



K W Nelson Interior Design and Contracting Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8411

Third Quarterly Report 2018

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

HIGHLIGHTS

- During the nine months ended 30 September 2018 (the "Period"), the Group achieved an increase in revenue of approximately 101.3% to approximately HK\$89.0 million from approximately HK\$44.2 million for the nine months ended 30 September 2017 (the "Previous Period"). The growth was mainly driven by the increase in revenue from decoration projects for commercial premises. In line with the increase in revenue, the Group's gross profit increased to approximately HK\$37.4 million for the Period from approximately HK\$19.9 million for the Previous Period, representing an increase of approximately 88.4%.
- The Group's profit attributable to shareholders increased to approximately HK\$19.4 million for the Period from approximately HK\$11.2 million for the Previous Period. The increase in profit attributable to shareholders was mainly due to the increase in gross profit from decoration projects.
- The board of directors does not recommend the payment of a dividend for the Period (Previous Period: Nil).

UNAUDITED CONDENSED CONSOLIDATED THIRD QUARTERLY RESULTS

The board of the Directors (the "Board") of K W Nelson Interior Design and Contracting Group Limited is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the nine months ended 30 September 2018, together with the comparative unaudited figures for the corresponding period in 2017 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2018

(Expressed in Hong Kong dollars)

| | Note | Three months ended 30 September | | Nine months ended 30 September | |
|--|------|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Revenue | 3 | 12,841 | 9,841 | 88,950 | 44,178 |
| Cost of services | | (5,322) | (4,643) | (51,533) | (24,318) |
| Gross profit | | 7,519 | 5,198 | 37,417 | 19,860 |
| Other revenue | 4 | – | 58 | 148 | 112 |
| General and administrative expenses | | (5,650) | (2,218) | (14,228) | (6,542) |
| Profit before taxation | 5 | 1,869 | 3,038 | 23,337 | 13,430 |
| Income tax | 6 | (378) | (500) | (3,967) | (2,218) |
| Profit for the period | | 1,491 | 2,538 | 19,370 | 11,212 |
| Other comprehensive income/(loss) for the period | | | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | | | |
| Exchange differences on translation of financial statements of overseas subsidiary with functional currency other than Hong Kong dollars | | | | | |
| | | 12 | 36 | (126) | 94 |
| Total comprehensive income for the period | | 1,503 | 2,574 | 19,244 | 11,306 |
| Earnings per share | | | | | |
| | 7 | | | | |
| Basic and diluted | | HK0.15 cent | HK0.25 cent | HK1.92 cent | HK1.12 cent |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2018
(Expressed in Hong Kong dollars)

| | Share capital HK\$'000 | Share premium HK\$'000 | Exchange reserve HK\$'000 | Merger reserve HK\$'000 | Capital contribution reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|---------------------------|---------------------------|------------------------------|----------------------------|--|------------------------------|-------------------|
| Balance at 1 January 2017 (Audited) | 10,000 | 33,728 | (285) | (380) | 5,000 | 9,536 | 57,599 |
| Profit for the period | - | - | - | - | - | 11,212 | 11,212 |
| Other comprehensive income for the period | - | - | 94 | - | - | - | 94 |
| Total comprehensive income for the period | - | - | 94 | - | - | 11,212 | 11,306 |
| Balance at 30 September 2017 (Unaudited) | 10,000 | 33,728 | (191) | (380) | 5,000 | 20,748 | 68,905 |
| Balance at 1 January 2018 (Audited) | 10,000 | 33,728 | (122) | (380) | 5,000 | 35,638 | 83,864 |
| Profit for the period | - | - | - | - | - | 19,370 | 19,370 |
| Other comprehensive loss for the period | - | - | (126) | - | - | - | (126) |
| Total comprehensive income for the period | - | - | (126) | - | - | 19,370 | 19,244 |
| Dividend approved in respect of the previous year | - | - | - | - | - | (2,000) | (2,000) |
| Balance at 30 September 2018 (Unaudited) | 10,000 | 33,728 | (248) | (380) | 5,000 | 53,008 | 101,108 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the nine months ended 30 September 2018
(Expressed in Hong Kong dollars unless otherwise indicated)*

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 January 2016. The shares of the Company were listed on GEM of the Stock Exchange on 8 December 2016 (the "Listing Date"). The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Its principal place of business is located at Room 1703, 17th Floor, Technology Plaza, 651 King's Road, Quarry Bay, Hong Kong.

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

2 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the nine months ended 30 September 2018 have been prepared by the Directors in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the GEM Listing Rules. HKFRSs include Hong Kong Accounting Standards and interpretations. The accounting policies and basis of preparation adopted in the preparation of the financial statements for the nine months ended 30 September 2018 are consistent with those adopted in the annual report for the year ended 31 December 2017. The adoption of the new and revised HKFRSs that are relevant to the Group and effective from the current period had no significant effects on the results and financial position of the Group.

The condensed consolidated financial statements have not been audited but have been reviewed by the Company's audit committee.

The measurement basis used in the preparation of the unaudited condensed consolidated financial statements is the historical cost basis. The unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$") and all figures are rounded to the nearest thousand ("HK\$'000") unless otherwise indicated.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2018

(Expressed in Hong Kong dollars unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING

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

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

The following table sets out information about the geographical location of the Group's revenue. The geographical location of customers is based on the location at which the work was provided.

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Hong Kong | 10,297 | 8,243 | 86,406 | 42,300 |
| The People's Republic of China (the "PRC") and Macau | 2,544 | 1,598 | 2,544 | 1,878 |
| | 12,841 | 9,841 | 88,950 | 44,178 |

4 OTHER REVENUE

| | Three months ended 30 September | | Nine months ended 30 September | |
|-----------------|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Interest Income | – | 58 | 144 | 112 |
| Sundry Income | – | – | 4 | – |
| | – | 58 | 148 | 112 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| (a) Staff costs (exclude directors' remuneration) | | | | |
| Salaries, wages and other benefits | 1,539 | 1,659 | 4,481 | 5,126 |
| Contributions to defined contribution retirement plan | 76 | 54 | 177 | 170 |
| | 1,615 | 1,713 | 4,658 | 5,296 |

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

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

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| (b) Other items | | | | |
| Depreciation | 356 | 122 | 864 | 365 |
| Operating lease charges: minimum lease payments | 197 | 133 | 513 | 398 |
| Cost of services (note) | 5,322 | 4,643 | 51,533 | 24,318 |

Note: Cost of services for the nine months ended 30 September 2018 includes approximately HK\$2,922,000 (nine months ended 30 September 2017: HK\$2,453,000) relating to staff costs, which is also included in the respective total amounts disclosed separately in note 5(a).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX

| | Three months ended 30 September | | Nine months ended 30 September | |
|-------------------------------------|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Current tax — Hong Kong Profits Tax | 378 | 520 | 3,997 | 2,273 |
| Deferred tax | — | (20) | (30) | (55) |
| | 378 | 500 | 3,967 | 2,218 |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime.

The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25% and profits above HK\$2 million will be taxed at 16.5%.

For the nine months ended 30 September 2018, Hong Kong Profits Tax of the qualified entity is calculated in accordance with the two-tiered profits tax rates regime.

For the nine months ended 30 September 2017, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

7 EARNINGS PER SHARE

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

| | Three months ended 30 September | | Nine months ended 30 September | |
|--|------------------------------------|---------------------|-----------------------------------|---------------------|
| | 2018 (Unaudited) | 2017 (Unaudited) | 2018 (Unaudited) | 2017 (Unaudited) |
| Profit for the period attributable to the ordinary equity shareholders of the Company (HK\$'000) | 1,491 | 2,538 | 19,370 | 11,212 |
| Weighted average number of ordinary shares in issue (thousand shares) | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |

The diluted earnings per share is the same as the basic earnings per share as there were no diluted potential ordinary shares in existence during the nine months ended 30 September 2018 and 2017.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIVIDEND

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil).

9 SHARE CAPITAL

| | 30 September 2018 | | 31 December 2017 | |
|----------------------------------|------------------------------------|-------------------------|----------------------------------|-----------------------|
| | Number of shares (Unaudited) | HK\$'000 (Unaudited) | Number of shares (Audited) | HK\$'000 (Audited) |
| Authorised: | | | | |
| Ordinary shares of HK\$0.01 each | 10,000,000,000 | 100,000 | 10,000,000,000 | 100,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK\$0.01 each | 1,000,000,000 | 10,000 | 1,000,000,000 | 10,000 |

10 COMMITMENTS

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

| | 30 September 2018 HK\$'000 (Unaudited) | 31 December 2017 HK\$'000 (Audited) |
|---------------------------------|---|--|
| Within 1 year | 706 | 643 |
| After 1 year but within 5 years | 322 | 166 |
| | 1,028 | 809 |

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

11 RELATED PARTY TRANSACTIONS

During the nine months ended 30 September 2018, transactions with the following parties are considered to be related party transactions:

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

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

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group is the amounts paid to the Group's directors as set out below:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Emoluments, salaries and other benefits | 150 | 365 | 450 | 975 |
| Contributions to defined contribution retirement plan | 3 | 14 | 9 | 35 |
| | 153 | 379 | 459 | 1,010 |

(b) Remuneration of the spouse of the controlling shareholder

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) | 2018 HK\$'000 (Unaudited) | 2017 HK\$'000 (Unaudited) |
| Salaries and other benefits | 63 | 63 | 189 | 147 |
| Contributions to defined contribution retirement plan | 3 | 3 | 9 | 7 |
| | 66 | 66 | 198 | 154 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2018
(Expressed in Hong Kong dollars unless otherwise indicated)

11 RELATED PARTY TRANSACTIONS (Continued)

(c) Other related party transactions

| | Three months ended | | Nine months ended | |
|---|--------------------|-------------|-------------------|-------------|
| | 30 September | | 30 September | |
| | 2018 | 2017 | 2018 | 2017 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Office rental paid to Further Concept Limited | 54 | 54 | 162 | 162 |
| Car rental paid to Target King Limited | 28 | 42 | 112 | 65 |

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

12 EVENTS AFTER THE REPORTING PERIOD

The Group had no significant events after the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an interior decorator based in Hong Kong, focusing on commercial premises including office, retail and restaurant mainly 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 are responsible for the tailor-made interior design proposals, project management and fitting-out works; (ii) decoration projects in which the Group are responsible for project management and fitting-out works; and (iii) other interior design and fitting-out services.

During the nine months ended 30 September 2018 (the "Period"), the Group achieved an increase in revenue of approximately 101.3% to approximately HK\$89.0 million from approximately HK\$44.2 million for the nine months ended 30 September 2017 (the "Previous Period"). The growth was mainly driven by the increase in revenue from decoration projects for commercial premises. In line with the increase in revenue, the Group's gross profit increased to approximately HK\$37.4 million for the Period from approximately HK\$19.9 million for the Previous Period, representing an increase of approximately 88.4%.

The Group's profit attributable to shareholders increased to approximately HK\$19.4 million for the Period from approximately HK\$11.2 million for the Previous Period. The increase in profit attributable to shareholders was mainly due to the increase in gross profit from decoration projects.

OUTLOOK

Subsequent to the Period, the Group was engaged by a quasi-government organization for a design and decoration project to convert the Cyberport Arcade into an E-sports and digital entertainment venue with contract sum of approximately HK\$66.7 million for a project period of 9 months and telecommunication corporate client for a decoration project with 4 floors area in Hong Kong Island side. In addition, the Group's international team has secured certain projects in Macau from famous PRC telecommunication clients and a food and beverage client.

With the new contracts on hand, and the recent experience gained in completing a famous professional medical tower, a decoration project in Central, the management believes that the Group would be able to perform multi-dimension design and decoration services to different clients in Hong Kong, Macau or other countries.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

FINANCIAL REVIEW

Revenue

The Group's revenue is principally generated from (i) design & decoration projects; (ii) decoration projects; and (iii) other interior design and fitting-out services. During the Period, the Group's revenue increased by approximately 101.3% to approximately HK\$89.0 million (Previous Period: HK\$44.2 million).

The following table sets forth a breakdown of the Group's revenue and number of projects by project types and geographical locations for the nine months ended 30 September 2018 and 2017:

| Project types and locations | Nine months ended 30 September | | | | | |
|--------------------------------|--------------------------------|-----------------|--------------|------------------------|-----------------|----------|
| | 2018 | | | 2017 | | |
| | <i>No. of projects</i> | <i>HK\$'000</i> | <i>%</i> | <i>No. of projects</i> | <i>HK\$'000</i> | <i>%</i> |
| | | (Unaudited) | | | (Unaudited) | |
| Design & decoration | | | | | | |
| Hong Kong | 17 | 23,510 | 26.4 | 17 | 37,712 | 85.4 |
| Macau | 1 | 2,544 | 2.9 | 1 | 1,593 | 3.6 |
| | 18 | 26,054 | 29.3 | 18 | 39,305 | 89.0 |
| Decoration | | | | | | |
| Hong Kong | 20 | 61,995 | 69.7 | 3 | 610 | 1.4 |
| | 20 | 61,995 | 69.7 | 3 | 610 | 1.4 |
| Others | | | | | | |
| Hong Kong | | 901 | 1.0 | | 3,978 | 9.0 |
| PRC | | – | – | | 285 | 0.6 |
| | | 901 | 1.0 | | 4,263 | 9.6 |
| Total | 38 | 88,950 | 100.0 | 21 | 44,178 | 100.0 |

As shown in above table, (i) the design & decoration; and (ii) decoration projects contributed to approximately 99.0% and 90.4% of the Group's total revenue for the nine months ended 30 September 2018 and 2017, respectively. Revenue from (i) design & decoration; and (ii) decoration projects increased to approximately HK\$88.0 million for the Period from approximately HK\$39.9 million for the Previous Period, representing an increase of approximately 120.6%. The increase in revenue was mainly driven by the increase in number of decoration projects during the Period.

Others represented other interior design and fitting-out services including (i) handling fitting-out works for variation orders of the customers; (ii) handling maintenance works; (iii) provision of interior design proposals and/or project management services; and (iv) handling various miscellaneous fitting-out works.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Services and Gross Profit Margin

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

The following table sets forth the breakdown of the Group's gross profit margin by project types for the nine months ended 30 September 2018 and 2017:

| Project types | Nine months ended 30 September | |
|---------------------|--------------------------------|---------------------|
| | 2018 (Unaudited) | 2017 (Unaudited) |
| Design & decoration | 41.7% | 41.9% |
| Decoration | 42.7% | 20.7% |
| Others | 6.0% | 76.8% |
| Overall | 42.1% | 45.0% |

The Group's overall gross profit margin slightly decreased to approximately 42.1% for the Period (Previous Period: 45.0%), mainly due to the offsetting impact of the decrease in gross profit margin for other projects to approximately 6.0% (Previous Period: 76.8%) and the increase of gross profit margin for decoration projects to approximately 42.7% for the Period (Previous Period: 20.7%).

General and Administrative Expenses

The Group's general and administrative expenses amounted to approximately HK\$14.2 million and approximately HK\$6.5 million for the nine months ended 30 September 2018 and 2017 respectively, representing an increase of approximately 117.5%. Such increase was primarily due to the increase in marketing and other administrative expenses during the Period.

Income Tax

Income tax of the Group for the Period was approximately HK\$4.0 million (Previous Period: HK\$2.2 million) and such growth was consistent with the increase in assessable profits during the Period as compared to the Previous Period.

Profit for the period

Profit for the period of the Group increased to approximately HK\$19.4 million for the Period from approximately HK\$11.2 million for the Previous Period, mainly due to the increase in gross profit from decoration projects.

Dividend

The Board does not recommend the payment of a dividend for the Period (Previous Period: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

During the Period, the Group financed its operations by its internal resources. As at 30 September 2018, the Group had net current assets of approximately HK\$98.0 million (31 December 2017: HK\$83.4 million), including cash and cash equivalents balances of approximately HK\$93.0 million (31 December 2017: HK\$71.3 million) mainly denominated in Hong Kong dollars. As at 30 September 2018, the Group had an unutilised banking facility of HK\$2.0 million (31 December 2017: HK\$2.0 million) which was secured by pledged bank deposits.

The current ratio, being the ratio of current assets to current liabilities, was approximately 6.3 times as at 30 September 2018 (31 December 2017: 6.6 times).

The gearing ratio of the Group as at 30 September 2018 was nil (31 December 2017: Nil) as the Group was not in need of any material debt financing during the Period. The gearing ratio is calculated as total debt divided by total equity as at the respective period end.

The shares of the Company (the "Shares") were listed on GEM of the Stock Exchange on 8 December 2016 by way of placing and 250,000,000 new shares offered by the Company at a placing price of HK\$0.2 per share were issued under the placing. There has been no change in capital structure of the Company since then. The equity attributable to owners of the Company amounted to approximately HK\$101.1 million as at 30 September 2018 (31 December 2017: HK\$83.9 million).

PLEDGE OF ASSETS

As of 30 September 2018, the Group had pledged bank deposits of HK\$2.0 million (31 December 2017: HK\$2.0 million) to secure the banking facilities granted to the Group. 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 Period, 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 Period.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Period. 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 30 September 2018 and 31 December 2017, the Group did not have any material capital commitment.

HUMAN RESOURCES MANAGEMENT

As at 30 September 2018, the Group had a total of 23 (31 December 2017: 13) employees. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance.

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

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

CONTINGENT LIABILITIES

As at 30 September 2018 and 31 December 2017, the Group did not have any material contingent liability.

OTHER INFORMATION

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

As at 30 September 2018, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, will be as follows:

Long Positions in Shares of the Company

| Name | 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 30 September 2018, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

OTHER INFORMATION

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

Long Positions in Shares of the Company

| Name of Shareholder | 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 30 September 2018, the Directors were not aware of any other person (other than the Directors or chief executives as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Its Associated Corporations" above) who had, or deemed to have, interests or short positions in the shares, underlying shares or debentures of the Company which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, or who were directly or indirectly interested in 5% or more of the issued shares of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or the substantial shareholders of the Company (the "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 nine months ended 30 September 2018 and up to the date of this quarterly report.

CORPORATE GOVERNANCE

The Company adopted the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules as its own code of corporate governance. During the nine months ended 30 September 2018, 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.

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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.

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 nine months ended 30 September 2018. The Company was not aware of any non-compliance during the nine months ended 30 September 2018.

COMPLIANCE ADVISER'S INTEREST IN THE COMPANY

As at 30 September 2018, as notified by the Company's compliance adviser, Sunfund Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 18 November 2016 and the supplemental agreement dated 29 December 2017, neither the Compliance Adviser nor its directors, employees or its close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the nine months ended 30 September 2018.

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 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. The Audit Committee currently 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.

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The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2018 and this quarterly report and is of the view that such statements and report have been prepared in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

By order of the Board

K W Nelson Interior Design and Contracting Group Limited

Lau King Wai

Chairman and Chief Executive Officer

Hong Kong, 5 November 2018

As at the date of this report, the Board comprises Mr. Lau King Wai, Ms. Leung May Yan and Mr. Wong Siu Hong Edward as executive Directors, and Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi as independent non-executive Directors.