each of the executive Directors, except Mr. Lau King Wai, has entered into a service agreement with the Company on 24 February 2016 for an initial period from 24 February 2016 to the Listing Date and three years from the Listing Date unless terminated by not less than three months' notice in writing served by either party on the other or otherwise in accordance with the service agreement.

DIRECTORS' REPORT

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of one year from 18 November 2018 and such letter of appointment may be terminated by either party giving at least three months' notice in writing.

Save as disclosed above, none of the Directors being proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

INDEPENDENCE CONFIRMATION

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

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

MANAGEMENT CONTRACTS

As at 31 December 2018, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

EMOLUMENT POLICY

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

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

RETIREMENT BENEFIT SCHEME

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

DIRECTORS' INTERESTS IN CONTRACT

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or the substantial shareholders of the Company ("Substantial Shareholders") or their respective close associates (as defined in the GEM Listing Rules) has interests in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year ended 31 December 2018 and up to the date of this Annual Report.

DIRECTORS' REPORT

NON-COMPETITION UNDERTAKING

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

The Company has received from each of the Covenantors an annual written confirmation on the compliance with the Non-competition Undertaking for the year ended 31 December 2018. The independent non-executive Directors have reviewed the compliance of the Non-competition Undertaking from the Covenantors and evaluated the effectiveness of the implementation of the Non-competition Undertaking, and were satisfied that the Covenantors have complied with the Non-competition Undertaking for the year ended 31 December 2018.

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

As at 31 December 2018, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, will be as follows:

Long Positions in Shares of the Company

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

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

Saved as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the section "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Its Associated Corporations" above, at no time during the year ended 31 December 2018 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

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

So far as the Directors are aware, as at 31 December 2018, other than the Directors or chief executives of the Company whose interests or short positions are disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Its Associated Corporations" above, the following person has an interest or short position in the shares or underlying shares of the Company which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, and who were expected, directly or indirectly, to be interested in 5% or more of the issued shares of the Company are listed as follows:

Long Positions in Shares of the Company

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

Notes:

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

Saved as disclosed above, as at 31 December 2018, the Directors were not aware of any other person (other than the Directors or chief executives as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Its Associated Corporations" above) who had, or deemed to have, interests or short positions in the shares, underlying shares or debentures of the Company which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, or who were directly or indirectly interested in 5% or more of the issued shares of the Company.

DIRECTORS' REPORT

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2018.

CONNECTED TRANSACTIONS

Related party transactions entered into by the Group during the year ended 31 December 2018 are disclosed in Note 20 to the consolidated financial statements. None of the related party transactions as disclosed constituted disclosable non-exempted connected transaction or non-exempted continuing connected transaction under the GEM Listing Rules and the Company had complied with the relevant requirements of Chapter 20 of the GEM Listing Rules during the year ended 31 December 2018.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2018 and up to the date of this Annual Report.

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms which are the same as the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company periodically issues notices to its Directors reminding them of the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the required standards of dealings throughout the year ended 31 December 2018. The Company was not aware of any non-compliance during the year ended 31 December 2018.

CORPORATE GOVERNANCE

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

DIVIDEND POLICY

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

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

DIRECTORS' REPORT

COMPLIANCE ADVISER'S INTEREST IN THE COMPANY

As at 31 December 2018, as notified by the Company's compliance adviser, Sunfund Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement dated 18 November 2016 and the supplemental agreement dated 29 December 2017 entered into between the Company and the Compliance Adviser, neither the Compliance Adviser nor its directors, employees or its close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Group the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited consolidated financial statements for the year ended 31 December 2018, with external auditor. There were no disagreements from the auditor of the Company or the Audit Committee in respect of the accounting policies adopted by the Company.

AUDITOR

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

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

Hong Kong, 28 January 2019

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

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

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

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

BOARD OF DIRECTORS

Board Composition

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi to be independent in accordance with the independence guidelines set out in the GEM Listing Rules for the year ended 31 December 2018.

ROLE AND FUNCTION OF THE BOARD

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

DELEGATION BY THE BOARD

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

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

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

DIRECTORS' INSURANCE COVER OF LEGAL ACTION

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

BOARD DIVERSITY POLICY

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

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

The Directors confirmed that they have complied with the code provision A.6.5 of the CG Code on Directors' training. During the year ended 31 December 2018, all Directors have participated in continuous professional development by attending seminars/in-house briefing/reading materials to develop and refresh their knowledge and skills and provided a record of training to the Company. These covered a broad range of topics including Directors' duties, corporate governance and recent updates on the GEM Listing Rules.

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

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

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

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

NUMBER OF MEETINGS AND ATTENDANCE RECORDS

During the year ended 31 December 2018, five meetings of the Board were held, Directors are provided with relevant information to make informed decisions. The attendance of Directors at the Board meetings, general meeting and the Board committees' meetings is set out in the table below:

Name of Directors	Meetings attended/Eligible to attend					Annual General Meeting held on 23 April 2018
	Board	Audit Committee	Remuneration Committee	Nomination Committee		
Mr. Lau King Wai	5/5	N/A	N/A	N/A		1/1
Ms. Leung May Yan	5/5	N/A	N/A	N/A		0/1
Mr. Wong Siu Hong Edward	5/5	N/A	N/A	N/A		1/1
Mr. Li Wai Kwan	5/5	5/5	1/1	1/1		1/1
Mr. Hui Harry Chi	5/5	5/5	1/1	1/1		1/1
Ms. So Patsy Ying Chi	5/5	5/5	1/1	1/1		1/1

BOARD COMMITTEE

Audit Committee

The Company established an audit committee (the "Audit Committee") on 18 November 2016 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Audit Committee are mainly to make recommendation to the Board on the appointment and removal of external auditors; review financial statements and material advice in respect of financial reporting; and oversee risk management and internal control procedures of the Company. As at 31 December 2018, the Audit Committee consists of three members, namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi. Ms. So Patsy Ying Chi is the chairlady of the Audit Committee.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, five meetings of Audit Committee were held for, inter alia, reviewing the Group's quarterly, interim and annual results, the financial reporting and compliance procedures, the effectiveness of the risk management and internal control systems, considering the re-election of auditor of the Company and discussing with the auditors about the audit plan.

Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") on 18 November 2016 with written terms of reference in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules and paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance-based remuneration; and ensure none of the Directors determine their own remuneration. As at 31 December 2018, the Remuneration Committee consists of three members, namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi. Mr. Hui Harry Chi is the chairman of the Remuneration Committee. The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual executive Directors and senior management. Details of the remuneration of Directors are set out in Note 6 to the consolidated financial statements.

During the year ended 31 December 2018, one meeting of Remuneration Committee was held for, inter alia, reviewing the remuneration policy and structure of remuneration. No Director was involved in deciding his/her own remuneration.

Nomination Committee

The Company established a nomination committee (the "Nomination Committee") on 18 November 2016 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. As at 31 December 2018, the Nomination Committee consists of three members, namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi. Mr. Li Wai Kwan is the chairman of the Nomination Committee.

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

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

CORPORATE GOVERNANCE REPORT

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

During the year ended 31 December 2018, no new Director was appointed.

During the year ended 31 December 2018, one meeting was held by the Nomination Committee to recommend the re-appointment of the Directors standing for re-election at the annual general meeting, to review the size, structure, composition as well as diversity of the Board, to assess the independence of independent non-executive Directors and to consider the re-election of the Directors. The Nomination Committee has also reviewed the board diversity policy to ensure its effectiveness and considered that the Group has achieved the objectives of the board diversity policy during the year under review.

Corporate Governance Function

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

DIRECTORS' SECURITIES TRANSACTIONS

The Group adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions of the Company. Upon the Company's specific enquiry, each Director had confirmed that during the year ended 31 December 2018, they had fully complied with the required standard of dealings and there was no event of non-compliance.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the fees paid/payable to KPMG, Certified Public Accountants (the "KPMG"), the auditor of the Company, and its affiliate companies in respect of audit and non-audit services provided by them to the Group were as follows:

Service rendered	Fees paid/payable <i>HK\$'000</i>
Audit services	950
Non-audit services	423
Total	1,373

Non-audit services represent services in relation to the transfer of listing to Main Board.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS

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

Internal Controls

The Group has maintained internal control policies to provide sufficient guidelines for the management staff and employees of the Company to work efficiently under a standardised work procedure. The internal control policies cover various operating processes from risk assessment, financial reporting, cost management, pricing for projects, staff recruitment and training to IT system control. The internal control system is generally overseen by the executive Directors and senior management and is reviewed at least once a year. During the year ended 31 December 2018, the Group has engaged an independent external consulting firm as the Group's internal control consultant to review the effectiveness of the Group's internal control measures. The Board concluded that the Group has maintained effective internal control measures to ensure that the operations of the Group would be in full compliance with the CG Code and the applicable laws and regulations.

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

Risk Management

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

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

During the year ended 31 December 2018, the risk management process of the Group has been reviewed, and the Board considered that process was effective and adequate for the year ended 31 December 2018.

Procedures and Internal Controls for Handling and Dissemination of Insider Information

In handling and dissemination of inside information, the Group:

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

CORPORATE GOVERNANCE REPORT

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

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

INVESTOR RELATIONS AND COMMUNICATION

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

During the year ended 31 December 2018, an annual general meeting was held.

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

COMPANY SECRETARY

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHT

Procedures for Shareholders to Convene an Extraordinary General Meeting

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

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

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

Procedures for putting forward Proposals at a General Meeting

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

Procedures for Directing Shareholders' Enquiries to the Board

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

CONSTITUTIONAL DOCUMENTS

There were no changes in the constitutional documents of the Company during the year ended 31 December 2018.

INDEPENDENT AUDITOR'S REPORT



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

Opinion

We have audited the consolidated financial statements of K W Nelson Interior Design and Contracting Group Limited and its subsidiaries ("the Group") set out on pages 45 to 93, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT

Revenue recognition

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

The key audit matter

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

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

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

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

How the matter was addressed in our audit

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

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

INDEPENDENT AUDITOR'S REPORT

Assessing the recoverability of trade receivables

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

The key audit matter

The Group's trade receivables amounted to HK\$51 million (representing approximately 37% of the Group's current assets, as at 31 December 2018).

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

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

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

How the matter was addressed in our audit

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

- evaluating the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimate of expected credit losses;
- assessing, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant sales invoices;
- assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances; and
- inspecting cash receipts from customers after the financial year end relating to trade receivable balances as at 31 December 2018, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

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

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

28 January 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK\$'000	2017 HK\$'000
Revenue	2	124,385	89,343
Direct costs		(75,496)	(50,502)
Gross profit		48,889	38,841
Other revenue	3	633	170
General and administrative expenses		(14,818)	(7,708)
Profit before taxation	4	34,704	31,303
Income tax	5(a)	(5,970)	(5,201)
Profit for the year		28,734	26,102
Earnings per share	8		
Basic and diluted		HK2.9 cents	HK2.6 cents

The notes on pages 50 to 93 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 17(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	2018 HK\$'000	2017 HK\$'000
Profit for the year	28,734	26,102
Other comprehensive income for the year (net of nil tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiary with functional currency other than Hong Kong dollars	(153)	163
Total comprehensive income for the year	28,581	26,265

The notes on pages 50 to 93 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK\$'000	2017 HK\$'000 (Note)
Non-current assets			
Property, plant and equipment	9	2,842	511
Current assets			
Contract assets	11	2,941	–
Gross amount due from customers for contract work	12	–	5,762
Trade and other receivables	13	59,112	19,379
Pledged bank deposits	14	8,670	2,000
Cash and cash equivalents	14	69,149	71,305
		139,872	98,446
Current liabilities			
Contract liabilities	11	4,676	–
Gross amount due to customers for contract work	12	–	2,525
Trade and other payables	15	27,225	10,955
Tax payable	16(a)	314	1,529
		32,215	15,009
Net current assets		107,657	83,437
Total assets less current liabilities		110,499	83,948
Non-current liabilities			
Deferred tax liabilities	16(b)	54	84
NET ASSETS		110,445	83,864
CAPITAL AND RESERVES			
Share capital	17(c)	10,000	10,000
Reserves		100,445	73,864
TOTAL EQUITY		110,445	83,864

Approved and authorised for issue by the board of directors on 28 January 2019.

Lau King Wai
Director

Leung May Yan
Director

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 50 to 93 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Merger reserve HK\$'000	Capital contribution reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 2017		10,000	33,728	(285)	(380)	5,000	9,536	57,599
Changes in equity for 2017:								
Profit for the year		-	-	-	-	-	26,102	26,102
Other comprehensive income		-	-	163	-	-	-	163
Total comprehensive income		-	-	163	-	-	26,102	26,265
Balance at 31 December 2017 and 1 January 2018		10,000	33,728	(122)	(380)	5,000	35,638	83,864
Changes in equity for 2018:								
Profit for the year		-	-	-	-	-	28,734	28,734
Other comprehensive income		-	-	(153)	-	-	-	(153)
Total comprehensive income		-	-	(153)	-	-	28,734	28,581
Dividend approved and paid in respect of the previous year	17(b)	-	-	-	-	-	(2,000)	(2,000)
Balance at 31 December 2018		10,000	33,728	(275)	(380)	5,000	62,372	110,445

The notes on pages 50 to 93 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK\$'000	2017 HK\$'000
Operating activities			
Cash generated from operations	14(b)	16,819	29,348
Tax paid:			
— Hong Kong Profits Tax paid		(7,197)	(2,545)
— People's Republic of China ("PRC") Corporate Income Tax paid		(18)	(3)
Net cash generated from operating activities		9,604	26,800
Investing activities			
Payment for the purchase of property, plant and equipment		(3,569)	(27)
Proceed from disposal of property, plant and equipment		88	—
Increase in pledged bank deposits		(6,670)	—
Interest received		544	170
Net cash (used in)/generated from investing activities		(9,607)	143
Financing activities			
Dividend paid		(2,000)	—
Net cash used in financing activities		(2,000)	—
Net (decrease)/increase in cash and cash equivalents		(2,003)	26,943
Cash and cash equivalents at 1 January		71,305	44,219
Effect of foreign exchange rate changes		(153)	143
Cash and cash equivalents at 31 December	14(a)	69,149	71,305

The notes on pages 50 to 93 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise K W Nelson Interior Design and Contracting Group Limited (the “Company”) and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 23.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRS and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- (i) HKFRS 9, *Financial instruments*
- (ii) HKFRS 15, *Revenue from contracts with customers*
- (iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. There is no significant impact on the Group's financial position and financial result upon initial application at 1 January 2018.

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

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under HKFRS 9, the classification for all of the Group's financial assets and financial liabilities measured at amortised cost remain the same. The carrying amounts for all financial assets and financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9, *Financial instruments* (Continued)

b. Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” (“ECL”) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

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

For further details on the Group’s accounting policy for accounting for credit losses, see notes 1(g)(i) and (ii).

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

There is no significant impact on the Group’s financial position and financial result upon initial application at 1 January 2018. Comparative information continues to be reported under HKASs 11 and 18.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, Revenue from contracts with customers (Continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from construction contracts was recognised over time.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The timing of revenue recognition of certain performance obligations identified in the Group's contracts change from over time to point in time as they do not meet any of the 3 situations identified under HKFRS 15 for revenue recognition over time. However as these performance obligations are usually satisfied over a short period of time ranging from a few days to a few weeks, this does not have any significant impact on its revenue recognition in any particular financial year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, Revenue from contracts with customers (Continued)

b. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note 1(o)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note 1(h)).

Previously, contract balances relating to construction contracts in progress were presented in the statement of financial position under "Gross amount due from customers for contract work" or "Gross amount due to customers for contract work" respectively, and the revenue was recognised for the reasons explained in paragraph a. above.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

- (i) "Gross amount due from customers for contract work" (note 12) and "Retention receivables" under "Trade and other receivables" (note 13) amounting to HK\$5,762,000 and HK\$2,980,000 respectively, are now included under contract assets (note 11(a)); and
- (ii) "Gross amount due to customers for contract work" (note 12) and "Receipt in advance" under "Trade and other payables" (note 15) amounting to HK\$2,525,000 and HK\$2,018,000 respectively, are now included under contract liabilities (note 11(b)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, Revenue from contracts with customers (Continued)

- c. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) HK\$'000	Hypothetical amounts under HKASs 18 and 11 (B) HK\$'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) HK\$'000
Line items in the consolidated statement of profit or loss for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Direct costs	(75,496)	(74,942)	(554)
Gross profit	48,889	49,443	(554)
Profit before taxation	34,704	35,258	(554)
Income tax	(5,970)	(6,061)	91
Profit for the year	28,734	29,197	(463)
Line items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Total comprehensive income for the year	28,581	29,044	(463)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, Revenue from contracts with customers (Continued)

- c. Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018 (Continued)

	Amounts reported in accordance with HKFRS 15 (A) HK\$'000	Hypothetical amounts under HKASs 18 and 11 (B) HK\$'000	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) HK\$'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Contract assets	2,941	–	2,941
Gross amount due from customers for contract work	–	1,534	(1,534)
Trade and other receivables	59,112	61,073	(1,961)
Contract liabilities	(4,676)	–	(4,676)
Gross amount due to customers for contract work	–	(4,676)	4,676
Line items in the reconciliation of profit before taxation to cash generated from operations for year ended 31 December 2018 (note 14(b)) impacted by the adoption of HKFRS 15:			
Decrease in contract assets	5,801	–	5,801
Decrease in gross amount due from customer for contract work	–	4,228	(4,228)
Increase in trade and other receivables	(42,713)	(41,694)	(1,019)
Increase in contract liabilities	133	–	133
Increase in gross amount due to customer for contract work	–	2,151	(2,151)
Increase in trade and other payables	18,288	16,270	2,018

The significant differences arise as a result of the changes in accounting policies described above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

(d) Subsidiaries

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(g)).

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

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

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

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

(f) Operating lease charges

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

(g) Credit losses and impairment of assets

i. Credit losses from financial instruments and contract assets

A. Policy applicable from 1 January 2018

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

A. Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

A. Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 2 years past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

A. Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income

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

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

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

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

Write-off policy

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

B. Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence existed, an impairment loss was determined and recognised as follows:

For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

B. Policy applicable prior to 1 January 2018 (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery was considered doubtful but not remote. In this case, the impairment losses for doubtful debts were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against trade receivables directly and any amounts held in the allowance account relating to that debt were reversed. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

ii. Impairment of other non-current assets

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

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

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

ii. Impairment of other non-current assets (Continued)

— Reversals of impairment losses

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

(h) Contract assets and contract liabilities

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

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

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

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

Policy prior to 1 January 2018

In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable, respectively on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "trade and other receivables". Amounts received before the related work was performed were presented as "Receipt in advance" under "Trade and other payables". These balances have been reclassified on 1 January 2018 as shown in note 11 (see note 1(c)(ii)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Trade and other receivables

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

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

(j) Cash and cash equivalents

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

(k) Trade and other payables

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

(l) Employee benefits

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

(m) Income tax

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income tax (Continued)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Provisions and contingent liabilities

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

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

(o) Revenue and other revenue

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

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

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

(i) Contract revenue

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

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

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

Revenue for construction contracts was recognised on a similar basis in the comparative period under HKAS 11.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Revenue and other revenue (Continued)

(ii) Interest income

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

(p) Translation of foreign currencies

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

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

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

(q) Related parties

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Related parties (Continued)

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

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

(r) Segment reporting

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

2 REVENUE AND SEGMENT REPORTING

(a) Revenue and business segment

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

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

The Group has one reportable segment which is the provision of interior designs, project management services and fitting-out works. The Group's chief operating decision maker, which has been identified as the Board of Directors, reviews the consolidated results of the Group for the purposes of resource allocation and performance assessment. Therefore, no additional reportable segment information has been presented.

The Group's customer base includes two (2017: one) customers with whom transactions has exceeded 10% of the Group's revenue for the year ended 31 December 2018. Contract revenue earned from these customers, amounted to HK\$60,872,000 (2017: HK\$14,636,000) for the year ended 31 December 2018. Details of concentrations of credit risk arising from the customers are set out in note 18(a).

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

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

(b) Geographic information

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

	Revenue from external customers		Specified non-current assets	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Hong Kong (place of domicile)	121,810	87,554	2,840	508
Mainland China	2,575	1,789	2	3
	124,385	89,343	2,842	511

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

3 OTHER REVENUE

	2018 HK\$'000	2017 HK\$'000
Interest income	544	170
Gain on disposal of property, plant and equipment	88	–
Others	1	–
	633	170

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging

	2018 HK\$'000	2017 HK\$'000
(a) <i>Staff costs</i>		
Salaries, wages and other benefits	8,278	5,222
Contributions to defined contribution retirement plan	247	218
	8,525	5,440

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

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

	2018 HK\$'000	2017 HK\$'000
(b) <i>Other items</i>		
Depreciation (<i>note 9</i>)	1,238	487
Operating lease charges: minimum lease payments	823	640
Net foreign exchange loss	–	20
Auditors’ remuneration		
— audit services	950	850
— other services	423	–
Direct costs (<i>note</i>)	75,496	50,502

Note: Direct costs includes HK\$4,306,000 (2017: HK\$3,312,000) relating to staff costs, which is also included in the respective total amounts disclosed separately in note 4(a).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2018 HK\$'000	2017 HK\$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	5,607	5,129
Under-provision in respect of prior years	345	129
Current tax — PRC Corporate Income Tax		
Provision for the year	48	19
Deferred tax		
Reversal of temporary differences (note 16(b))	(30)	(76)
	5,970	5,201

The provision for Hong Kong Profits Tax for 2018 is calculated at 8.25% (2017: 16.5%) of the first \$2,000,000 and 16.5% (2017: 16.5%) of the remaining estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2017-18 subject to a maximum reduction of \$30,000 for each business (2017: a maximum reduction of \$20,000 was granted for the year of assessment 2016-17 and was taken into account in calculating the provision for 2017). Taxation for the PRC subsidiary in 2018 was charged at a reduced rate for small and low-profit enterprise at 10% of the estimated profits for the year (2017: 10%).

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

	2018 HK\$'000	2017 HK\$'000
Profit before taxation	34,704	31,303
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	5,531	5,129
Tax effect of non-deductible expenses	227	6
Tax effect of non-taxable income	(103)	(27)
Utilisation of tax loss not recognised in prior years	–	(36)
Under-provision in respect of prior years	345	129
Statutory tax concession	(30)	–
Actual tax expense	5,970	5,201

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

6 DIRECTORS' EMOLUMENTS

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

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

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	2017 Total HK\$'000
Executive directors					
Mr. LAU King Wai	–	240	–	12	252
Ms. LEUNG May Yan	–	429	–	18	447
Mr. WONG Siu Hong Edward	–	319	–	18	337
Independent non-executive directors					
Ms. So Patsy Ying Chi	120	–	–	–	120
Mr. Li Wai Kwan	120	–	–	–	120
Mr. Hui Harry Chi	120	–	–	–	120
	360	988	–	48	1,396

During the years ended 31 December 2017 and 2018, there was no amount paid or payable by the Group to the directors or any of the highest paid individuals as set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was also no arrangement under which a director has waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, there are three directors (2017: one director) whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other 2 (2017: 4) individuals are as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries and other emoluments	966	1,794
Retirement scheme contributions	36	72
	1,002	1,866

The emoluments of the 2 (2017: 4) individuals with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
Nil — HK\$1,000,000	2	4

8 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2018	2017
Profit for the year attributable to the ordinary equity shareholders of the Company (HK\$'000)	28,734	26,102
Weighted average number of ordinary shares in issue (thousand shares)	1,000,000	1,000,000

(b) Diluted earnings per share

The diluted earnings per share is the same as the basic earnings per share as there were no diluted potential ordinary shares in existence during the years ended 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

9 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1 January 2017	–	165	2,282	2,447
Exchange adjustments	–	1	–	1
Additions	–	27	–	27
At 31 December 2017	–	193	2,282	2,475
At 1 January 2018	–	193	2,282	2,475
Exchange adjustments	–	1	–	1
Additions	2,593	53	923	3,569
Disposals	–	–	(244)	(244)
At 31 December 2018	2,593	247	2,961	5,801
Accumulated depreciation:				
At 1 January 2017	–	59	1,417	1,476
Exchange adjustments	–	1	–	1
Charge for the year	–	31	456	487
At 31 December 2017	–	91	1,873	1,964
At 1 January 2018	–	91	1,873	1,964
Exchange adjustments	–	1	–	1
Charge for the year	720	33	485	1,238
Written back on disposals	–	–	(244)	(244)
At 31 December 2018	720	125	2,114	2,959
Net book value:				
At 31 December 2018	1,873	122	847	2,842
At 31 December 2017	–	102	409	511

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

10 INVESTMENTS IN SUBSIDIARIES

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

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

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

11 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	Notes	31 December 2018 HK\$'000	1 January 2018 (i) HK\$'000	31 December 2017 (i) HK\$'000
Contract assets				
Arising from performance under construction contract works	(ii), (iii)	2,941	8,742	–
Receivables from contracts with customers within the scope of HKFRS 15 which are included in "Trade and other receivables" (note 13)		51,358	13,061	

Notes:

- (i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.
- (ii) Upon the adoption of HKFRS 15, some of the receivables, for which the Group's entitlement to the consideration was conditional on satisfactory completion of the retention period, were reclassified from "Retention receivables" under "Trade and other receivables" to "Contract assets" (see note 1(c)(ii)).
- (iii) Upon the adoption of HKFRS 15, amounts previously included in "Gross amount due from customers for contract work" (note 12) were reclassified to "Contract assets" (see note 1(c)(ii)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

11 CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

(a) Contract assets (Continued)

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

— Construction contract works

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

(b) Contract liabilities

	31 December 2018	1 January 2018(i)	31 December 2017(i)
Note	HK\$'000	HK\$'000	HK\$'000
Contract liabilities			
Construction contract works			
— Billings in advance of performance	(ii) 4,676	4,543	—

Notes:

- (i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.
- (ii) Upon the adoption of HKFRS 15, amounts previously included in "Gross amount due to customers for contract work" (note 12) and "Trade and other payables" (note 15) were reclassified to "Contract liabilities" (see note 1(c)(ii)).

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

— Construction contract works

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

11 CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

(b) Contract liabilities (Continued)

Movements in contract liabilities

	2018 HK\$'000
Balance at 1 January 2018	4,543
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	(4,543)
Increase in contract liabilities as a result of billing in advance of contract works	4,676
Balance at 31 December 2018	4,676

12 GROSS AMOUNT DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	Note	2018 HK\$'000	2017 HK\$'000
Gross amount due from customers for contract work			
Contract costs incurred plus recognised profits less recognised losses		–	10,885
Less: progress billings		–	(5,123)
	(ii)	–	5,762
Gross amount due to customers for contract work			
Contract costs incurred plus recognised profits less recognised losses		–	15,472
Less: progress billings		–	(17,997)
	(iii)	–	(2,525)

Notes:

- i. The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.
- ii. Upon the adoption of HKFRS 15, "Gross amount due from customers for contract work" is included in "Contract assets" and disclosed in note 11(a).
- iii. Upon the adoption of HKFRS 15, "Gross amount due to customers for contract work" is included in "Contract liabilities" and disclosed in note 11(b).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

13 TRADE AND OTHER RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Trade receivables	51,358	13,061
Retention receivables (<i>note</i>)	–	2,980
Deposits, prepayments and other receivables	7,754	3,338
	59,112	19,379

Note: Upon the adoption of HKFRS 15, some of receivables, for which the Group's entitlement to the consideration was conditional on satisfactory completion of the retention period, were reclassified to "Contract assets" and disclosed in note 11(a) (see note 1(c)(ii)).

The amount of deposits, prepayments and other receivables expected to be recovered or recognised as expense after more than one year is HK\$55,000 (2017: HK\$174,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

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

	2018 HK\$'000	2017 HK\$'000
Within 1 month	25,492	8,153
Over 1 month to 2 months	17,180	1,737
Over 2 months to 3 months	1,899	1,699
Over 3 months	6,787	1,472
	51,358	13,061

Trade receivables are generally due within 7 days from the date of billing. Negotiated on a case-by-case basis, the credit terms granted to certain customers could be up to three months. Further details on the Group's credit policy are set out in note 18(a).

As at 31 December 2018, none (2017: none) of the Group's trade receivables was individually or collectively considered to be impaired. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

13 TRADE AND OTHER RECEIVABLES (Continued)

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2018 HK\$'000	2017 HK\$'000
Neither past due nor impaired	21,754	7,666
Within 1 month past due	10,758	490
Over 1 month to 3 months past due	12,062	3,640
Over 3 months past due	6,784	1,265
	29,604	5,395
	51,358	13,061

14 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2018 HK\$'000	2017 HK\$'000
Cash at bank and in hand	77,819	73,305
Less: pledged bank deposits (note)	(8,670)	(2,000)
Cash and cash equivalents in the consolidated statement of financial position and the consolidated cash flow statement	69,149	71,305

Note: The balance consists of:

- Bank deposits of HK\$2,000,000 (2017: HK\$2,000,000) was pledged to secure a banking facility of HK\$2,000,000 (2017: HK\$2,000,000). As at 31 December 2018 and 2017, no banking facility was utilised.
- Bank deposits of HK\$6,670,000 (2017: nil) was pledged for the issuance of a performance bond by a bank (note 21).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

	Note	2018 HK\$'000	2017 HK\$'000 (Note)
Profit before taxation		34,704	31,303
Adjustments for:			
Depreciation	4(b)	1,238	487
Interest income	3	(544)	(170)
Gain on disposal of property, plant and equipment	3	(88)	–
Net foreign exchange loss		–	20
Changes in working capital:			
Decrease in contract assets		5,801	–
Increase in contract liabilities		133	–
Increase in gross amount due from customers for contract work		–	(5,762)
Decrease in gross amount due to customers to contract work		–	2,375
Increase in trade and other receivables		(42,713)	(5,310)
Increase in trade and other payables		18,288	6,405
Cash generated from operations		16,819	29,348

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

15 TRADE AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Trade payables	7,668	3,531
Receipt in advance (note)	–	2,018
Other payables and accruals	19,557	5,406
	27,225	10,955

Note: As a result of the adoption of HKFRS 15, receipt in advance is included in "Contract liabilities" and disclosed in note 11(b) (see note 1(c)(ii)).

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

15 TRADE AND OTHER PAYABLES (Continued)

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

	2018 HK\$'000	2017 HK\$'000
Within 1 month	3,294	2,076
Over 1 month to 3 months	3,099	1,266
Over 3 months	1,275	189
	7,668	3,531

16 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2018 HK\$'000	2017 HK\$'000
Provision for Hong Kong Profits Tax for the year	5,607	5,129
Provisional Profits Tax paid	(5,339)	(3,616)
	268	1,513
PRC Corporate Income Tax	46	16
Tax payable	314	1,529

(b) Deferred tax liabilities recognised:

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

	Depreciation allowances in excess of the related depreciation HK\$'000
Deferred tax arising from:	
At 1 January 2017	160
Credited to profit or loss	(76)
At 31 December 2017	84
At 1 January 2018	84
Credited to profit or loss	(30)
At 31 December 2018	54

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Share capital HK\$'000	Share premium HK\$'000	(Accumulated loss)/ retained profit HK\$'000	Total HK\$'000
Balance at 1 January 2017	10,000	33,728	(1)	43,727
Profit and total comprehensive income for the year	–	–	142	142
Balance at 31 December 2017	10,000	33,728	141	43,869
Balance at 31 December 2017 and 1 January 2018	10,000	33,728	141	43,869
Loss and total comprehensive income for the year	–	–	(1,053)	(1,053)
Balance at 31 December 2018	10,000	33,728	(912)	42,816

(b) Dividends

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

	2018 HK\$'000	2017 HK\$'000
Final dividend proposed after the end of the reporting period of HK0.25 cent per share (2017: HK0.20 cent per share)	2,500	2,000

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

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

	2018 HK\$'000	2017 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK0.20 cent per share (2017: nil)	2,000	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

17 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Share capital

Issued share capital

	2018		2017	
	No. of share '000	Amount HK\$'000	No. of share '000	Amount HK\$'000
Authorised				
Ordinary shares of HK\$0.01 each	10,000,000	100,000	10,000,000	100,000
Issued and fully paid				
Ordinary shares, issued and fully	1,000,000	10,000	1,000,000	10,000

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

(d) Nature and purpose of reserves

(i) Share premium

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

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

(ii) Exchange reserve

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
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17 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(iii) Merger reserve

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

(iv) Capital contribution reserve

The capital contribution reserve represents contribution from the controlling shareholder.

(v) Distributability of reserve

At 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$32,816,000 (2017: HK\$33,869,000).

(e) Capital management

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

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

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligations. At 31 December 2018, the ratio of the Group's total liabilities over its total assets was 23% (2017: 15%).

The Group is not subject to externally imposed capital requirements during the years ended 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

18 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 27% (2017: nil) and 34% (2017: 49%) of the total trade receivables and contract assets was due from the Group's largest customer and the five largest customers respectively.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

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

(a) Credit risk (Continued)

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(g)(i)(A) – policy applicable prior to 1 January 2018).

The ageing analysis of trade receivables that were not considered to be impaired was disclosed in note 13(b).

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

(b) Liquidity risk

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

All financial liabilities are carried at amounts not materially different from the contractual undiscounted cash flows as at 31 December 2018 and 2017. The earliest date the Group is required to settle these liabilities is within one year or repayable on demand.

(c) Interest rate risk

As at 31 December 2018 and 2017, the Group was not exposed to any significant interest rate risk.

(d) Currency risk

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

As at 31 December 2018 and 2017, the Group was not exposed to any significant currency risk.

(e) Fair values measurement

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 2017 because of the immediate or short-term maturity of the financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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19 COMMITMENTS

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 HK\$'000	2017 HK\$'000
Within 1 year	462	643
After 1 year but within 5 years	294	166
	756	809

The Group is the lessee in respect of a number of properties and a motor vehicle held under operating leases. The leases typically run for an initial period of 1 to 3 years with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

20 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, transactions with the following parties are considered to be related party transactions:

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

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

(a) Key management personnel remuneration

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

In addition, remuneration of HK\$275,000 (2017: HK\$227,000) was paid to the spouse of the controlling shareholder during the year ended 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars unless otherwise indicated)

20 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Other related party transactions

	2018 HK\$'000	2017 HK\$'000
Office rental paid to Further Concept Limited	216	216
Motor vehicle rental paid to Target King Limited	112	107

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

21 CONTINGENT LIABILITY

As at 31 December 2018, performance bond of HK\$6,670,000 was given by a bank in favour of the Group's customer as security for the due performance and observance of the Group's obligation under the contract entered into between the Group and the customer. The Group has pledged bank deposits for the above performance bond (note 14). If the Group fails to provide satisfactory performance to the customer to whom performance bond has been given, the customer may demand the bank to pay to the customer the sum stipulated in the demand. The Group will then become liable to compensate the bank accordingly. The performance bond will be released upon completion of the contract work. At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Group.

NOTES TO THE FINANCIAL STATEMENTS

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22 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Investment in a subsidiary	10	380	380
Current assets			
Amount due from a subsidiary		3,421	2,970
Other receivables		177	–
Cash and cash equivalents		38,838	40,519
		42,436	43,489
NET ASSETS		42,816	43,869
CAPITAL AND RESERVES			
	17		
Share capital		10,000	10,000
Reserves		32,816	33,869
TOTAL EQUITY		42,816	43,869

23 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

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

The key sources of estimation uncertainty are as follows:

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

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

The provision of ECLs is sensitive to changes in circumstances and of forecast general economic conditions. The information about the ECLs and the Group's contract assets and trade receivables are disclosed in notes 11 and 13 respectively. If the financial condition of the customers or the forecast economic conditions were to deteriorate, actual loss allowance would be higher than estimated.

NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2018
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23 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Revenue recognition

As explained in policy note 1(o), revenue from construction contracts are recognised over time. The revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract assets disclosed in note 11(a) do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

In the comparative period, revenue from construction contracts was subject to such estimation uncertainty. In addition, the contract assets arising from construction contracts were included as gross amount due from customers for contract work and were disclosed in note 12, rather than note 11(a).

24 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2018, the directors consider the immediate parent of the Group to be Sino Emperor Group Limited, which is incorporated in the BVI and the ultimate controlling party of the Group to be Mr. LAU King Wai. None of the parties produces financial statements available for public use.

25 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 17(b).

NOTES TO THE FINANCIAL STATEMENTS

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26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019
<i>Annual Improvements on HKFRSs 2015-2017 Cycle</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's quarterly financial report for the three months ending 31 March 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16, *Leases*

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

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26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

HKFRS 16, Leases *(Continued)*

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties and a motor vehicle which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 19, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to \$756,000 for properties and motor vehicle, a portion of which is payable between 1 and 5 years after the reporting date. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to HK\$516,000 and HK\$516,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, extracted from the audited financial statements in this and last years' annual reports and the Prospectus of the Company dated 29 November 2016, is as follows:

RESULTS

	For the year ended 31 December				
	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Revenue	124,385	89,343	59,858	48,612	79,984
Cost of services	(75,496)	(50,502)	(33,830)	(28,936)	(43,654)
Gross profit	48,889	38,841	26,028	19,676	36,330
Other revenue	633	170	3	79	82
Other net income	–	–	–	669	–
General and administrative expenses	(14,818)	(7,708)	(5,059)	(4,116)	(4,285)
Listing expenses	–	–	(12,782)	(701)	–
Impairment loss on other receivables	–	–	–	–	(5,000)
Profit before taxation	34,704	31,303	8,190	15,607	27,127
Income tax	(5,970)	(5,201)	(3,522)	(2,681)	(5,321)
Profit for the year	28,734	26,102	4,668	12,926	21,806

ASSET AND LIABILITIES

	As at 31 December				
	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Total assets	142,714	98,957	62,459	54,794	44,566
Total liabilities	32,269	15,093	4,860	7,036	14,509
Total equity	110,445	83,864	57,599	47,758	30,057