



# K W Nelson

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

Stock Code: 8411

Interim Report 2019

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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.

## FINANCIAL HIGHLIGHTS

- During the six months ended 30 June 2019 (the "Period"), the Group's revenue decreased by approximately 33.4% to approximately HK\$50.7 million from approximately HK\$76.1 million for the six months ended 30 June 2018 (the "Previous Period"). The decrease was mainly driven by the decrease in revenue from decoration projects for commercial premises. The Group's gross profit decreased to approximately HK\$26.5 million for the Period from approximately HK\$29.9 million for the Previous Period.
- The Group's profit attributable to the ordinary equity shareholders decreased to approximately HK\$16.1 million for the Period from approximately HK\$17.9 million for the Previous Period.
- The board of directors does not recommend the payment of an interim dividend for the Period (Previous Period: Nil).

## UNAUDITED CONSOLIDATED INTERIM FINANCIAL RESULTS

The board of the Directors of the Company (the "Board") is pleased to present the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2019, together with the comparative unaudited figures for the corresponding period in 2018 as follows:

### UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Note	Three months ended 30 June		Six months ended 30 June	
		2019 HK\$'000	2018 HK\$'000 (Note)	2019 HK\$'000	2018 HK\$'000 (Note)
<b>Revenue</b>	4	<b>27,741</b>	42,693	<b>50,725</b>	76,109
Direct costs		<b>(10,252)</b>	(24,293)	<b>(24,242)</b>	(46,211)
<b>Gross profit</b>		<b>17,489</b>	18,400	<b>26,483</b>	29,898
Other revenue	5	<b>188</b>	85	<b>337</b>	148
General and administrative expenses		<b>(5,022)</b>	(5,442)	<b>(7,688)</b>	(8,578)
<b>Profit from operation</b>		<b>12,655</b>	13,043	<b>19,132</b>	21,468
Finance costs		<b>(28)</b>	–	<b>(28)</b>	–
<b>Profit before taxation</b>	6	<b>12,627</b>	13,043	<b>19,104</b>	21,468
Income tax	7	<b>(1,518)</b>	(2,198)	<b>(3,044)</b>	(3,589)
<b>Profit for the period</b>		<b>11,109</b>	10,845	<b>16,060</b>	17,879
<b>Earnings per share</b>					
Basic and diluted	8	<b>HK1.11 cents</b>	HK1.08 cents	<b>HK1.61 cents</b>	HK1.79 cents

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 8 to 24 form part of this interim financial report.

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

For the six months ended 30 June 2019

	Three months ended 30 June		Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000 (Note)	2019 HK\$'000	2018 HK\$'000 (Note)
<b>Profit for the period</b>	<b>11,109</b>	10,845	<b>16,060</b>	17,879
<b>Other comprehensive income for the period (net of nil tax and reclassification adjustments)</b>				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences on translation of financial statements of a subsidiary	(91)	(138)	121	(30)
<i>Items that will not be reclassified to profit or loss:</i>				
Change in fair value of financial assets at fair value through other comprehensive income	(490)	–	247	–
<b>Total comprehensive income for the period</b>	<b>10,528</b>	10,707	<b>16,428</b>	17,849

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 8 to 24 form part of this interim financial report.

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Note	30 June 2019 HK\$'000	31 December 2018 HK\$'000 (Note)
<b>Non-current assets</b>			
Property, plant and equipment	10	3,286	2,842
Financial assets at fair value through other comprehensive income	14	7,840	–
		<b>11,126</b>	2,842
<b>Current assets</b>			
Contract assets	11	4,139	2,941
Trade and other receivables	12	45,579	59,112
Pledged bank deposits		8,670	8,670
Cash and cash equivalents		83,790	69,149
		<b>142,178</b>	139,872
<b>Current liabilities</b>			
Contract liabilities	11	5,624	4,676
Trade and other payables	13	19,008	27,225
Lease liabilities	3(c)	453	–
Tax payable		3,281	314
		<b>28,366</b>	32,215
<b>Net current assets</b>		<b>113,812</b>	107,657
<b>Total assets less current liabilities</b>		<b>124,938</b>	110,499
<b>Non-current liabilities</b>			
Lease liabilities	3(c)	511	–
Deferred tax liabilities		54	54
		<b>565</b>	54
<b>NET ASSETS</b>		<b>124,373</b>	110,445
<b>CAPITAL AND RESERVES</b>			
Share capital		10,000	10,000
Reserves		114,373	100,445
<b>TOTAL EQUITY</b>		<b>124,373</b>	110,445

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 8 to 24 form part of this interim financial report.

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to the ordinary equity shareholders of the Company							
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Fair value reserve (non-recycling) HK\$'000	Merger reserve HK\$'000	Capital contribution reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>For the six months ended</b>								
<b>30 June 2018</b>								
Balance at 1 January 2018	10,000	33,728	(122)	-	(380)	5,000	35,638	83,864
Profit for the period	-	-	-	-	-	-	17,879	17,879
<b>Other comprehensive income</b>								
Exchange difference on translation of financial statements of a subsidiary	-	-	(30)	-	-	-	-	(30)
<b>Total comprehensive income</b>	-	-	(30)	-	-	-	17,879	17,849
Dividend approved and paid in respect of the previous year	-	-	-	-	-	-	(2,000)	(2,000)
<b>Balance at 30 June 2018</b>	<b>10,000</b>	<b>33,728</b>	<b>(152)</b>	<b>-</b>	<b>(380)</b>	<b>5,000</b>	<b>51,517</b>	<b>99,713</b>
<b>For the six months ended</b>								
<b>30 June 2019</b>								
Balance at 1 January 2019 (Note)	10,000	33,728	(275)	-	(380)	5,000	62,372	110,445
Profit for the period	-	-	-	-	-	-	16,060	16,060
<b>Other comprehensive income</b>								
Exchange difference on translation of financial statements of a subsidiary	-	-	121	-	-	-	-	121
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	247	-	-	-	247
<b>Total comprehensive income</b>	-	-	121	247	-	-	16,060	16,428
Dividend approved and paid in respect of the previous year	-	-	-	-	-	-	(2,500)	(2,500)
<b>Balance at 30 June 2019</b>	<b>10,000</b>	<b>33,728</b>	<b>(154)</b>	<b>247</b>	<b>(380)</b>	<b>5,000</b>	<b>75,932</b>	<b>124,373</b>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019

	Six months ended	
	30 June 2019 HK\$'000	30 June 2018 HK\$'000 (Note)
<b>Operating activities</b>		
Cash generated from operations	24,916	14,936
Tax paid:		
People's Republic of China ("PRC") Corporate Income Tax paid	(77)	(16)
<b>Net cash generated from operating activities</b>	<b>24,839</b>	<b>14,920</b>
<b>Investing activities</b>		
Payment for the purchase of property, plant and equipment	(39)	–
Interest received	327	148
Payment for acquisition of financial assets at fair value through other comprehensive income	(7,593)	–
<b>Net cash (used in)/generated from investing activities</b>	<b>(7,305)</b>	<b>148</b>
<b>Financing activities</b>		
Capital element of lease rentals paid	(218)	–
Interest element of lease rentals paid	(28)	–
Dividend paid	(2,500)	(2,000)
<b>Net cash used in financing activities</b>	<b>(2,746)</b>	<b>(2,000)</b>
<b>Net increase in cash and cash equivalents</b>	<b>14,788</b>	<b>13,068</b>
<b>Cash and cash equivalents at 1 January</b>	<b>69,149</b>	<b>71,305</b>
<b>Effect of foreign exchange rate changes</b>	<b>(147)</b>	<b>–</b>
<b>Cash and cash equivalents at 30 June</b>	<b>83,790</b>	<b>84,373</b>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

## 1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 January 2016. 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 in Hong Kong and Mainland China.

## 2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 9 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 3. In addition, the Group has adopted the accounting policy for investments in equity securities in the interim financial report as follows:

### Investments in equity securities

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. These investments are subsequently accounted for as follows, depending on their classification.

### Equity Investments

- An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at fair value through other comprehensive income ("FVOCI") (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other revenue.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 2 BASIS OF PREPARATION (Continued)

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 25 to 26.

The measurement basis used in the preparation of the unaudited interim financial report is the historical cost basis except for financial assets at fair value through other comprehensive income, which are carried at fair value. The unaudited interim financial report is presented in Hong Kong dollars ("HK\$") and all figures are rounded to the nearest thousand ("HK\$'000") unless otherwise indicated.

### 3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC)-Int 4, *Determining whether an arrangement contains a lease*, HK(SIC)-Int 15, *Operating leases — incentives*, and HK(SIC)-Int 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balances of right-of-use assets and lease liabilities at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 3 CHANGES IN ACCOUNTING POLICIES (Continued)

#### HKFRS 16, Leases (Continued)

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

#### (a) Changes in the accounting policies

##### (i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

##### (ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 10(a).

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 3 CHANGES IN ACCOUNTING POLICIES (Continued)

#### HKFRS 16, Leases (Continued)

##### (a) Changes in the accounting policies (Continued)

###### (ii) Lessee accounting (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

##### (b) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.13%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- The Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 3 CHANGES IN ACCOUNTING POLICIES (Continued)

#### HKFRS 16, Leases (Continued)

The following table reconciles the operating lease commitments as disclosed in note 15 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 HK\$'000
Operating lease commitments at 31 December 2018	756
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(210)
	546
Less: total future interest expenses	(30)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	516
Add: finance lease liabilities recognised as at 31 December 2018	—
Total lease liabilities recognised at 1 January 2019	516

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

The Group presents right-of-use assets that do not meet the definition of investment property in “property, plant and equipment” and presents lease liabilities separately in the consolidated statement of financial position.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 3 CHANGES IN ACCOUNTING POLICIES (Continued)

#### HKFRS 16, Leases (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK\$'000	Capitalisation of operating lease contracts HK\$'000	Carrying amount at 1 January 2019 HK\$'000
<b>Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:</b>			
Property, plant and equipment	2,842	516	3,358
<b>Total non-current assets</b>	<b>2,842</b>	<b>516</b>	<b>3,358</b>
Lease liabilities (current)	–	231	231
<b>Current liabilities</b>	<b>32,215</b>	<b>231</b>	<b>32,446</b>
<b>Net current assets</b>	<b>107,657</b>	<b>231</b>	<b>107,888</b>
<b>Total assets less current liabilities</b>	<b>110,499</b>	<b>285</b>	<b>110,784</b>
Lease liabilities (non-current)	–	285	285
<b>Total non-current liabilities</b>	<b>54</b>	<b>285</b>	<b>339</b>
<b>Net assets</b>	<b>110,445</b>	<b>–</b>	<b>110,445</b>

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 June 2019 HK\$'000	At 1 January 2019 HK\$'000
Included in "Property, plant and equipment":		
Properties leased for own use, carried at depreciated cost	952	516

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 3 CHANGES IN ACCOUNTING POLICIES (Continued)

#### HKFRS 16, Leases (Continued)

##### (c) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	453	492	231	252
After 1 year but within 2 years	392	408	243	252
After 2 years but within 5 years	119	120	42	42
	511	528	285	294
	964	1,020	516	546
Less: total future interest expenses		(56)		(30)
Present value of lease liabilities		964		516

##### (d) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, 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. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the period.

In the condensed consolidated cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the condensed consolidated cash flow statement.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 3 CHANGES IN ACCOUNTING POLICIES (Continued)

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in this interim financial report to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019			2018	
		Add back:	Deduct:	Hypothetical	Compared to
	Amounts	HKFRS 16	Estimated	amounts	amounts
	reported	depreciation	amounts	for 2019	reported for
	under	and interest	related to	as if under	2018 under
	HKFRS 16	expense	operating	HKAS 17	HKAS 17
	(A)	(B)	leases	(D=A+B-C)	
	HK\$'000	HK\$'000	as if under	HK\$'000	HK\$'000
			HKAS 17		
			(note i)		
			(C)		
<b>Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:</b>					
Profit from operations	19,132	230	(246)	19,116	21,468
Finance costs	(28)	28	-	-	-
Profit before taxation	19,104	258	(246)	19,116	21,468
Profit for the period	16,060	258	(246)	16,072	17,879



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 3 CHANGES IN ACCOUNTING POLICIES (Continued)

	2019 Estimated amounts related to operating leases as if under HKAS 17 (notes i & ii) (A) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) (B) HK\$'000	2018 Compared to amounts reported for 2018 under HKAS 17 HK\$'000
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Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:

Cash generated from operations	24,916	(246)	24,670	14,936
<b>Net cash generated from operating activities</b>	<b>24,839</b>	<b>(246)</b>	<b>24,593</b>	<b>14,920</b>
Capital element of lease rentals paid	(218)	218	-	-
Interest element of lease rentals paid	(28)	28	-	-
<b>Net cash used in financing activities</b>	<b>(2,746)</b>	<b>246</b>	<b>(2,500)</b>	<b>(2,000)</b>

Note i: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note ii: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 4 REVENUE AND SEGMENT REPORTING

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

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, 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.

	Revenue from external customers				Specified Non-current assets	
	Three months ended		Six months ended		30 June 2019	31 December 2018
	30 June		30 June			
	2019	2018	2019	2018	(Note)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Hong Kong (place of domicile)	<b>25,922</b>	40,317	<b>48,570</b>	73,733	<b>3,284</b>	2,840
Mainland China and Macau	<b>1,819</b>	2,376	<b>2,155</b>	2,376	<b>2</b>	2
	<b>27,741</b>	42,693	<b>50,725</b>	76,109	<b>3,286</b>	2,842

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

### 5 OTHER REVENUE

	Three months ended		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	<b>178</b>	85	<b>327</b>	144
Sundry income	<b>10</b>	–	<b>10</b>	4
	<b>188</b>	85	<b>337</b>	148

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Staff costs (including directors' remuneration)				
Salaries, wages and other benefits	1,425	1,357	3,532	2,942
Contributions to defined contribution retirement plan	56	50	118	101
	<b>1,481</b>	1,407	<b>3,650</b>	3,043

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		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(b) Other items				
Loss allowance	1,855	–	1,855	–
Depreciation				
— owned property, plant and equipment	274	398	547	508
— right-of-use assets	230	–	230	–
Direct costs (note i)	<b>10,252</b>	24,293	<b>24,242</b>	46,211

#### (b) Other items

Loss allowance	1,855	–	1,855	–
Depreciation				
— owned property, plant and equipment	274	398	547	508
— right-of-use assets	230	–	230	–
Direct costs (note i)	<b>10,252</b>	24,293	<b>24,242</b>	46,211

Note i: Direct costs for the six months ended 30 June 2019 included HK\$2,188,000 (six months ended 30 June 2018: HK\$1,359,000) relating to staff costs, which is also included in the respective total amounts disclosed separately in note 6(a).

Note ii: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 7 INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Current tax — Hong Kong Profits Tax	1,552	2,210	2,992	3,619
Current tax — PRC Corporate Income Tax	(34)	—	52	—
Deferred tax	—	(12)	—	(30)
	<b>1,518</b>	2,198	<b>3,044</b>	3,589

The provision for Hong Kong Profits Tax is calculated at 8.25% of the first HK\$2,000,000 and 16.5% of the remaining estimated assessable profits for the six months ended 30 June 2019 (six months ended 30 June 2018: same).

Taxation for the PRC subsidiary was charged at a reduced rate for small and low-profit enterprise at 10% of the estimated profits for the six months ended 30 June 2019 (six months ended 30 June 2018: 10%).

### 8 EARNINGS PER SHARE

#### (a) Basic

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
Profit for the period attributable to the ordinary equity shareholders of the Company (HK\$'000)	11,109	10,845	16,060	17,879
Weighted average number of ordinary shares in issue (thousand shares)	1,000,000	1,000,000	1,000,000	1,000,000
Basic earnings per share attributable to ordinary equity shareholders of the Company (HK cents)	1.11	1.08	1.61	1.79

#### (b) Diluted

The diluted earnings per share is the same as the basic earnings per share as there were no dilutive potential ordinary shares in existence during the six months ended 30 June 2019 and 2018.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 9 DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

### 10 PROPERTY, PLANT AND EQUIPMENT

#### (a) Right-of-use assets

As discussed in note 3, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 3.

During the six months ended 30 June 2019, the Group entered into a lease agreement for the use of office, and therefore recognised the addition to right-of-use assets of HK\$666,000.

#### (b) Acquisitions of owned assets

During the six months ended 30 June 2019, the Group acquired property, plant and equipment of approximately HK\$39,000 (six months ended 30 June 2018: HK\$2,593,000).

### 11 CONTRACT ASSETS AND CONTRACT LIABILITIES

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
<b>Contract assets</b>		
Arising from performance under construction contract works ( <i>note</i> )	4,139	2,941
<b>Contract liabilities</b>		
Construction contract works — Billing in advance of performance	5,624	4,676

*Note:* As at 30 June 2019, except for an amount of HK\$140,000 (31 December 2018: Nil) which was expected to be recovered after one year, all of the remaining balances were expected to be recovered within one year.

### 12 TRADE AND OTHER RECEIVABLES

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Trade receivables, net of loss allowance	40,280	51,358
Deposits, prepayments and other receivables	5,299	7,754
	<b>45,579</b>	<b>59,112</b>

The amount of deposits, prepayments and other receivables expected to be recovered or recognised as expense after more than one year is HK\$57,000 (31 December 2018: HK\$55,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 12 TRADE AND OTHER RECEIVABLES (Continued)

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

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Within 1 month	21,322	25,492
Over 1 month to 2 months	5,201	17,180
Over 2 months to 3 months	1,538	1,899
Over 3 months	12,219	6,787
	<b>40,280</b>	<b>51,358</b>

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.

### 13 TRADE AND OTHER PAYABLES

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Trade payables	7,771	7,668
Other payables and accruals	11,237	19,557
	<b>19,008</b>	<b>27,225</b>

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

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

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Within 1 month	1,962	3,294
Over 1 month to 3 months	2,111	3,099
Over 3 months	3,698	1,275
	<b>7,771</b>	<b>7,668</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 14 Fair value measurements of financial instruments

#### Financial assets measured at fair value

During the six months ended 30 June 2019, the Group has acquired listed equity securities as investment. The Group designated the investment at fair value through other comprehensive income (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income.

#### Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "Fair value measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The following table presents the Group's financial assets that are at fair value at 30 June 2019 and 31 December 2018.

	Level 1	
	30 June 2019	31 December 2018
	HK\$'000	HK\$'000
Financial assets at fair value through other comprehensive income		
— Listed equity securities	7,840	—

During the six months ended 30 June 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2018: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2019 and 31 December 2018 because of the immediate or short-term maturity of the financial instruments.

### 15 COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	HK\$'000
Within 1 year	462
After 1 year but within 5 years	294
	756

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 15 COMMITMENTS (Continued)

The Group is the lessee in respect of a number of properties and a motor vehicle held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 3.

### 16 CONTINGENT LIABILITY

As at 30 June 2019, performance bond of HK\$6,670,000 (31 December 2018: HK\$6,670,000) was given by a bank in favour of the Group's customer as security for the due performance and observance of the Group's obligation under the contract entered into between the Group and the customer. The Group has pledged bank deposits of HK\$6,670,000 (31 December 2018: HK\$6,670,000) for the above performance bond. If the Group fails to provide satisfactory performance to the customer to whom performance bond has been given, the customer may demand the bank to pay to the customer the sum stipulated in the demand. The Group will then become liable to compensate the bank accordingly. The performance bond will be released upon completion of the contract work. At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Group.

### 17 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2019, 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 Directors as set out below:

	Three months ended		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Emoluments, salaries and other benefits	365	365	795	815
Contributions to defined contribution retirement plan	14	14	25	24
	<b>379</b>	<b>379</b>	<b>820</b>	<b>839</b>



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

### 17 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

#### (b) Remuneration of the spouse of the controlling shareholder

	Three months ended 30 June		Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Salaries and other benefits	63	63	326	126
Contributions to defined contribution retirement plan	3	3	6	6
	<b>66</b>	<b>66</b>	<b>332</b>	<b>132</b>

#### (c) Other related party transactions

	Three months ended 30 June		Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Office rental paid to Further Concept Limited	60	54	120	108
Motor vehicle rental paid to Target King Limited	–	42	–	84

The related party transactions in respect of rental expenses above constitutes 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).

### 18 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.



**Review report to the board of directors of  
K W Nelson Interior Design and Contracting Group Limited**

*(Incorporated in the Cayman Islands with limited liability)*

**INTRODUCTION**

We have reviewed the interim financial report set out on pages 3 to 24 which comprises the consolidated statement of financial position of K W Nelson Interior Design and Contracting Group Limited (the "Company") as of 30 June 2019 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

### **KPMG**

Certified Public Accountants  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

9 August 2019

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

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

The Group's projects can be broadly categorised into (i) design & decoration projects in which 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 six months ended 30 June 2019 (the "Period"), the Group's revenue decrease approximately 33.4% to approximately HK\$50.7 million from approximately HK\$76.1 million for the six months ended 30 June 2018 (the "Previous Period"). The decrease was mainly driven by the decrease in revenue from decoration projects for commercial premises. The Group's gross profit decreased to approximately HK\$26.5 million for the Period from approximately HK\$29.9 million for the Previous Period.

The Group's profit attributable to ordinary equity shareholders decreased to approximately HK\$16.1 million for the Period from approximately HK\$17.9 million for the Previous Period.

### OUTLOOK

During the Period, the Group had certain decoration projects with medical centres and offices, and had completed decoration project for a famous professional medical tower in Central. Although the recent protests and marches in Hong Kong may have an impact on the business of the Group, the management believes that the Group will be able to perform multidimension design and decoration services to different sectors of clients in Hong Kong, Macau and the PRC.

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

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

## 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 by focusing on quality customers; (iii) increase the Group's capacity to capture more business opportunities; and (iv) expand the Group's business in the PRC market.

### FINANCIAL REVIEW

#### Revenue

The Group's revenue is principally generated from (i) design & decoration projects; (ii) decoration projects; and (iii) other interior design and fitting-out services. During the Period, the Group's revenue decreased by approximately 33.4% to approximately HK\$50.7 million (Previous Period: HK\$76.1 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 six months ended 30 June 2019 and 2018:

Project types and locations	Six months ended 30 June					
	2019			2018		
	<i>No. of projects</i>	<i>HK\$'000</i>	<i>%</i>	<i>No. of projects</i>	<i>HK\$'000</i>	<i>%</i>
		(Unaudited)			(Unaudited)	
<b>Design &amp; decoration</b>						
Hong Kong	13	30,814	60.8	11	13,203	17.4
The PRC and Macau	–	–	–	1	2,376	3.1
	13	30,814	60.8	12	15,579	20.5
<b>Decoration</b>						
Hong Kong	10	16,873	33.3	12	59,665	78.4
The PRC and Macau	4	2,155	4.2	–	–	–
	14	19,028	37.5	12	59,665	78.4
<b>Others</b>						
Hong Kong		883	1.7		865	1.1
		883	1.7		865	1.1
<b>Total</b>	<b>27</b>	<b>50,725</b>	<b>100.0</b>	<b>24</b>	<b>76,109</b>	<b>100.0</b>

The overall decrease in revenue during the Period was principally attributed to decrease in revenue from decoration projects of office premises and medical centres from approximately HK\$59.7 million in the Previous Period to approximately HK\$19.0 million in the Period, which offset by increase in revenue of approximately HK\$15.2 million derived from design and decoration projects of office premises and shopping malls during the Period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Direct Costs and Gross Profit Margin

The Group's direct costs mainly comprised subcontracting costs and direct staff costs; the decrease in direct costs was generally in line with the decrease in revenue for the Period.

The following table sets forth the breakdown of the Group's gross profit margin by project types for the six months ended 30 June 2019 and 2018:

Project types	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Design & decoration	51.4%	39.6%
Decoration	54.9%	39.4%
Others	22.9%	25.9%
<b>Overall</b>	<b>52.2%</b>	<b>39.3%</b>

The Group's overall gross profit margin increased to approximately 52.2% for the Period from approximately 39.3% for the Previous Period, which was mainly due to (i) the higher gross profit margin for decoration projects of medical centres which required higher specification; (ii) during the Period, there was project management fee income for shopping malls and restaurant of approximately HK\$3.5 million (Previous Period: Nil); and (iii) project cost reversal upon finalisation of accounts with customers, suppliers and subcontractors which led to favourable financial impact to the Group in the Period.

### General and Administrative Expenses

The Group's general and administrative expenses amounted to approximately HK\$7.7 million and approximately HK\$8.6 million for the six months ended 30 June 2019 and 2018 respectively, representing an decrease of approximately 10.5%. Such increase was primarily due to the decrease in legal and professional fees and marketing expense during the Period.

### Income Tax

Income tax of the Group for the Period was approximately HK\$3.0 million (Previous Period: HK\$3.6 million) and such decrease was consistent with the decrease in assessable profits.

### Profit for the period

Profit for the period of the Group decreased to approximately HK\$16.1 million for the Period from approximately HK\$17.9 million for the Previous Period, mainly due to the decrease in gross profit for the Period.

### Dividend

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

### LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

During the Period, the Group financed its operations by its internal resources. As at 30 June 2019, the Group had net current assets of approximately HK\$113.8 million (31 December 2018: HK\$107.7 million), including cash and cash equivalents balances of approximately HK\$83.8 million (31 December 2018: HK\$69.1 million) mainly denominated in Hong Kong dollars. As at 30 June 2019, the Group had an unutilised banking facility of HK\$2.0 million (31 December 2018: 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 5.0 times as at 30 June 2019 (31 December 2018: 4.3 times).

## MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 March 2019, the Group had no outstanding borrowings (31 December 2018: nil) as the Group was not in need of any material debt financing during the Period, and hence no gearing ratio was presented. 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 ordinary equity shareholders of the Company amounted to approximately HK\$124.4 million as at 30 June 2019 (31 December 2018: HK\$110.4 million).

### PLEDGE OF ASSETS

As at 30 June 2019, bank deposits of HK\$2.0 million (31 December 2018: HK\$2.0 million) and HK\$6.7 million (31 December 2018: HK\$6.7 million) were pledged to secure the banking facilities and a performance bond respectively. Save for the above, the Group did not have any charges on its assets.

### FOREIGN EXCHANGE EXPOSURE AND TREASURY POLICY

The majority of the Group’s business operations were conducted in Hong Kong. The transactions, monetary assets and liabilities of the Group were mainly denominated in Hong Kong dollars. During the 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.

### CAPITAL COMMITMENTS

As at 30 June 2019 and 31 December 2018, the Group did not have any material capital commitment.

### HUMAN RESOURCES MANAGEMENT

As at 30 June 2019, the Group had a total of 24 (31 December 2018: 19) 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

Save as disclosed in note 16 to the interim financial report, the Group had no other contingent liabilities as at 30 June 2019 and 31 December 2018.

## MANAGEMENT DISCUSSION AND ANALYSIS

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business objectives as set out in the Company's prospectus dated 29 November 2016 (the "Prospectus") with the Group's actual business progress up to 30 June 2019:

Business objectives up to 30 June 2019 as set out in the Prospectus	Actual business progress up to 30 June 2019
<p><b>Establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities</b></p> <ul style="list-style-type: none"> <li>— Recruit staff, rent and decorate a new office, procure new projects for the international team</li> <li>— Purchase equipment for interior design and technical use, office facilities and a vehicle</li> <li>— Expand and renovate Hong Kong office</li> </ul>	<p>The Group has appointed two consultants to coordinate and negotiate in the process of staff recruitment, office rental and decoration and equipment procurement.</p> <p>The Group has recruited a design directors, two designers, a marketing director and a project manager to conduct overseas travelling to explore business opportunities and handle new projects.</p> <p>The Group has rented a new office in North Point for its office expansion, and has completed the decoration of its new and existing office.</p> <p>The Group is in the process of exploring and identifying suitable interior design and technical use equipment, office facilities and vehicle.</p> <p>The Group has rented a new office in North Point for its office expansion, and has completed the decoration of its new and existing office.</p>
<p><b>Maintain and strengthen our market position in Hong Kong and the PRC and focus on reputable customers</b></p> <ul style="list-style-type: none"> <li>— Participate in industry related exhibitions, fairs and networking events</li> <li>— Establish a showroom for visual display of design and decoration</li> <li>— Provide trainings to our staff</li> <li>— Recruit marketing staff and designer</li> <li>— Prepare and distribute marketing materials</li> </ul>	<p>The Group has been participating in industry related exhibitions, fairs and networking events.</p> <p>The Group has rented a new office in North Point for its office expansion, and has completed the decoration of its new and existing office.</p> <p>The Group has been providing trainings to our staff.</p> <p>The Group has recruited one designer and two marketing executives to handle the design work and participate in marketing activities.</p> <p>The Group has been preparing and distributing marketing materials.</p>



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business objectives up to 30 June 2019 as set out in the Prospectus

### Actual business progress up to 30 June 2019

#### Increase our capacity to capture more business opportunities

- Recruit designers and project managers

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

#### Expand our business in the PRC market

- Expand our office facilities and recruit marketing staff in the PRC

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

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

The Group is at the stage of exploring to set up a new office in Hengqin, the PRC.

## USE OF PROCEEDS FROM THE PLACING

The following table sets forth the status of the use of proceeds from the placing up to 30 June 2019:

	Planned use of proceeds as stated in the Prospectus up to 30 June 2019 <i>HK\$ million</i>	Actual use of proceeds up to 30 June 2019 <i>HK\$ million</i>	Balance as at 30 June 2019 <i>HK\$ million</i>
Establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities	13.8	9.5	4.3
Maintain and strengthen our market position in Hong Kong and the PRC and focus on reputable customers	6.0	6.0	–
Increase our capacity to capture more business opportunities	4.6	4.6	–
Expand our business in the PRC market	3.1	1.4	1.7
General working capital	3.1	3.1	–
	30.6	24.6	6.0

## OTHER INFORMATION

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

As at 30 June 2019, 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 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, were as follows:

#### Long Position in Shares

Name	Capacity/Nature of interest	Interests in Shares	Approximate percentage shareholding (Note 2)
Mr. Lau King Wai	Interest of a controlled corporation (Note 1)	750,000,000	75%

*Notes:*

1. 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.
2. The approximate percentages were calculated based on 1,000,000,000 shares in issue as at 30 June 2019.

Saved as disclosed above, as at 30 June 2019, 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 June 2019, 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 and Its Associated Corporations" above, the following person has an interest or short position in the Shares or underlying Shares 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 Shares are listed as follows:

#### Long Positions in Shares

Name	Nature of interest	Number of Shares	Approximate percentage shareholding (Note 3)
Sino Emperor (Note 1)	Beneficial owner	750,000,000	75%
Ms. Chan Pui Shan, Jessica (Note 2)	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 wholly owned 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.
3. The approximate percentages were calculated based on 1,000,000,000 shares in issue as at 30 June 2019.

Saved as disclosed above, as at 30 June 2019, 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 and Its Associated Corporations" above) who had, or deemed to have, interests or short positions in the Shares, underlying Shares 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 expected, directly or indirectly, to be interested in 5% or more of the Shares.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or the substantial shareholders of the Company 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 six months ended 30 June 2019 and up to the date of this interim report.

## OTHER INFORMATION

### **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 six months ended 30 June 2019, 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.

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 six months ended 30 June 2019. The Company was not aware of any non-compliance during the six months ended 30 June 2019.

### **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 six months ended 30 June 2019.

## OTHER INFORMATION

### 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.

The Audit Committee has reviewed the unaudited interim financial results of the Group for the six months ended 30 June 2019 and this interim 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.

The Company's auditor, KPMG, has also reviewed the interim financial results for the six months ended 30 June 2019 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants.

By order of the Board

**K W Nelson Interior Design and Contracting Group Limited**

**Lau King Wai**

*Chairman and chief executive officer*

Hong Kong, 9 August 2019

*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.*