

K W Nelson

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

Stock Code: 8411

Annual Report 2021

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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

As to Hong Kong Law

WE Lawyers

As to Cayman Law

Conyers Dill & Pearman

AUDITOR

Linkfield CPA Limited

Certified Public Accountants

Public Interest Entity Auditor

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

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Hutchins Drive

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Cayman Islands

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

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Quarry Bay

Hong Kong

PLACE OF BUSINESS IN THE PRC

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Guangzhou

The PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR

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COMPANY WEBSITE

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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 2021 (the "Year" or "2021").

OVERVIEW

During the Year, the Group's revenue decreased by approximately 46.5% to approximately HK\$44.1 million from approximately HK\$82.4 million for the year ended 31 December 2020 (the "Previous Year" or "2020"). The decrease was mainly driven by the decrease in revenue from decoration projects for medical centre, gallery, retails stores and warehouse. The Group's gross profit decreased to approximately HK\$9.1 million for the Year from approximately HK\$35.6 million for the Previous Year, representing a decrease of approximately 74.4%.

The Group recorded a loss attributable to the owners of the Company of approximately HK\$5.2 million for the Year (Previous Year: profit of HK\$16.7 million).

The Board recommends the payment of a final dividend of HK0.3 cent per share for the Year (Previous Year: HK0.3 cent).

FORWARD

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

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

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

APPRECIATION

On behalf of the Board, I wish to take this opportunity to express our 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.

Lau King Wai

Chairman and Chief Executive Officer

Hong Kong, 24 March 2022

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

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

Executive Directors

Mr. Lau King Wai (劉經緯) (“Mr. Nelson Lau”), aged 57, was appointed as an executive Director, the chairman of the Board and the chief executive officer on 7 January 2016. Mr. Lau is the founder of the Group and he is responsible for the overall business development, strategic planning and major decision-making of the Group.

Mr. Lau has over 30 years of experience in the interior design and decoration industry. Mr. 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. 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 July 1989, and his last position was senior sales supervisor responsible for supervising trading accounts of clients. Mr. Lau was a project director, operator and owner of FCS Interior Design & Contracting Co., which was an interior design firm, from October 1989 to December 1990, and he was responsible for project management. He was a project director and operator of FCS Interior Design & Contracting Co., which was engaged in interior design and project management and was a branch office of Further Concept Limited (which was a company controlled by Mr. Lau), from January 1991 to December 1999, and he was responsible for project management. Mr. Lau was a chief executive officer of F.C.S. Interior Design and Contracting Co. Limited, 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. Lau. In February 2009, Mr. Lau established K W Nelson Interior Design and Contracting Limited (formerly known as “K W Nelson Interior Architect Limited” and currently an indirect wholly-owned subsidiary of the Company) (“K W Nelson”) which incorporates his name in the company name, both English and Chinese, in order to better position and brand his business in the market as well as to differentiate his business and management team from other players in the industry.

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

Ms. Leung May Yan (梁美恩), aged 46, 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 25 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 45, 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 18 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 50, was appointed as an independent non-executive Director on 18 November 2016. He is the chairman of the Group's nomination committee and a member of the Group's audit committee and remuneration committee.

Mr. Li has over 10 years of experience in accounting, finance and investment management. Mr. Li is the chief financial officer of Crystal International Group Limited, which is listed on Main Board (stock code: 2232) and principally engaged in manufacturing of fashion products, since November 2018 where he is responsible for finance matters. From March 2005 to September 2006, he worked for Esprit Holdings Limited, which is listed on the Main Board (stock code: 330) and principally engaged in manufacturing, retail and wholesale distribution of fashion products, and he served as a vice president of operational finance and a vice president of finance in Asia Pacific region from March 2005 to July 2006 and from August 2006 to September 2006 respectively, where he was responsible for finance and operational matters. From October 2006 to September 2010, he was a vice president of China Agri-Industries Holdings Limited, which is listed on the Main Board (stock code: 606) and principally engaged in trading on agricultural raw materials, manufacturing and distributing food products, and he was responsible for finance, investment and company secretarial matters. He was a managing director and director of the board of COFCO Agricultural Industrial Investment Fund Management Company Limited, which is principally engaged in asset management, from September 2010 to October 2011, and he was responsible for managing overall business and investment matters. He was a managing director of Origo Partners PLC, whose shares are listed on alternative investment market of the London Stock Exchange and principal business is private equity investment, from November 2011 to January 2013, and he was responsible for investment matters. From August 2013 to October 2018, Mr. Li was the chief financial officer of Zhuhai Dahengqin Company Limited* (珠海大橫琴股份有限公司) and its affiliate Zhuhai Dahengqin Property Company Limited* (珠海大橫琴置業有限公司), which is principally engaged in property investment and development, where he was responsible for finance, investment and fund management matters.

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

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

Mr. Li was the chairman of Investor Relations Committee of the Chamber of Hong Kong Listed Companies from 2008 to 2010, the honorary vice chairman of China Enterprise Reputation and Credibility Association (Overseas) in 2009, the chairman of Partnership and Promotion Committee of the Hong Kong Investor Relations Association from 2009 to 2010, a member of the Organising Committee of Directors of the Year Awards 2010 organised by The Hong Kong Institute of Directors in 2010, a committee member of the PRC committee of the Hong Kong Venture Capital and Private Equity Association in 2011, a committee member of Public Awareness Committee of Hong Kong Society of Financial Analysts in 2016, and a board member of Chartered Professional Accountants of Canada — Hong Kong Chapter from 2017 to 2020. Mr. Li was a member of Finance Committee of the Hong Kong Housing Authority from 2010 to 2012. Mr. Li was the guest lecturer of the Macau University of Science and Technology in 2016.

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

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

* The official name of the entities are in Chinese. The English name is for identification purpose only.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

Ms. So Patsy Ying Chi (蘇瑩枝), aged 62, was appointed as an independent non-executive Director on 18 November 2016. She is the chairlady of the Group's audit committee and a member of the Group's remuneration committee and nomination committee.

Ms. So has over 20 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 director of Progressive Consultation Limited which is principally engaged in business advisory services since June 2010, and she is responsible for provision of consultancy services. Ms. So worked at Westpac Banking Corporation from December 1988 to April 2004, the last position she served was the head of operations and finance responsible for overseeing the overall operations. Subsequently, she worked at VXL Capital Limited (currently known as Crown International Corporation Ltd.), which is listed on the Main Board (stock code: 727) and principally engaged in property investment and hotel investment and operations, and she served as a financial controller responsible for financial management and an executive director responsible for overseeing business development from June 2004 to July 2009 and from February 2005 to July 2008, respectively.

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

Mr. Hui Harry Chi (許志偉), aged 58, was appointed as an independent non-executive Director on 18 November 2016. He is the chairman of the Group's remuneration committee and a member of the Group's audit committee and nomination committee.

Mr. Hui has approximately 18 years of experience in marketing and business management. He is a managing director of ClearVue Partners (Shanghai) Limited, which is principally engaged in private equity investment, since 31 October 2012, and he is responsible for the overall business development and investment strategies. He was a president of Universal Music International Limited, which is principally engaged in music production, from 2002 to 2006, and he was responsible for managing overall business in Asia (except Japan). From December 2006 to 2010, he was a vice president of China beverages business unit of Pepsico Investment (China) Limited in the PRC, which is principally engaged in sale and distribution of beverages, and he was responsible for customer service relation strategies.

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND COMPANY SECRETARY

COMPANY SECRETARY

Mr. Or Kevin (柯衍峰), aged 50, was appointed as the Group's company secretary and authorised representative on 1 April 2018 and financial controller on 2 July 2019. Mr. Or is primarily responsible for overseeing the overall financial management and company secretarial matters of the Company.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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

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

During the year ended 31 December 2021 (the "Year" or "2021"), the Group's revenue decreased by approximately 46.5% to approximately HK\$44.1 million from approximately HK\$82.4 million for the year ended 31 December 2020 (the "Previous Year" or "2020"). The decrease was mainly driven by the decrease in revenue from decoration projects for medical centre, gallery, retail stores and warehouse. The Group's gross profit decreased to approximately HK\$9.1 million for the Year from approximately HK\$35.6 million for the Previous Year, representing a decrease of approximately 74.4%.

The Group recorded a loss attributable to the owners of the Company of approximately HK\$5.2 million for the Year (Previous Year: profit of HK\$16.7 million).

OUTLOOK

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward, the Group is optimistic with the prospects of the interior design and decoration market, especially on commercial premises and medical centres. In view of the increasing public awareness in health issues and ageing population in Hong Kong, the Group believes more health centres, medical clinics and health-related facilities will be established to meet the health care demand. The Group will continue to benefit from the increasing demand on design and decoration projects. The Group will also enhance its responsiveness to market trends so as to strengthen its position in the current market and continue its business expansion plan. In order to maximise the long term returns of our shareholders, the Group will continue to devote more resources to further develop its interior design and decoration by undertaking more sizeable projects and to explore new business opportunities through leveraging its experience in the industry.

FINANCIAL REVIEW

Revenue

The Group's revenue is principally generated from (i) design & decoration projects; (ii) decoration projects; and (iii) other interior design and fitting-out services. During the Year, the Group's revenue decreased by approximately 46.5% to approximately HK\$44.1 million (Previous Year: HK\$82.4 million).

The following table sets forth a breakdown of the Group's revenue by use of premises of the projects for the years ended 31 December 2021 and 2020:

Use of premises	For the year ended 31 December			
	2021		2020	
	HK\$'000	%	HK\$'000	%
Office and elderly home	42,254	95.8	28,778	34.9
Medical centre	2,012	4.6	27,543	33.4
Retail, restaurant and shopping mall	104	0.2	18,230	22.1
Others <i>(Note)</i>	(284)	(0.6)	7,814	9.6
Total	44,086	100.0	82,365	100.0

Note: Others mainly comprise warehouses, consulate, gallery and residential premises.

Negative balance of HK\$284,000 during the Year mainly represented discount offered to customers upon finalisation of accounts.

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 2021 and 2020:

Project types and locations	For the year ended 31 December					
	2021			2020		
	No. of projects	HK\$'000	%	No. of projects	HK\$'000	%
Design & decoration						
Hong Kong	14	39,321	89.2	12	17,940	21.8
The PRC and Macau	1	309	0.7	–	–	–
	15	39,630	89.9	12	17,940	21.8
Decoration						
Hong Kong	2	2,967	6.7	17	60,189	73.1
	2	2,967	6.7	17	60,189	73.1
Others						
Hong Kong		1,175	2.7		4,220	5.1
The PRC and Macau		314	0.7		16	0.0
		1,489	3.4		4,236	5.1
Total	17	44,086	100.0	29	82,365	100.0

The increase in revenue of design and decoration projects from HK\$17.9 million for the Previous Year to HK\$39.6 million for the Year was mainly due to increase in revenue derived from projects of elderly home and office premises by HK\$12.0 million and HK\$9.7 million respectively.

The decrease in revenue of decoration projects by HK\$57.2 million during the Year was principally attributed to absent of major projects of medical centre, gallery, retail store and warehouse during the Year (Previous Year: HK\$51.2 million).

Cost of Sales and Gross Profit

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

The following table sets forth the breakdown of the Group's gross profit and gross profit margin by use of premises of the projects for the years ended 31 December 2021 and 2020:

Use of premises	For the year ended 31 December			
	2021		2020	
	Gross Profit HK\$'000	Gross Profit Margin %	Gross Profit HK\$'000	Gross Profit Margin %
Office and elderly home	8,850	20.9	12,631	43.9
Medical centre	785	39.0	17,633	64.0
Retail, restaurant and shopping mall	(131)	N/A	3,262	17.9
Others	(370)	N/A	2,111	27.0
Overall	9,134	20.7	35,637	43.3

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margin of the Group's office and elderly home projects decreased from approximately 43.9% in 2020 to approximately 20.9% in 2021 was mainly due to the lower gross profit margin for the elderly home for the purpose of expanding the Group's client portfolio.

Gross profit margin of the Group's medical centre projects decreased from approximately 64.0% in 2020 to approximately 39.0% in 2021 which was mainly due to the major project with higher gross profit margin in 2020 involved more complex specifications involved for building surgery rooms, installation of specific air-conditioning and mechanical ventilation system, medical gas system, anesthetic gas scavenging system, which require more dedicated technical skills to meet a high standard of compliance to sanitation with antigermes and anti-dust requirements.

The gross loss for retail, restaurant and shopping malls, and other projects mainly represented discount offered upon finalisation of accounts with customers which led to unfavourable financial impact to the Group in the Year.

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 2021 and 2020:

Project types	For the year ended 31 December			
	2021		2020	
	Gross Profit HK\$'000	Gross Profit Margin %	Gross Profit HK\$'000	Gross Profit Margin %
Design & decoration	8,080	20.4	9,174	51.1
Decoration	392	13.2	23,565	39.2
Others	662	44.4	2,898	68.4
Overall	9,134	20.7	35,637	43.3

The Group's overall gross profit margin decreased from approximately 43.3% for the Previous Year to approximately 20.7% for the Year, mainly due to (i) the lower gross profit margin for design and decoration projects of the elderly home for the purpose of expanding the Group's client portfolio; and (ii) the absent of a major decoration project for medical centre with relatively higher gross profit margin during the Year.

Administrative Expenses

The Group's administrative expenses mainly consisted of (i) staff costs; (ii) legal and professional fee; (iii) depreciation; and (iv) other administrative expenses, which remained relatively stable at approximately HK\$15.0 million and approximately HK\$14.2 million for the Year and Previous Year respectively.

Income tax

Income tax expense for the Year was approximately HK\$0.6 million (Previous Year: HK\$4.1 million). The income tax expense for the Year was mainly attributed by the recognition of deferred tax liabilities in relation to accelerated tax depreciation on property, plant and equipment and loss allowance of trade receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the Year

As a result of the foregoing, the Group recorded a loss of approximately HK\$5.2 million for the Year (Previous Year: profit of HK\$16.7 million).

Provision of loss allowance for trade receivables

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

As at 31 December 2021, loss allowance of HK\$2.8 million (2020: HK\$3.9 million) was recognised with respect to the Group's trade receivables of which HK\$0.4 million (2020: HK\$1.0 million) were related to trade receivables due from customers with known financial difficulties or significant doubt on collection that are individually assessed to be fully impaired.

USE OF PROCEEDS FROM THE PLACING

The following table sets forth the status of the use of proceeds from the placing set out in the Company's prospectus dated 29 November 2016 (the "Prospectus") up to 31 December 2021:

	Planned use of proceeds as stated in the Prospectus HK\$ million	Actual use of proceeds up to 31 December 2020 HK\$ million	Actual use of proceeds for the Year HK\$ million	Actual use of proceeds up to 31 December 2021 HK\$ million	Unutilised amount as at 31 December 2021 HK\$ million	Expected timeline for utilising the unutilised proceeds HK\$ million
Establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities	13.8	13.8	–	13.8	–	Fully utilised
Maintain and strengthen our market position in Hong Kong and the PRC and focus on reputable customers	6.0	6.0	–	6.0	–	Fully utilised
Increase our capacity to capture more business opportunities	4.6	4.6	–	4.6	–	Fully utilised
Expand our business in the PRC market	3.1	1.8	0.2	2.0	1.1	By 31 December 2022
General working capital	3.1	3.1	–	3.1	–	Fully utilised
	30.6	29.3	0.2	29.5	1.1	

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry. The actual use of proceeds for expansion of the PRC market took longer time due to the COVID-19 outbreak.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business strategies	Implementation activities	Amount of use of proceeds to be utilised
Expand the Group's business in the PRC market	<ul style="list-style-type: none"> — Retain existing marketing executives — Additional marketing expenses for procuring new projects 	Net proceeds of approximately HK\$1.1 million

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

During the Year, the Group financed its operations by its internal resources. As at 31 December 2021, the Group had net current assets of approximately HK\$125.0 million (2020: HK\$140.1 million), including cash and cash equivalents balances of approximately HK\$80.7 million (2020: HK\$113.7 million) mainly denominated in Hong Kong dollars. As at 31 December 2021, the Group had an unutilised banking facility of HK\$2.0 million (2020: 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 7.1 times as at 31 December 2021 (2020: 10.1 times). The decrease was mainly due to the decrease in trade and other receivables of approximately HK\$15.8 million.

As at 31 December 2021, the Group had no outstanding borrowings (2020: Nil) as the Group was not in need of any material debt financing during the Year, and hence no gearing ratio was presented. The gearing ratio is calculated as total debt divided by total equity as at the respective year end.

There has been no material change in capital structure of the Company since the date of listing. The capital of the Company comprise solely ordinary shares. The equity attributable to the owners of the Company amounted to approximately HK\$129.5 million as at 31 December 2021 (2020: HK\$142.0 million).

PLEDGE OF ASSETS

As at 31 December 2021, bank deposits of HK\$2.0 million (2020: HK\$2.0 million) were pledged to secure the banking facilities. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

As at 31 December 2021 and 2020, the Group did not have any material capital commitment.

HUMAN RESOURCES MANAGEMENT

As at 31 December 2021, the Group had a total of 15 (2020: 20) employees. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance. Employees may also be granted share awards under the share award scheme adopted by the Company.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR ADDITIONS OF CAPITAL ASSETS

The Group did not have any significant investments, material acquisitions, and disposals of subsidiaries and affiliated companies during the Year, nor there were any future plans for material investments or additions of capital assets as at 31 December 2021.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2021 and 2020.

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 2021. The shares of the Company (the "Shares") were listed on the GEM of the Stock Exchange (the "Listing") on 8 December 2016 (the "Listing Date").

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

The Group's segment information and revenue for the year ended 31 December 2021 are set out in Note 5 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2021 and the state of affairs of the Company and of the Group as at that date are set out in the consolidated financial statements on pages 44 to 95.

The Board recommended a final dividend of HK0.3 cent per share for the year ended 31 December 2021 (2020: HK0.3 cent per share) which is subject to the approval of shareholders at the forthcoming annual general meeting of the Company to be held on 6 May 2022 (the "AGM"). The total payout will amount to HK\$3.0 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 Tuesday, 3 May 2022 to Friday, 6 May 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 29 April 2022.

For determining the entitlement to the proposed final dividend payable to Shareholders, the register of members of the Company will be closed from Monday, 16 May 2022 to Wednesday, 18 May 2022, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 13 May 2022. The expected date of payment of the final dividend is Thursday, 2 June 2022.

BUSINESS REVIEW

A fair review of the business of the Group as well as discussion and analysis of the Group's performance during the year under review and the material factors underlying its financial performance and financial position can be found in the "Chairman's Statement" and "Management Discussion and Analysis" set out on page 3 and pages 10 to 16 respectively.

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

DIRECTORS' REPORT

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

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

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

DIRECTORS' REPORT

PERMITTED INDEMNITY

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

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 6 May 2022. 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 29(b) to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2021, 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\$34.0 million (2020: HK\$34.3 million).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year under review are set out in Note 15 to the consolidated financial statements.

INTEREST CAPITALISED

No interest was capitalised by the Group during the year ended 31 December 2021.

FIVE-YEAR FINANCIAL SUMMARY

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

SHARE CAPITAL

Details of the Company's share capital and movements during the year under review are set out in Note 22 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	31.2%	–
Five largest customers in aggregate	69.5%	–
The largest supplier	–	15.8%
Five largest suppliers in aggregate	–	32.4%

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 4 to 9 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REPORT

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 Note 9 to the consolidated financial statements.

MANAGEMENT CONTRACTS

As at 31 December 2021, 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. Employees may also be granted share awards under the share award scheme adopted by the Company. The remuneration packages are subject to review on a regular basis.

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

SHARE AWARD SCHEME

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

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

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

DIRECTORS' REPORT

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

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

During the Year, the Trustee purchased an aggregate of 23,640,000 shares of the Company from the market at a total consideration after transaction cost of approximately HK\$4.4 million. No awarded shares had been granted during the Year.

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 2021 and up to the date of this Annual Report.

NON-COMPETITION UNDERTAKING

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

The Company has received from each of the Covenantors an annual written confirmation on the compliance with the Non-competition Undertaking for the year ended 31 December 2021. 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 2021.

DIRECTORS' REPORT

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

As at 31 December 2021, 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 2021 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 2021 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 2021, 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 2021, 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

Except as disclosed in elsewhere in this report, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2021.

CONNECTED TRANSACTIONS

Related party transactions entered into by the Group during the year ended 31 December 2021 are disclosed in Note 28 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 2021.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2021 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 2021. The Company was not aware of any non-compliance during the year ended 31 December 2021.

CORPORATE GOVERNANCE

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

DIVIDEND POLICY

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

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

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENTS

No equity-linked agreement that (i) will or may result in the Company issuing shares or (ii) requires the Company issuing shares, was entered into by the Company during the year ended 31 December 2021 or subsisted at the end of the reporting year.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Group the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited consolidated financial statements for the year ended 31 December 2021, with external auditor. There were no disagreements from the auditor of the Company or the Audit Committee in respect of the accounting policies adopted by the Company.

AUDITOR

KPMG has resigned as the auditor of the Company with effect from 21 December 2021. The Board has resolved to appoint Linksfeld CPA Limited ("Linksfeld") as the new auditor of the Company with effect from 21 December 2021 to fill the casual vacancy following the resignation of KPMG. Linksfeld shall hold office until the conclusion of the next AGM pursuant to the Articles of Association. A resolution to re-appoint Linksfeld as the auditor of the Company will be proposed for approval by the Shareholders at the forthcoming 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, 24 March 2022

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 2021.

CORPORATE GOVERNANCE PRACTICES

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

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

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

BOARD OF DIRECTORS

Board Composition

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi to be independent in accordance with the independence guidelines set out in the GEM Listing Rules for the year ended 31 December 2021.

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 2021, 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 2021, four meetings of the Board were held, Directors are provided with relevant information to make informed decisions. The attendance of Directors at the Board meetings, general meeting and the Board committees' meetings is set out in the table below:

Name of Directors	Meetings attended/Eligible to attend				Annual General Meeting held on 15 June 2021
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Mr. Lau King Wai	4/4	N/A	N/A	N/A	1/1
Ms. Leung May Yan	4/4	N/A	N/A	N/A	1/1
Mr. Wong Siu Hong Edward	4/4	N/A	N/A	N/A	1/1
Mr. Li Wai Kwan	4/4	4/4	1/1	1/1	1/1
Mr. Hui Harry Chi	4/4	4/4	1/1	1/1	1/1
Ms. So Patsy Ying Chi	4/4	4/4	1/1	1/1	1/1

BOARD COMMITTEE

Audit Committee

The Company established an audit committee (the "Audit Committee") on 18 November 2016 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Audit Committee are mainly to make recommendation to the Board on the appointment and removal of external auditors; review financial statements and material advice in respect of financial reporting; and oversee risk management and internal control procedures of the Company. As at 31 December 2021, 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 2021, four meetings of Audit Committee were held for, inter alia, reviewing the Group's quarterly, interim and annual results, the financial reporting and compliance procedures, the effectiveness of the risk management and internal control systems, considering the re-election of auditor of the Company and discussing with the auditors about the audit plan.

Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") on 18 November 2016 with written terms of reference in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules and paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance-based remuneration; and ensure none of the Directors determine their own remuneration. As at 31 December 2021, the Remuneration Committee consists of three members, namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi. Mr. Hui Harry Chi is the chairman of the Remuneration Committee. The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual executive Directors and senior management. Details of the remuneration of Directors are set out in Note 9 to the consolidated financial statements.

During the year ended 31 December 2021, 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 2021, 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 2021, no new Director was appointed.

During the year ended 31 December 2021, one meeting was held by the Nomination Committee, to review the size, structure, composition as well as diversity of the Board, to assess the independence of independent non-executive Directors and to consider the re-election of the Directors. The Nomination Committee has also reviewed the board diversity policy to ensure its effectiveness and considered that the Group has achieved the objectives of the board diversity policy during the year under review.

Corporate Governance Function

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

DIRECTORS' SECURITIES TRANSACTIONS

The Group adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions of the Company. Upon the Company's specific enquiry, each Director had confirmed that during the year ended 31 December 2021, they had fully complied with the required standard of dealings and there was no event of non-compliance.

AUDITOR'S REMUNERATION

Linksfield CPA Limited was appointed as the independent auditor of the Company, for a term until the conclusion of the next AGM, following the resignation of KPMG with effect from 21 December 2021. During the year ended 31 December 2021, the remuneration paid or payable to the auditor of the Company (including their affiliated firms) for their services rendered is summarised as below:

Service rendered	HK\$'000
Audit services	630

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 2021, 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 2021, 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 2021.

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, Linksfield, 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 2021, 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 Company Secretary" section. During the year ended 31 December 2021, 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 2021.

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

What we have audited

The consolidated financial statements of K W Nelson Interior Design and Contracting Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 44 to 95, which comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

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

Key Audit Matters

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

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

- revenue recognition; and
- impairment for trade receivables.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Revenue recognition

Refer to Note 2.18(a), Note 4(a) and Note 6 to the consolidated financial statements.

For the year ended 31 December 2021, the Group recognised revenue from provision for interior designs, project management services and fitting-out works of approximately HK\$44,086,000.

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.

The Group generally takes one to six months to complete a project, with majority of the projects being completed within three months. The determination of the estimated value of contract work completed to date for different projects involved significant management's judgment and estimates which may have significant impact on the account and timing of revenue recognised.

We focused on this area because the magnitude of revenue as recognised from provision for interior designs, project management services and fitting-out works are significant and determining the value of the contract work completed to date for the purpose of recognising revenue from provision for interior designs, project management services and fitting-out works over time involved significant management's judgment and estimates.

How our audit addressed the Key Audit Matters

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

- Obtained an understanding of management's internal controls on the revenue recognition for provision of interior designs, project management services and fitting-out works and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and other inherent risk factors;
- Evaluated and validated, on a sample basis the key controls over the revenue recognition from provision of interior designs, project management services and fitting-out works;
- Tested, 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 assessed the business substance of the underlying transactions and whether the related revenue had been recognised in accordance with the Group's revenue recognition policies;
- Obtained confirmations, on a sample basis, from major customers of the Group to confirm revenue recognised during the year and, for unreturned confirmations, performing alternative procedures by comparing details with contracts, bank-in slips and other underlying project related documentation;
- Conducted site visits to projects in progress as at the year end, physical inspecting the progress of individual projects and discussed with the Group management and project managers the physical status of the projects in progress with reference to the specifications in the project service agreements; and
- Scrutinised all the revenue journals raised throughout the reporting period and compared details of a sample of these journals, if any that met certain risk-based criteria, with relevant underlying documentation.

Based on the procedures performed, we found that the judgments and estimates adopted by management in the revenue recognition was supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Impairment for trade receivables

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

As at 31 December 2021, the Group had gross trade receivables of approximately HK\$15,026,000 and provision for impairment of trade receivables of approximately HK\$2,806,000. Loss allowance is made for lifetime expected credit losses ("ECLs") on trade receivables.

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

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

How our audit addressed the Key Audit Matters

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

- Understood, evaluated and validated, on a sample basis the key control procedures over the management's estimation of expected credit losses allowance and periodic review of aged receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors associated with estimating the expected credit losses;
- Obtained management's assessment on the expected credit losses allowance of receivables. We corroborated and validated, on a sample basis management's assessment based on the payment profiles of sales over a period of two years, correspondence with the customers, evidence from external sources including the relevant market research regarding the relevant forward-looking information such as macroeconomic factors used in management's assessment;
- Involved our internal valuation expert to develop an auditor's point estimate in assessing the expected credit losses allowance including forward-looking information;
- Tested on a sample basis, the accuracy of ageing profile of trade receivables by checking to the underlying sales invoices; and
- Tested on a sample basis, the subsequent settlement of trade receivables against bank receipts.

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

INDEPENDENT AUDITOR'S REPORT

Other Information

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

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

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

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

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

The engagement partner on the audit resulting in this independent auditor's report is Kwok Chi Kan.

Linksfield CPA Limited

Certified Public Accountants

Hong Kong, 24 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
Revenue	6	44,086	82,365
Cost of sales	8	(34,952)	(46,728)
Gross profit		9,134	35,637
Other income and gains	7	674	1,278
Administrative expenses	8	(14,965)	(14,206)
Reversal of/(provision for) impairment of trade receivables	18	659	(1,852)
Operating (loss)/profit		(4,498)	20,857
Finance costs	10	(46)	(51)
(Loss)/profit before income tax		(4,544)	20,806
Income tax expense	11	(622)	(4,058)
(Loss)/profit for the year attributable to the owners of the Company		(5,166)	16,748
(Loss)/earnings per share attributable to owners of the Company (in HK cents)			
Basic and diluted	12	(0.5)	1.7

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 HK\$'000	2020 HK\$'000
(Loss)/profit for the year	(5,166)	16,748
Other comprehensive income/(loss)		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation of foreign operations	107	192
<i>Item that may not be reclassified to profit or loss:</i>		
Change in fair value of financial assets at fair value through other comprehensive income	(18)	(408)
Other comprehensive income/(loss) for the year, net of tax	89	(216)
Total comprehensive (loss)/income for the year attributable to the owners of the Company	(5,077)	16,532

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	4,099	802
Right-of-use assets	16	635	605
Financial assets at fair value through other comprehensive income	17	85	103
Deferred income tax assets	21	–	533
		4,819	2,043
Current assets			
Trade and other receivables	18	19,646	35,458
Contract assets	19	215	3,095
Current income tax assets		4,423	1,279
Pledged bank deposits	20(a)	2,000	2,000
Time deposits with original maturity over three months	20(b)	38,561	–
Cash and cash equivalents	20(c)	80,673	113,650
		145,518	155,482
Total assets		150,337	157,525
EQUITY			
Equity attributable to the owners of the Company			
Share capital	22	10,000	10,000
Reserves		119,515	132,031
		129,515	142,031
Non-controlling interests		5	–
Total equity		129,520	142,031

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Note</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
LIABILITIES			
Non-current liabilities			
Lease liabilities	16	293	122
Deferred income tax liabilities	21	32	–
		325	122
Current liabilities			
Trade and other payables	25	7,103	13,470
Contract liabilities	19	13,029	1,393
Lease liabilities	16	360	509
		20,492	15,372
Total liabilities		20,817	15,494
Total equity and liabilities		150,337	157,525

The consolidated financial statements on pages 44 to 95 were approved by the Board of Directors on 24 March 2022 and were signed on its behalf.

Lau King Wai
Director

Leung May Yan
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to the owners of the Company							
	Share capital	Share premium	Exchange reserve	Fair value reserve	Merger reserve	Capital contribution reserve	Retained earnings	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020	10,000	33,728	(332)	(7,082)	(380)	5,000	87,065	127,999
Comprehensive income								
Profit for the year	-	-	-	-	-	-	16,748	16,748
Other comprehensive income								
Exchange difference arising on translation of foreign operations	-	-	192	-	-	-	-	192
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	(408)	-	-	-	(408)
Total comprehensive income for the year	-	-	192	(408)	-	-	16,748	16,532
Transaction with owners								
Dividend	-	-	-	-	-	-	(2,500)	(2,500)
At 31 December 2020	10,000	33,728	(140)	(7,490)	(380)	5,000	101,313	142,031

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 HK\$'000	2020 HK\$'000
Cash flows from operating activities			
Cash generated from operations	27(a)	20,546	37,115
Hong Kong profits tax paid		(3,201)	(11,853)
The People's Republic of China (the "PRC") corporate income tax refunded		–	4
Net cash generated from operating activities		17,345	25,266
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,128)	(9)
Proceeds from disposal of property, plant and equipment	27(c)	330	–
Increase in time deposits with original maturity over three months		(38,561)	–
Interest received		114	485
Net cash (used in)/generated from investing activities		(42,245)	476
Cash flows from financing activities			
Principal elements of lease payments	27(b)	(699)	(688)
Interest elements of lease payments	27(b)	(46)	(51)
Dividend paid		(3,000)	(2,500)
Purchase of shares under share award scheme	24	(4,439)	–
Net cash used in financing activities		(8,184)	(3,239)
Net (decrease)/increase in cash and cash equivalents		(33,084)	22,503
Cash and cash equivalents at the beginning of the year		113,650	90,955
Effect of foreign exchange rate changes		107	192
Cash and cash equivalents at the end of the year	20(c)	80,673	113,650

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in thousands of Hong Kong Dollars (“HK\$’000”), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and amended standards adopted by the Group

The Group has applied the following new and amended standards, improvements and interpretation for the first time for their annual reporting period commencing 1 January 2021:

HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform (Amendments)
Amendments to HKFRS 16	Covid-19-Related Rent concessions (Amendments)

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

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

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

		Effective for annual periods beginning on or after
HKFRS 16	Covid-19 Rent Concession Beyond 30 June 2021	1 April 2021
Annual Improvements Project	Annual Improvements 2018–2020 Cycle (Amendments)	1 January 2022
HKFRS 3, HKAS 16 and HKAS 37	Narrow-Scope Amendments (Amendments)	1 January 2022
Accounting Guideline 5 (Revised)	Revised Accounting Guideline 5 — Merger Accounting for Common Control Combinations	1 January 2022
HKAS 1	Classification of Liabilities as Current or Non-Current (Amendments)	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 17	Amendments to HKFRS 17	1 January 2023
HK Int 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies (Amendments)	1 January 2023
HKAS 8	Definition of Accounting Estimates (Amendments)	1 January 2023
HKAS 12	Deferred Tax related to Assets and Liabilities Arising from a Single Transaction (Amendments)	1 January 2023
HKFRS 10 and HKAS 28	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (Amendments)	To be determined

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

The directors of the Company have assessed the financial impact on the Group of the adoption of the above new standards, amendments to existing standards, interpretations and accounting guideline. These standards and amendments are not expected to have a material impact on the Group in the future reporting periods and on foreseeable future transactions. The Group intends to adopt the above new standards, amendments to existing standards, interpretations and accounting guideline when they become effective.

2.2 Subsidiaries

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

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

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

2.3 Business combination

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Business combination *(Continued)*

Acquisition-related costs are expensed as incurred.

The excess of the:

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

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

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

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

2.4 Separate financial statements

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

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

2.5 Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation

(i) **Functional and presentation currency**

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

(ii) **Transactions and balances**

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

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

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

(iii) **Group companies**

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Property, plant and equipment

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

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

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

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

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

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

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

2.8 Impairment of non-financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Investments and other financial assets

2.9.1 Classification

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

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

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

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

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

2.9.2 Recognition and derecognition

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

2.9.3 Measurement

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

Equity instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Investments and other financial assets *(Continued)*

2.9.4 Impairment of financial assets

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

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

2.10 Offsetting financial instruments

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

2.11 Trade and other receivables

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

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

2.12 Cash and cash equivalents

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

2.13 Share capital

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

2.14 Trade and other payables

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Current and deferred income tax

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

(i) Current income tax

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

(ii) Deferred income tax

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Current and deferred income tax *(Continued)*

(iii) Investment allowances and similar tax incentives

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

2.16 Employee benefits

(i) Retirement benefit costs

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

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

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

(ii) Employee leave entitlements

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Employee benefits (Continued)

(iii) Share-based compensation

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

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

At the end of each reporting period, the Group revises its estimates of the number of share awards that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit and loss, with a corresponding adjustment to equity.

The consideration paid by the share scheme trust for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award scheme" and the amount is deducted from total equity.

When the share scheme trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award scheme", with a corresponding adjustment made to "Share premium".

2.17 Provisions

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 Revenue recognition

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Revenue recognition (Continued)

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

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

(b) Interest income

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

2.19 Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

2.20 Leases

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Leases *(Continued)*

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

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

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

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

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

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

2.21 Dividend distribution

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

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

2.22 Government grants

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Price risk

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

As at 31 December 2021, if the price of the investment had been 5% (2020: 5%) higher/lower, with all other variables held constant, other components of equity would have increased/decreased by approximately HK\$4,000 (2020: HK\$5,000).

(b) Market risk

(i) Foreign exchange risk

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

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

(ii) Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk

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

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

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

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

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

Assessment of significant increase in credit risk

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

Assessment of credit-impaired

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

Bank balances

The credit risk on deposits with banks is limited because the counterparties are several reputable and creditworthy banks. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past. Therefore, expected credit loss rate of cash at bank is assessed to be immaterial and no provision was made as at 31 December 2021 and 2020.

Trade receivables and contract assets

The Group is exposed to concentration of credit as the revenue from largest customer and the five largest customers constituted 31.2% and 69.5% (2020: 32.8% and 77.3%) of the Group's revenue for the year ended 31 December 2021, respectively. They accounted for approximately 21.6% and 21.9% (2020: 11.8% and 29.7%) of the total trade receivables and contract assets after impairment as at 31 December 2021. Collections of outstanding receivable balances are closely monitored on an ongoing basis to minimise such credit risk.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

Receivables relating to customers with known financial difficulties, dispute or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. The following table presents the balances of gross carrying amount and loss allowance in respect of the individually assessed receivables as at 31 December 2021 and 2020:

	2021 HK\$'000	2020 HK\$'000
Gross carrying amount	413	1,026
Loss allowance	(413)	(1,026)
Net carrying amount	–	–

The loss allowance for trade receivables and contract assets as at 31 December 2021 and 2020 was determined as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

	Expected loss rate	Gross carrying amount <i>HK\$'000</i>	Expected credit loss <i>HK\$'000</i>	Net carrying amount <i>HK\$'000</i>
As at 31 December 2020				
Not yet due or within 180 days	0.8%	14,152	(113)	14,039
181-360 days past due	2.4%	10,864	(258)	10,606
361-540 days past due	7.2%	7,778	(563)	7,215
541-720 days past due	24.4%	7,856	(1,920)	5,936
More than 720 days past due	100%	1,026	(1,026)	–
		41,676	(3,880)	37,796

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

Other receivables

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

(d) Liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(d) Liquidity risk (Continued)

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

	Less than 1 year HK\$'000	Between 1 to 2 years HK\$'000	Between 2 to 5 years HK\$'000	Total HK\$'000
As at 31 December 2021				
Trade and other payables	7,103	–	–	7,103
Undiscounted lease liabilities	383	259	43	685
	7,486	259	43	7,788
As at 31 December 2020				
Trade and other payables	13,470	–	–	13,470
Undiscounted lease liabilities	529	124	–	653
	13,999	124	–	14,123

3.2 Capital risk management

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

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

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

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 2021, the ratio of the Group's total liabilities over its total assets was 14% (2020: 10%).

The Group is not subject to externally imposed capital requirements during the years ended 31 December 2021 and 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation and judgements

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2021 and 2020.

	Level 1	
	2021	2020
	HK\$'000	HK\$'000
Financial assets at fair value through other comprehensive income	85	103

There was no transfer of financial assets and liabilities between the fair value hierarchy classifications during the year ended 31 December 2021 (2020: same).

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

The actual outcomes in terms of 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.

(b) Loss allowance of trade receivables and contract assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

5 SEGMENT INFORMATION

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

During the year ended 31 December 2021, the Group had one (2020: one) reportable operating segment, which was provision of interior designs, project management services and fitting-out works. Since this is the only operating segment of the Group, no further operating segment analysis thereof is presented.

Geographic Information

(a) Revenue from external customers

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

	2021 HK\$'000	2020 HK\$'000
Hong Kong	43,463	82,349
The PRC and Macau	623	16
	44,086	82,365

(b) Non-current assets

The Group's non-current assets other than financial assets at fair value through other comprehensive income and deferred income tax assets by geographic area is as follows:

	2021 HK\$'000	2020 HK\$'000
Hong Kong	4,731	1,405
The PRC and Macau	3	2
	4,734	1,407

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

5 SEGMENT INFORMATION (Continued)

Key Customers

For the year ended 31 December 2021, there was two customers (2020: two) which individually contributed over 10% of the Group's total revenue, the revenue contributed from each of these customers was as follows:

	2021 HK\$'000	2020 HK\$'000
Customer A	13,776	–
Customer B	7,010	–
Customer C	–	27,049
Customer D	–	19,107

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with external customers

	2021 HK\$'000	2020 HK\$'000
Recognised over time		
— Provision for interior designs, project management services and fitting-out works	44,086	82,365

7 OTHER INCOME AND GAINS

	2021 HK\$'000	2020 HK\$'000
Interest income	114	485
Interest income from overdue trade receivables	166	–
Gain on disposal of property, plant and equipment	99	–
Government grants (note)	–	792
Others	295	1
	674	1,278

Note

In 2020, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by The Government of the Hong Kong Special Administrative Region. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

8 EXPENSES BY NATURE

	2021 HK\$'000	2020 HK\$'000
Material and subcontractor costs	31,752	42,762
Auditor's remuneration		
— Audit services	630	800
— Non-audit services	—	970
Depreciation of property, plant and equipment (Note 15)	600	1,099
Depreciation of right-of-use assets (Note 16)	691	689
Employee benefit costs (including directors' emoluments) (Note 9)	9,584	6,652
Legal and professional fees	2,867	4,373
Marketing and advertising expenses	795	967
Motor vehicle expenses	636	285
Insurance expenses	502	415
Travelling expenses	131	503
Others	1,729	1,419
Total cost of sales and administrative expense	49,917	60,934

9 EMPLOYEE BENEFIT COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2021 HK\$'000	2020 HK\$'000
Wages and salaries	9,223	6,162
Staff welfare and benefits	148	252
Contribution to defined contribution plans	213	238
	9,584	6,652

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

(a) Benefits and interest of directors

(i) Directors' emoluments

The remuneration of directors for each of the years ended 31 December 2021 and 2020 are set out below:

	Fees HK\$'000	Salaries, allowances , and benefits HK\$'000	Discretionary bonuses HK\$'000	Employer's contribution to defined contribution plans HK\$'000	Total HK\$'000
For the year ended 31 December 2021					
<i>Executive directors</i>					
Mr. Lau King Wai	-	1,150	2,500	16	3,666
Ms. Leung May Yan	-	496	20	18	534
Mr. Wong Siu Hong Edward	-	373	25	18	416
<i>Independent non-executive directors</i>					
Ms. So Patsy Ying Chi	120	-	-	-	120
Mr. Li Wai Kwan	120	-	-	-	120
Mr. Hui Harry Chi	120	-	-	-	120
	360	2,019	2,545	52	4,976
For the year ended 31 December 2020					
<i>Executive directors</i>					
Mr. Lau King Wai	-	240	-	12	252
Ms. Leung May Yan	-	500	-	18	518
Mr. Wong Siu Hong Edward	-	370	-	18	388
<i>Independent non-executive directors</i>					
Ms. So Patsy Ying Chi	120	-	-	-	120
Mr. Li Wai Kwan	120	-	-	-	120
Mr. Hui Harry Chi	120	-	-	-	120
	360	1,110	-	48	1,518

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

(a) Benefits and interest of directors (Continued)

(i) Directors' emoluments (Continued)

The remunerations shown above represent remunerations received from the Company and subsidiaries of the Company by these directors in their capacity as employees to the Company and no directors waived any emolument during the year ended 31 December 2021 (2020: Nil).

No emoluments were paid by the subsidiaries of the Company to the directors as an inducement to join the subsidiaries of the Company, or as compensation for loss of office during the year ended 31 December 2021 (2020: Nil).

(ii) Directors' retirement and termination benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries undertaking during the year ended 31 December 2021 (2020: Nil).

No payment was made to the directors as compensation for early termination of the appointment during the year ended 31 December 2021 (2020: Nil).

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

The Company did not pay consideration to any third parties for making available directors' services for the year ended 31 December 2021 (2020: Nil).

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

During the year ended 31 December 2021, there were no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled body corporates and connected entities of such directors (2020: same).

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

Save as disclosed in the Note 28(b), no significant transactions, arrangements and contracts in relation to the Group's business to which the Company or any of the subsidiaries of the Company was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2021 (2020: same).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two directors, whose emoluments were reflected in the analysis presented in Note 9(a) during the year ended 31 December 2021 (2020: one). The emoluments paid/payable to the remaining include three individuals (2020: four) are as follows:

	2021 HK\$'000	2020 HK\$'000
Wages and salaries	1,615	1,892
Contribution to defined contribution plans	50	70
	1,665	1,962

The emoluments fell within the following bands:

	Number of individuals	
	2021	2020
Emolument band		
Nil to HK\$1,000,000	3	4

During the year ended 31 December 2021, no emoluments have been paid by the Group to the directors or the five highest paid individuals mentioned above as an inducement to join or upon joining the Group, or as compensation for loss of office (2020: Nil).

10 FINANCE COSTS

	2021 HK\$'000	2020 HK\$'000
Interest expense on lease liabilities	46	51

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

11 INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided at the two-tiered rate of 8.25% for the first HK\$2,000,000 of the estimated assessable profit of the qualifying group entity and 16.5% on the remaining estimated assessable profit of the Group for the year ended 31 December 2021 and 2020.

No PRC Corporate Income Tax provision was made as the PRC subsidiary has sustained a loss for taxation purpose for the year ended 31 December 2021 (2020: same).

An analysis of the income tax expense is as follows:

	2021 HK\$'000	2020 HK\$'000
Hong Kong Profits Tax		
Current year	–	4,357
Under-provision in prior years	57	148
	57	4,505
PRC Corporate Income Tax		
Over-provision in prior years	–	(4)
Deferred income tax (Note 21)	565	(443)
	622	4,058

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

	2021 HK\$'000	2020 HK\$'000
(Loss)/profit before income tax	(4,544)	20,806
Calculated at the application taxation rate of the jurisdictions concerned	(729)	3,300
Income not subject to taxation	(110)	(209)
Expense not deductible for taxation purpose	498	843
Tax losses not recognised	906	–
Under-provision in prior years	57	144
Statutory tax concession	–	(20)
	622	4,058

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

12 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

	2021	2020
(Loss)/profit attributable to the owners of the Company (<i>HK\$'000</i>)	(5,166)	16,748
Weighted average number of ordinary shares in issue (<i>thousands</i>)	994,133	1,000,000
Basic (loss)/earnings per share (<i>HK cents</i>)	(0.5)	1.7

(b) Diluted

For the years ended 31 December 2021 and 2020, diluted (loss)/earnings per share is the same as basic (loss)/earnings per share as there was no potential dilutive ordinary shares in existence.

13 DIVIDENDS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Final dividend, proposed, of HK0.3 cents (2020: HK0.3 cents) per share	3,000	3,000

The final dividend proposed after the end of the reporting period has not been recognised as a liability in the consolidated statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

14 SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2021 and 2020 are as follows. Unless otherwise stated, they have share capital consisting solely of ordinary shares and the proportion of ownership interests held equals the voting rights held by the Group.

Name of subsidiaries	Place of incorporation and kind of legal entity	Issued and fully paid ordinary share capital	Equity interest attributable to the Group		Principal activities
			2021	2020	
Indirectly held by the Company:					
K W Nelson Interior Design and Contracting Limited	Hong Kong, limited liability company	HK\$10,000	100%	100%	Provision of interior designs, project management services and fitting-out works
Guangzhou Nelson Decoration Limited (廣州市立以遜裝飾有限公司) (note (ii))	The PRC, limited liability company	HK\$1,000,000	100%	100%	Provision of fitting-out and interior designs works
Rinson Construction Limited (note (iii))	Hong Kong, limited liability company	HK\$10,000	55%	N/A	Dormant

Notes

- (i) Unless otherwise stated, the principal place of operation of each company is the same as its place of incorporation.
- (ii) The English name represent the best effort by the Group's management to translate its Chinese name, as this subsidiary does not have official English name.
- (iii) The non-controlling interest is considered immaterial to the Group, so no disclosure on financial information of the subsidiary with non-controlling interest is included.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

15 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>
At 1 January 2020				
Cost	2,593	286	2,983	5,862
Accumulated depreciation	(1,585)	(172)	(2,213)	(3,970)
Net book amount	1,008	114	770	1,892
Year ended 31 December 2020				
Opening net book amount	1,008	114	770	1,892
Additions	–	9	–	9
Depreciation	(864)	(46)	(189)	(1,099)
Closing net book amount	144	77	581	802
At 31 December 2020 and 1 January 2021				
Cost	2,593	295	2,983	5,871
Accumulated depreciation	(2,449)	(218)	(2,402)	(5,069)
Net book amount	144	77	581	802
Year ended 31 December 2021				
Opening net book amount	144	77	581	802
Additions	–	128	4,000	4,128
Disposal	–	–	(231)	(231)
Depreciation	(144)	(41)	(415)	(600)
Closing net book amount	–	164	3,935	4,099
At 31 December 2021				
Cost	2,593	424	4,344	7,361
Accumulated depreciation	(2,593)	(260)	(409)	(3,262)
Net book amount	–	164	3,935	4,099

Depreciation expense of approximately HK\$600,000 (2020: HK\$1,099,000) has been charged in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

16 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

This note provides information for leases where the Group is a lessee.

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

	2021 HK\$'000	2020 HK\$'000
Right-of-use assets		
Office premises	635	605
Lease liabilities		
Non-current	293	122
Current	360	509
	653	631

Additions to the right-of-use assets during the year were approximately HK\$721,000 (2020: Nil).

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

	2021 HK\$'000	2020 HK\$'000
Depreciation charge of right-of-use assets:		
— Office premises	691	689
Interest expenses on lease liabilities (<i>Note 10</i>)	46	51
Expenses relating to short-term leases (included in administrative expenses)	58	47

The total cash outflow for leases liabilities and expense relating to short-term leases during the year ended 31 December 2021 was HK\$803,000 (2020: HK\$786,000).

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

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

	2021 HK\$'000	2020 HK\$'000
Equities investments listed in Hong Kong	85	103

(c) Amount recognised in other comprehensive income

	2021 HK\$'000	2020 HK\$'000
Change in fair value of financial assets at fair value through other comprehensive income	18	408

18 TRADE AND OTHER RECEIVABLES

	2021 HK\$'000	2020 HK\$'000
Trade receivables	15,026	38,581
Less: provision for loss allowance	(2,806)	(3,880)
	12,220	34,701
Prepayments	7,102	188
Deposits, and other receivables	324	569
	19,646	35,458

The amount of prepayments, deposits and other receivables expected to be recovered or recognised as expense after more than one year is HK\$43,000 (2020: HK\$176,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

18 TRADE AND OTHER RECEIVABLES (Continued)

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

Trade receivables are generally due within 7 days from the date of billing. Negotiated on a case-by-case basis, the credit terms granted to certain customers could be up to three months. The ageing analysis of the trade receivables based on invoice date is as follows:

	2021 HK\$'000	2020 HK\$'000
Within 30 days	3,392	6,478
31 to 60 days	1,698	2,188
61 to 90 days	27	749
Over 90 days	7,103	25,286
	12,220	34,701

The other classes within trade and other receivables do not contain impaired assets. The Group does not hold any collateral as security.

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

	2021 HK\$'000	2020 HK\$'000
At beginning of the year	3,880	2,028
(Reversal of)/provision for impairment	(659)	1,852
Written-off	(415)	–
At end of the year	2,806	3,880

19 CONTRACT ASSETS/(LIABILITIES)

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

	2021 HK\$'000	2020 HK\$'000
Current		
Contract assets	215	3,095
Contract liabilities	(13,029)	(1,393)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

19 CONTRACT ASSETS/(LIABILITIES) (Continued)

(a) Revenue recognised in relation to contract liabilities

Revenue of HK\$1,393,000 (2020: HK\$16,979,000) was recognised in the current reporting period relating to carried-forward contract liabilities of contracts in relation to provision for interior designs, project management services and fitting-out works.

(b) Unsatisfied contracts

The Group selects to choose a practical expedient and omits disclosure of remaining performance obligations as all related contracts have a duration of one year or less.

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

(a) Pledged bank deposits

As at 31 December 2021, fixed deposits denominated in HK\$ and bore interest rates at 0.21% (2020: 0.50%) per annum were pledged to secure the banking facility of HK\$2,000,000 (2020: HK\$2,000,000). As at 31 December 2021 and 2020, no banking facility was utilised.

(b) Time deposits with original maturity over three months

As at 31 December 2021, bank deposits with original maturity over three months are denominated in HK\$ and bore interest rates ranging from 0.125% to 1.25% per annum (2020: Nil).

(c) Cash and cash equivalents

	2021 HK\$'000	2020 HK\$'000
Cash at banks	80,673	113,650

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

	2021 HK\$'000	2020 HK\$'000
HK\$	77,449	110,398
RMB	3,224	3,252
	80,673	113,650

As at 31 December 2021, the cash and cash equivalents of the Group amounted to HK\$3,224,000 (2020: HK\$3,252,000), were deposited in bank accounts opened with banks in the PRC where the remittance of funds is subject to foreign exchange control.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

21 DEFERRED INCOME TAX ASSETS/(LIABILITIES)

	2021 HK\$'000	2020 HK\$'000
Deferred income tax assets/(liabilities):		
— To be settled after one year	(32)	533

The movements in deferred income tax assets/(liabilities) during the year are as follows:

	Decelerated/ (accelerated) depreciation HK\$'000	Loss allowance HK\$'000	Total HK\$'000
At 1 January 2020	(23)	113	90
Credited to profit or loss	85	358	443
At 31 December 2020 and 1 January 2021	62	471	533
Charged to profit or loss	(489)	(76)	(565)
At 31 December 2021	(427)	395	(32)

At 31 December 2021, the Group has unused tax losses of approximately HK\$5,493,000 (2020: Nil) available for offset against future profits which can be carried forward indefinitely under current tax legislation. No deferred income tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

As at 31 December 2021, deferred income tax liabilities have not been provided for in the consolidated financial statements in respect of the withholding tax that would be payable on unremitted earnings of the PRC subsidiary of the Company amounting to approximately HK\$747,000 (2020: HK\$923,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

22 SHARE CAPITAL

	2021 HK\$'000	2020 HK\$'000
Authorised 10,000,000,000 shares at HK\$0.01 each	100,000	100,000
Issued and fully paid 1,000,000,000 shares at HK\$0.01 each	10,000	10,000

23 RESERVE

(a) 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.

(b) 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.

(c) Fair value reserve

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

(d) Shares held for share award scheme

Shares held for share award scheme represent the shares issued and purchased for share award scheme held by the escrow agent.

(e) 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.

(f) Capital contribution reserve

The capital contribution reserve represents contribution from the controlling shareholder.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

24 SHARE AWARD SCHEME

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

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

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

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

During the year ended 31 December 2021, the Group purchased 23,640,000 of its own shares through the trustee of the share award scheme from open market. The total amount paid after transaction costs to acquire the shares was approximately HK\$4,439,000 and has been deducted from the owners’ equity. As at 31 December 2021, such shares were recorded as treasury shares of the Company. During the year ended 31 December 2021, no award shares have been granted under the Share Award Scheme.

25 TRADE AND OTHER PAYABLES

	2021 HK\$'000	2020 HK\$'000
Trade payables	3,141	5,312
Other payables and accruals	3,962	8,158
	7,103	13,470

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

25 TRADE AND OTHER PAYABLES (Continued)

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

	2021 HK\$'000	2020 HK\$'000
1 to 30 days	376	1,066
31 to 90 days	517	713
Over 90 days	2,248	3,533
	3,141	5,312

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

26 FINANCIAL INSTRUMENTS BY CATEGORY

	2021 HK\$'000	2020 HK\$'000
Financial assets		
<i>At fair value</i>		
— Financial assets at fair value through other comprehensive income	85	103
<i>At amortised cost</i>		
— Trade and other receivables	12,544	35,270
— Pledged bank deposits	2,000	2,000
— Time deposits with original maturity over three months	38,561	—
— Cash and cash equivalents	80,673	113,650
	133,778	150,920
	133,863	151,023
Financial liabilities		
<i>At amortised cost</i>		
— Trade and other payables	7,103	13,470
— Lease liabilities	653	631
	7,756	14,101

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

27 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	2021 HK\$'000	2020 HK\$'000
(Loss)/profit before income tax	(4,544)	20,806
Adjustments for:		
Depreciation of property, plant, and equipment	600	1,099
Depreciation of right-of-use assets	691	689
Interest income	(114)	(485)
Finance costs	46	51
Gain on disposal of property, plant and equipment	(99)	—
(Reversal of)/provision for impairment losses on trade receivables	(659)	1,852
Operating (loss)/profit before working capital changes	(4,079)	24,012
Changes in working capital:		
Trade and other receivables	16,476	36,036
Contract assets	2,880	(1,188)
Trade and other payables	(6,367)	(6,159)
Contract liabilities	11,636	(15,586)
Cash generated from operations	20,546	37,115

(b) Net debt reconciliation

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

	Lease liabilities	
	2021 HK\$'000	2020 HK\$'000
As at 1 January	631	1,319
Non-cash movements		
— Addition on lease liabilities	721	—
— Interest expenses (Note 10)	46	51
Net cash outflows	(745)	(739)
As at 31 December	653	631

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

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

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

	2021 HK\$'000	2020 HK\$'000
Net book value disposed	231	–
Gain on disposal (Note 7)	99	–
Proceeds from disposal	330	–

(d) Major non-cash transactions

During the year ended 31 December 2021, the Group entered into a lease agreement and recognised right-of-use assets of HK\$721,000 (2020: Nil) and lease liabilities of HK\$721,000 (2020: Nil).

28 RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties

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

The directors of the Company are of the view that the following parties/companies were related parties with transactions or balances with the Group during the years ended 31 December 2021 and 2020:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

28 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions and balance with related parties

Other than those disclosed below and elsewhere in the consolidated financial statements, the Group had no significant transactions or balances with related parties during the year ended 31 December 2021 (2020: same).

	Amount due to the related company		Related interest expense	
	As at 31 December		For the year ended 31 December	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lease liabilities to a related company				
— Further Concept Limited	–	233	7	18

During the year ended 31 December 2021, repayment of principal and interest portion of lease liabilities to the related party was HK\$240,000 (2020: HK\$240,000).

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

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

(c) Key management compensation

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

(d) Other related party transactions

Remuneration of HK\$588,000 (2020: HK\$273,000) was paid to the spouse of the controlling shareholder during the year ended 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

29 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	Note	2021 HK\$'000	2020 HK\$'000
ASSETS			
Non-current assets			
Investment in a subsidiary		380	380
Current assets			
Other receivables		172	31
Amount due from a subsidiary		19,000	14,000
Time deposits with original maturity over three months		31,549	–
Cash and cash equivalents		2,721	35,114
		53,442	49,145
Total assets		53,822	49,525
EQUITY			
Share capital	22	10,000	10,000
Reserves	29(b)	29,534	34,284
Total equity		39,534	44,284
LIABILITIES			
Amount due to a subsidiary		14,288	5,241
Total liabilities		14,288	5,241
Total equity and liabilities		53,822	49,525

The statement of financial position of the Company was approved by the Board of Directors on 24 March 2022 and was signed on its behalf.

Lau King Wai
Director

Leung May Yan
Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

29 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(b) Share capital and reserve movement of the Company

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Shares held for share award scheme <i>HK\$'000</i>	(Accumulated losses)/ retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2020	10,000	33,728	–	(6,415)	37,313
Profit and total comprehensive income for the year	–	–	–	9,471	9,471
Dividend	–	–	–	(2,500)	(2,500)
Balances as at 31 December 2020 and 1 January 2021	10,000	33,728	–	556	44,284
Profit and total comprehensive income for the year	–	–	–	2,689	2,689
Dividend	–	–	–	(3,000)	(3,000)
Shares purchased for share award scheme (Note 24)	–	–	(4,439)	–	(4,439)
Balance as at 31 December 2021	10,000	33,728	(4,439)	245	39,534

FIVE-YEAR FINANCIAL SUMMARY

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

RESULTS

	Note	For the year ended 31 December				
		2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue	2	44,086	82,365	104,884	124,385	89,343
Direct costs	2	(34,952)	(46,728)	(56,253)	(75,496)	(50,502)
Gross profit		9,134	35,637	48,631	48,889	38,841
Other revenue		674	1,278	1,196	633	170
Administrative expenses	1	(14,306)	(16,058)	(16,877)	(14,818)	(7,708)
(Loss)/profit from operations	1&2	(4,498)	20,857	32,950	34,704	31,303
Finance costs	1	(46)	(51)	(67)	–	–
(Loss)/profit before taxation	1&2	(4,544)	20,806	32,883	34,704	31,303
Income tax	1&2	(622)	(4,058)	(5,690)	(5,970)	(5,201)
(Loss)/profit for the year	1&2	(5,166)	16,748	27,193	28,734	26,102

ASSET AND LIABILITIES

	Note	As at 31 December				
		2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
Total assets	1&2	150,337	157,525	171,995	142,714	98,957
Total liabilities	1&2	20,492	15,494	43,996	32,269	15,093
Total equity		129,520	142,031	127,999	110,445	83,864

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

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