

K W Nelson Interior Design and Contracting Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8411)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, 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 announcement 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 announcement misleading.

FINANCIAL HIGHLIGHTS

- During the six months ended 30 June 2020 (the “Period”), the Group’s revenue slightly decreased to approximately HK\$50.5 million comparing to that of last period (six months ended 30 June 2019 (the “Previous Period”): HK\$50.7 million). The Group maintained a stable gross profit at approximately HK\$26.4 million for the Period comparing to that of last period (Previous Period : HK\$26.5 million).
- The Group’s profit attributable to the ordinary equity shareholders was approximately HK\$15.9 million for the Period and was approximately HK\$16.1 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 2020, together with the comparative unaudited figures for the corresponding period in 2019 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Note	Three months ended 30 June		Six months ended 30 June	
		2020	2019	2020	2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	4	23,930	27,741	50,481	50,725
Direct costs		(9,098)	(10,252)	(24,087)	(24,242)
Gross profit		14,832	17,489	26,394	26,483
Other revenue	5	268	188	433	337
General and administrative expenses		(4,601)	(5,022)	(7,460)	(7,688)
Profit from operations		10,499	12,655	19,367	19,132
Finance costs		(14)	(28)	(30)	(28)
Profit before taxation	6	10,485	12,627	19,337	19,104
Income tax	7	(1,972)	(1,518)	(3,462)	(3,044)
Profit for the period		8,513	11,109	15,875	16,060
Earnings per share					
Basic and diluted	8	HK0.85 cents	HK1.11 cents	HK1.59 cents	HK1.61 cents

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period	8,513	11,109	15,875	16,060
Other comprehensive income for the period (net of nil tax and reclassification adjustments)				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences on translation of financial statements of a subsidiary	7	(91)	(63)	121
<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	(63)	(490)	(329)	247
Total comprehensive income for the period	8,457	10,528	15,483	16,428

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Note	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Non-current assets			
Property, plant and equipment	10	2,292	3,186
Financial assets at fair value through other comprehensive income	14	182	511
Deferred tax assets		53	90
		2,527	3,787
Current assets			
Contract assets	11	1,752	1,907
Trade and other receivables	12	63,598	73,346
Pledged bank deposits		2,000	2,000
Cash and cash equivalents		94,392	90,955
		161,742	168,208
Current liabilities			
Contract liabilities	11	542	16,979
Trade and other payables	13	18,833	19,629
Lease liabilities		621	688
Tax payable		2,932	6,069
		22,928	43,365
Net current assets		138,814	124,843
Total assets less current liabilities		141,341	128,630
Non-current liabilities			
Lease liabilities		359	631
		359	631
NET ASSETS		140,982	127,999
CAPITAL AND RESERVES			
Share capital		10,000	10,000
Reserves		130,982	117,999
TOTAL EQUITY		140,982	127,999

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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
For the six months ended								
30 June 2019								
Balance at 1 January 2019	10,000	33,728	(275)	-	(380)	5,000	62,372	110,445
Profit for the period	-	-	-	-	-	-	16,060	16,060
Other comprehensive income								
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
Total comprehensive income	-	-	121	247	-	-	16,060	16,428
Dividend approved and paid in respect of the previous year	-	-	-	-	-	-	(2,500)	(2,500)
Balance at 30 June 2019	10,000	33,728	(154)	247	(380)	5,000	75,932	124,373
For the six months ended								
30 June 2020								
Balance at 1 January 2020	10,000	33,728	(332)	(7,082)	(380)	5,000	87,065	127,999
Profit for the period	-	-	-	-	-	-	15,875	15,875
Other comprehensive income								
Exchange difference on translation of financial statements of a subsidiary	-	-	(63)	-	-	-	-	(63)
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	(329)	-	-	-	(329)
Total comprehensive income	-	-	(63)	(329)	-	-	15,875	15,483
Dividend approved and paid in respect of the previous year	-	-	-	-	-	-	(2,500)	(2,500)
Balance at 30 June 2020	10,000	33,728	(395)	(7,411)	(380)	5,000	100,440	140,982

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020

	Six months ended	
	30 June 2020 HK\$'000	30 June 2019 HK\$'000
Operating activities		
Cash generated from operations	12,630	24,916
Tax paid:		
— Hong Kong Profits Tax paid	(6,562)	—
— People's Republic of China ("PRC") Corporate Income Tax paid	—	(77)
Net cash generated from operating activities	6,068	24,839
Investing activities		
Interest received	301	327
Payment for the purchase of property, plant and equipment	—	(39)
Payment for acquisition of financial assets at fair value through other comprehensive income	—	(7,593)
Net cash generated from/(used in) investing activities	301	(7,305)
Financing activities		
Capital element of lease rentals paid	(339)	(218)
Interest element of lease rentals paid	(30)	(28)
Dividend paid	(2,500)	(2,500)
Net cash used in financing activities	(2,869)	(2,746)
Net increase in cash and cash equivalents	3,500	14,788
Cash and cash equivalents at 1 January	90,955	69,149
Effect of foreign exchange rate changes	(63)	(147)
Cash and cash equivalents at 30 June	94,392	83,790

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

For the six months ended 30 June 2020

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

The interim financial result 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 13 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 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 government grants in the interim financial report as follows:

Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

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.

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 2019 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 Hong Kong Financial Reporting Standards ("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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

For the six months ended 30 June 2020

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. 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.

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 and focuses on the operating results of the Group as a whole. Therefore, no additional reportable segment information has been presented.

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

	Revenue from external customers				Specified non-current assets	
	Three months ended		Six months ended		30 June	31 December
	30 June		30 June		2020	2019
	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Hong Kong (place of domicile)	23,930	25,922	50,481	48,570	2,290	3,184
Mainland China and Macau	-	1,819	-	2,155	2	2
	23,930	27,741	50,481	50,725	2,292	3,186

5 OTHER REVENUE

	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	136	178	301	327
Government grant	132	-	132	-
Sundry income	-	10	-	10
	268	188	433	337

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

For the six months ended 30 June 2020

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Staff costs (including directors' remuneration)				
Salaries, wages and other benefits	1,430	1,425	2,923	3,532
Contributions to defined contribution retirement plan	62	56	118	118
	1,492	1,481	3,041	3,650

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	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(b) Other items				
Depreciation				
— owned property, plant and equipment	274	274	550	547
— right-of-use assets	172	230	344	230
Impairment losses on trade receivables and contract assets	485	1,855	485	1,855
Auditor's remuneration	250	—	250	—
Direct costs (note)	9,098	10,252	24,087	24,242

Note: Direct costs for the six months ended 30 June 2020 included HK\$1,878,000 (six months ended 30 June 2019: HK\$2,188,000) relating to staff costs, which is also included in the respective total amounts disclosed separately in note 6(a).

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

For the six months ended 30 June 2020

7 INCOME TAX

	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax — Hong Kong Profits Tax	1,935	1,552	3,425	2,992
Current tax — PRC Corporate Income Tax	–	(34)	–	52
Deferred tax	37	–	37	–
	1,972	1,518	3,462	3,044

The provision for Hong Kong Profits Tax is calculated at 8.25% of the first HK\$2,000,000 of the qualifying group entity and 16.5% of the remaining estimated assessable profits for the six months ended 30 June 2020 (six months ended 30 June 2019: same).

Taxation for the PRC subsidiary was charged at a reduced rate for small and low-profit enterprise at 5% of the estimated profits for the six months ended 30 June 2020 (six months ended 30 June 2019: 5%).

8 EARNINGS PER SHARE

(a) Basic

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

	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
Profit for the period attributable to the ordinary equity shareholders of the Company (HK\$'000)	8,513	11,109	15,875	16,060
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)	0.85	1.11	1.59	1.61

(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 2020 and 2019.

9 DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

For the six months ended 30 June 2020

10 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2020, there was no addition to right-of-use assets which related to the capitalised lease payments payable under new tenancy agreements (six month ended 30 June 2019: HK\$666,000).

(b) Acquisitions of owned assets

During the six months ended 30 June 2020, the Group had not acquired any property, plant and equipment (six months ended 30 June 2019: HK\$39,000).

11 CONTRACT ASSETS AND CONTRACT LIABILITIES

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Contract assets		
Arising from performance under construction contract works (<i>note</i>)	1,752	1,907
Contract liabilities		
Construction contract works — Billings in advance of performance	542	16,979

Note: The amount of contract assets expected to be recovered more than one year is nil (31 December 2019: HK\$140,000). All the remaining balances were expected to be recovered within one year.

12 TRADE AND OTHER RECEIVABLES

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Trade receivables	62,079	74,124
Less: loss allowance	(2,513)	(2,028)
Trade receivables, net of loss allowance	59,566	72,096
Deposits, prepayments and other receivables	4,032	1,250
	63,598	73,346

The amount of deposits, prepayments and other receivables expected to be recovered or recognised as expense after more than one year is HK\$176,000 (31 December 2019: HK\$220,000). 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 RESULTS

For the six months ended 30 June 2020

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 2020 HK\$'000	31 December 2019 HK\$'000
Within 1 month	11,710	29,463
Over 1 month to 2 months	1,303	15
Over 2 months to 3 months	3,824	7,833
Over 3 months	42,729	34,785
	59,566	72,096

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 2020 HK\$'000	31 December 2019 HK\$'000
Trade payables	8,695	4,905
Other payables and accruals	10,138	14,724
	18,833	19,629

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 2020 HK\$'000	31 December 2019 HK\$'000
Within 1 month	2,834	630
Over 1 month to 3 months	1,929	1,312
Over 3 months	3,932	2,963
	8,695	4,905

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

For the six months ended 30 June 2020

14 Fair value measurements of financial instruments

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 stated at fair value at 30 June 2020 and 31 December 2019.

	Level 1	
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Financial assets at fair value through other comprehensive income		
— Listed equity securities	182	511

During the six months ended 30 June 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2019: 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 amortised cost are not materially different from their fair values as at 30 June 2020 and 31 December 2019 because of the immediate or short-term maturity of the financial instruments.

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

For the six months ended 30 June 2020

15 CONTINGENT LIABILITY

The Group had no material contingent liabilities as at 30 June 2020 and 31 December 2019.

16 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2020 and 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

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 30 June		Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Emoluments, salaries and other benefits	365	365	730	795
Contributions to defined contribution retirement plan	12	14	24	25
	377	379	754	820

(b) Remuneration of the spouse of the controlling shareholder

	Three months ended 30 June		Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Salaries and other benefits	63	63	126	326
Contributions to defined contribution retirement plan	3	3	6	6
	66	66	132	332

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

For the six months ended 30 June 2020

16 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Financing arrangement

	Amounts owed by the Group to related party		Related interest expense			
			Three months ended		Six months ended	
	30 June	31 December	30 June		30 June	
	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lease liabilities due to						
Further Concept Limited	346	455	6	8	11	16

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).

17 IMPACTS OF COVID-19 PANDEMIC

Since the outbreak of COVID-19 ("COVID-19 outbreak") in early 2020, the pandemic has continued to spread and impacted global business and economic activities. The Group have implemented certain precautionary measures to maintain a hygienic working environment include sanitising the workplace regularly, requiring staff and subcontractors to wear face masks in workplaces and construction sites, etc. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date of this announcement, the Group was not aware of any material adverse effects on the consolidated financial statements as a result of the COVID-19 outbreak.

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 2020 (the "Period"), the Group's revenue slightly decreased to approximately HK\$50.5 million (six months ended 30 June 2019 (the "Previous Period"): HK\$50.7 million). The Group's gross profit remained stable at approximately HK\$26.4 million for the Period (Previous Period: approximately HK\$26.5 million).

The Group's profit attributable to ordinary equity shareholders slightly decreased to approximately HK\$15.9 million for the Period from approximately HK\$16.1 million for the Previous Period.

OUTLOOK

During the Period, the Group had certain decoration projects with medical centres and offices. In view of the recent outbreak of COVID-19, the Group implemented certain precautionary measures to maintain a hygienic working environment include sanitising our workplace regularly and requiring our staff and subcontractors to wear face masks in workplaces and construction sites.

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

The Company has submitted a formal application to the Stock Exchange on 7 February 2018 for the proposed transfer of the listing of the ordinary shares of the Company (the "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 to consider to make a new application. On 13 August 2020, the Company has submitted a new formal application to the Stock Exchange for the transfer of listing. The Board believes that the transfer of listing will enhance the profile of the Group, strengthen its recognition among public investors and hence increase the trading liquidity of the Shares. This will strengthen the Group's position in the industry and enhance the Group's competitive strengths in retaining and attracting the Group's professional staff and customers. The Board also considers that the listing of the Shares on the Main Board will be beneficial to the future growth, financing flexibility and business development of the Group, and it will create a long-term value to the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

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

FINANCIAL REVIEW

Revenue

The Group's revenue is principally generated from (i) design & decoration projects; (ii) decoration projects; and (iii) other interior design and fitting-out services. During the Period, the Group's revenue slightly decreased to approximately HK\$50.5 million (Previous Period: HK\$50.7 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 2020 and 2019:

Project types and locations	Six months ended 30 June					
	2020			2019		
	No. of projects	HK\$'000 (Unaudited)	%	No. of projects	HK\$'000 (Unaudited)	%
Design & decoration						
Hong Kong	7	12,318	24.4	13	30,814	60.8
The PRC and Macau	–	–	–	–	–	–
	7	12,318	24.4	13	30,814	60.8
Decoration						
Hong Kong	14	35,979	71.3	10	16,873	33.3
The PRC and Macau	–	–	–	4	2,155	4.2
	14	35,979	71.3	14	19,028	37.5
Others						
Hong Kong		2,184	4.3		883	1.7
		2,184	4.3		883	1.7
Total	21	50,481	100.0	27	50,725	100.0

The slight decrease in revenue was due to the net effect of (i) decrease in revenue from design and decoration projects for office premises and restaurant from approximately HK\$20.7 million in the Previous Period to approximately HK\$12.4 million in the Period; (ii) no revenue from design and decoration projects for medical centres and shopping malls during the Year (Previous Year: HK\$8.5 million); and (iii) increase in revenue from approximately HK\$14.3 million derived from decoration projects of medical centres and gallery to HK\$31.6 million 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 following table sets forth the breakdown of the Group's gross profit margin by project types for the six months ended 30 June 2020 and 2019:

Project types	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Design & decoration	46.1%	51.4%
Decoration	54.7%	54.9%
Others	47.1%	22.9%
Overall	52.3%	52.2%

The Group's overall gross profit margin remained stable at approximately 52.3% for the Period (Previous Period: approximately 52.2%), which was mainly due to net impact of (i) higher gross profit margin for decoration projects of medical centres during the Period; and (ii) project cost reversal upon finalisation of accounts with customers, suppliers and subcontractors which led to favourable financial impact to the Group in the Previous Period.

General and Administrative Expenses

The Group's general and administrative expenses amounted to approximately HK\$7.5 million and approximately HK\$7.7 million for the six months ended 30 June 2020 and 2019 respectively, representing a decrease of approximately 3.0%. Such decrease was primarily due to net impact of (i) decrease in impairment losses on trade receivables and contract assets and (ii) increase in non-recurring expenses relating to transfer of listing during the Period.

Income Tax

Income tax of the Group for the Period was approximately HK\$3.5 million (Previous Period: HK\$3.0 million) and such increase was consistent with the increase in assessable profits. Expenses relating to transfer of listing incurred were not deductible for tax purpose.

Profit for the period

Profit for the period of the Group slightly decreased to approximately HK\$15.9 million for the Period from approximately HK\$16.1 million for the Previous 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 2020, the Group had net current assets of approximately HK\$138.8 million (31 December 2019: HK\$124.8 million), including cash and cash equivalents balances of approximately HK\$94.4 million (31 December 2019: HK\$91.0 million) mainly denominated in Hong Kong dollars. As at 30 June 2020, the Group had an unutilised banking facility of HK\$2.0 million (31 December 2019: HK\$2.0 million) which was secured by pledged bank deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

The current ratio, being the ratio of current assets to current liabilities, was approximately 7.1 times as at 30 June 2020 (31 December 2019: 3.9 times).

As at 30 June 2020, the Group had no outstanding borrowings (31 December 2019: 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\$141.0 million as at 30 June 2020 (31 December 2019: HK\$128.0 million).

PLEDGE OF ASSETS

As at 30 June 2020, bank deposits of HK\$2.0 million (31 December 2019: HK\$2.0 million) were pledged to secure the banking facilities. Save for the above, the Group did not have any charges on its assets.

FOREIGN EXCHANGE EXPOSURE AND TREASURY POLICY

The majority of the Group’s business operations were conducted in Hong Kong. The transactions, monetary assets and liabilities of the Group were mainly denominated in Hong Kong dollars. During the 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 2020 and 31 December 2019, the Group did not have any material capital commitment.

HUMAN RESOURCES MANAGEMENT

As at 30 June 2020, the Group had a total of 20 (31 December 2019: 20) employees. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group’s results and individual performance.

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

The Group had no material contingent liabilities as at 30 June 2020 and 31 December 2019.

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 2020:

Business objectives up to 30 June 2020 as set out in the Prospectus

Actual business progress up to 30 June 2020

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

- | | |
|--|---|
| <ul style="list-style-type: none">— Recruit staff, rent and decorate a new office, procure new projects for the international team | <p>The Group has appointed a consultant 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, three designers (of which two had left the Group), a marketing director, a market executive (which had left the Group), an accounting assistant (which had left the Group) and two project managers to conduct overseas travelling to explore business opportunities and handle new projects.</p> |
| <ul style="list-style-type: none">— Purchase equipment for interior design and technical use, office facilities and a vehicle | <p>The Group has purchased interior design and ancillary software, office facilities and vehicle.</p> |
| <ul style="list-style-type: none">— Expand and renovate Hong Kong office | <p>The Group has rented a new office in North Point for its office expansion, and has completed the decoration of its new and existing office.</p> |

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

- | | |
|--|--|
| <ul style="list-style-type: none">— Participate in industry related exhibitions, fairs and networking events | <p>The Group has been participating in industry related exhibitions, fairs and networking events.</p> |
| <ul style="list-style-type: none">— Establish a showroom for visual display of design and decoration | <p>The Group has rented a new office in North Point for its office expansion, and has completed the decoration of its new and existing office.</p> |
| <ul style="list-style-type: none">— Provide trainings to our staff | <p>The Group has been providing trainings to our staff.</p> |
| <ul style="list-style-type: none">— Prepare and distribute marketing materials | <p>The Group has been preparing and distributing marketing materials.</p> |

MANAGEMENT DISCUSSION AND ANALYSIS

**Business objectives up to 30 June 2020
as set out in the Prospectus**

Actual business progress up to 30 June 2020

Increase our capacity to capture more business opportunities

- Recruit designers and project managers The Group has recruited one designer and retained the existing experienced project managers and designers.

Expand our business in the PRC market

- Expand our office facilities and recruit marketing staff in the PRC The Group has recruited eight marketing executives (of which seven had left the Group) to participate in marketing activities for its PRC expansion.

The Group has been pitching for projects continuously and will continue its expansion in the PRC market through the opportunities brought by its existing marketing team or external business consultants going forward.

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 2020:

	Planned use of proceeds as stated in the Prospectus up to 30 June 2020 <i>HK\$ million</i>	Actual use of proceeds up to 30 June 2020 <i>HK\$ million</i>	Balance as at 30 June 2020 <i>HK\$ million</i>
Establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities	13.8	13.8	–
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	1.7	1.4
General working capital	3.1	3.1	–
	30.6	29.2	1.4

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

The Group expects the remaining unutilised use of proceeds will be fully utilised by 31 December 2021. Set out below is the revised expansion plan of the Group including the actual use of proceeds since Listing and up to 30 June 2020.

Use of proceeds	Actual use of proceeds since Listing to 31 December 2019 <i>HK\$ million</i>	Actual use of proceeds for the six months ended 30 June 2020 <i>HK\$ million</i>	Proceeds planned to be used from 1 July 2020 to 31 December 2021 <i>HK\$ million</i>
1. Establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities	11.6	2.2	–
2. Maintain and strengthen our market position in Hong Kong and the PRC and focus on reputable customers	6.0	–	–
3. Increase our capacity to capture more business opportunities	4.6	–	–
4. Expand our business in the PRC market	1.6	0.1	1.4
5. General working capital	3.1	–	–
	26.9	2.3	1.4

Business strategies	Implementation activities	Amount of use of proceeds to be utilised
Expand our business in the PRC market	<ul style="list-style-type: none"> — Retain existing marketing executives — Additional marketing expenses for procuring new projects 	Net proceeds of approximately HK\$1.4 million

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 2020, 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 2020.

Saved as disclosed above, as at 30 June 2020, 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 2020, 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 <i>(Note 3)</i>
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 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 2020.

Saved as disclosed above, as at 30 June 2020, 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 2020 and up to the date of this announcement.

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 2020, 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 2020. The Company was not aware of any non-compliance during the six months ended 30 June 2020.

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 2020.

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 2020 and this announcement 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 report for the six months ended 30 June 2020 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, 13 August 2020

As at the date of this announcement, 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.

This announcement, for which the Directors 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 of Hong Kong Limited 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 announcement 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 announcement misleading.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and on the website of the Company at <http://www.kwnelson.com.hk>.