SL D

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2262)

PROFIT WARNING AND CHANGE IN USE OF PROCEEDS

This announcement is made by STEVE LEUNG DESIGN GROUP LIMITED (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

PROFIT WARNING

The board (the "**Board**") of directors (the "**Directors**") of the Company wishes to inform the shareholders of the Company (the "**Shareholders**") and potential investors that, based on the Board's preliminary assessment of the latest unaudited consolidated management accounts of the Group for the four months period ended 30 April 2019, which have not been reviewed, audited or confirmed by the Company auditor nor confirmed by the audit committee of the Board, and the information currently available to it, the Group is expected to record a net loss for the six months period ending 30 June 2019 (the "**Interim Period**") in the range of HKD8.0 million to HKD15.0 million, as compared to a net profit of approximately HKD25.2 million for the six months period ended 30 June 2018.

The actual financial results of the Group for the Interim Period may be different from what is disclosed herein. Details of the financial performance of the Group will be disclosed in the Company's interim results announcement for the Interim Period which will be published on or before 31 August 2019.

Based on the information currently available to it, the Board considers that the expected weakened financial performance of the Group would mainly be caused by:

(i) the macroeconomic atmosphere following the implementation of the property market cooling measures in the People's Republic of China ("**PRC**") and the continuing of the Sino-US trade war, which resulted in continuous and significant decrease in the number and the contract sum of interior design projects awarded to the Group.

In particular, as our interior design services segment is concentrated in and relies on the high-end PRC property market, it has been materially and adversely affected by the property market cooling measures described above;

(ii) the increase in the number of suspended and terminated projects as a result of property pricing restrictions associated with the property market cooling measures. The Group's clients have changed their focus of property sales strategies, including slowing down the pace of development or lowering down the position from high-end to middle-end of their property projects to cope with the challenge from the change of property market atmosphere and the intensified market competition during the first half of 2019, thus reducing the Group's total contract sum and recognisable revenue; and

(iii) the fact that despite (a) the inflow of contract sum of new contracts awarded; and (b) the revenue and profit contributed by the interior decorating and furnishing services segment noted a significant and remarkable increase, as the gross and net profit margins of the interior decorating and furnishing services segment are generally lower than that of the interior design services segment, the increase in revenue and profit in that segment was unable to fully compensate for the decrease in revenue contributed by the interior design services segment.

Notwithstanding the above, the Board would like to emphasise that the Group's financial position remains healthy and stable, and the Group has sufficient cash resources to meet its present and future cash flow requirements for its operations. The Group had cash and cash equivalents of approximately HKD260 million (including HKD60 million short term note receivables) as at 30 April 2019. The Group is also pleased to inform that the total contract sum awarded for Interior Design Services and Interior Decorating & Furnishing Services amounted to approximately HKD155 million and HKD185 million for the four months period ended 30 April 2019 and as at the date of this announcement, respectively.

The Board will constantly review and adjust the Group's strategies, business and operations with a view to improve the business performance of the Group and the Shareholders' return. To cope with the change in the market, the Group will further expand our Interior Decorating & Furnishing Services segment, and a new brand of "***SL2.0***" has been developed to capture the opportunities from the middle-end property market.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

CHANGE IN THE USE OF PROCEEDS

References are made to (i) the prospectus issued by the Company on 22 June 2018 (the "**Prospectus**") in relation to its Hong Kong public offer and international placing of Shares (the "**Global Offering**") and the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**"); and (ii) the annual results announcement of the Company for the year ended 31 December 2018 dated 11 March 2019, in which the utilisation of the net proceeds from the Global Offering, after deducting underwriting fees and commissions and all related expenses in connection with the Global Offering (the "**Net Proceeds**"), from the date of Listing up to 31 December 2018 was disclosed. Unless otherwise defined, capitalised terms used below shall have the same meanings as defined in the Prospectus.

Reallocation

The Board has resolved to change and reallocate the use of part of the unutilised Net Proceeds. Details of the original allocation of the Net Proceeds as stated in the Prospectus, the utilisation of the Net Proceeds as at the date of this announcement and the proposed reallocation of part of the unutilised Net Proceeds (the "**Reallocation**") are set out below:

	Original allocation of Net Proceeds *HK$ million*	Utilised Net Proceeds (as at the date of this announcement) *HK$ million*	Unutilised Net Proceeds (as at the date of this announcement) *HK$ million*	Reallocation of Unutilised Net Proceeds *HK$ million*	Unutilised Net Proceeds after Reallocation *HK$ million*
Strengthening our Interior Design Services and developing specialisation	67.0	(24.1)	42.9	(28.1)	14.8
Further developing our Interior Decorating & Furnishing Services	31.1	(19.9)	11.2	7.2	18.4
Pursuing growth through selective mergers and acquisitions	28.4	–	28.4	11.6	40.0
Improving our information technology systems	22.1	(13.7)	8.4	(5.7)	2.7
Repaying existing bank borrowings	19.0	(19.0)	–	–	–
Enhancing our brand recognition	11.0	(4.2)	6.8	–	6.8
Further developing our Product Design Services	3.1	(1.9)	1.2	–	1.2
Working capital and other general corporate purposes	13.3	(13.3)	–	–	–
Developing a new brand ("***SL2.0***") and teams for middle-end and specialised interior design services market	–	–	–	15.0	15.0
Total	195.0	(96.1)	98.9	–	98.9

Reasons for the Reallocation

In view of the declining demand for high-end property interior design and the change in market trend in the PRC as mentioned in the section entitled "Profit Warning" above, in order to follow the path of our clients and to capture the opportunities from the middle-end property market, the Company has decided to develop a new brand, "***SL2.0***", of which the management and design teams, design concepts and cycle are different and are independent from our traditional interior design services. The business segment associated with such new brand is expected to have a shorter business cycle and be more cost effective.

As our Interior Decorating & Furnishing Services segment has demonstrated tremendous potential in contributing to the Group's revenue, the Board has decided to allocate more resources to this segment, including further expanding our interior decorating and furnishing services teams, sourcing and procurement teams, warehouses and inventory, to enhance its remarkable growth.

In order to explore more new business opportunities for co-operation with or acquisition of high potential interior design companies, of which the business, interest and philosophy are in line with those of the Group, and to accelerate growth in the Group's revenue and profit, the Board proposes to reserve more funding for potential merger and acquisition.

In addition, the Company also intends to further develop specialisation by strengthening team recruitment.

The Board (including the independent non-executive Directors) is of the view that the Reallocation, which is in the best interests of the Company and its Shareholders as a whole, will result in a more efficient use of the Net Proceeds, and confirms that there is no material change in the principal business of the Group.

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

Hong Kong, 6 June 2019

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