

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 2021

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.

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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 2021 (the "Period"), the Group's revenue decreased by approximately 37.7% to approximately HK\$31.4 million (six months ended 30 June 2020 (the "Previous Period"): HK\$50.5 million). The decrease was mainly driven by the decrease in revenue from decoration projects for medical centre and gallery. The Group's gross profit decreased to approximately HK\$8.3 million for the Period (Previous Period : HK\$26.4 million).
- The Group's profit attributable to the ordinary equity shareholders was approximately HK\$1.3 million for the Period (Previous Period: HK\$15.9 million).
- 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 2021, together with the comparative unaudited figures for the corresponding period in 2020 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

	Note	Three months ended 30 June		Six months ended 30 June	
		2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Revenue	4	15,291	23,930	31,435	50,481
Direct costs		(9,655)	(9,098)	(23,146)	(24,087)
Gross profit		5,636	14,832	8,289	26,394
Other revenue	5	26	268	54	433
General and administrative expenses		(4,727)	(4,601)	(6,787)	(7,460)
Profit from operations		935	10,499	1,556	19,367
Finance costs		(14)	(14)	(24)	(30)
Profit before taxation	6	921	10,485	1,532	19,337
Income tax	7	(152)	(1,972)	(266)	(3,462)
Profit for the period		769	8,513	1,266	15,875
Earnings per share					
Basic and diluted	8	HK0.08 cents	HK0.85 cents	HK0.13 cents	HK1.59 cents

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

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Three months ended		Six months ended	
	30 June		30 June	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period	769	8,513	1,266	15,875
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	44	7	41	(63)
<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	9	(63)	(6)	(329)
Total comprehensive income for the period	822	8,457	1,301	15,483

The above unaudited consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	<i>Note</i>	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Non-current assets			
Property, plant and equipment	10	1,548	1,407
Financial assets at fair value through other comprehensive income	13	97	103
Deferred tax assets		368	533
		2,013	2,043
Current assets			
Contract assets		2,410	3,095
Trade and other receivables	11	21,859	35,458
Tax recoverable		1,178	1,279
Pledged bank deposits		2,000	2,000
Cash and cash equivalents		128,485	113,650
		155,932	155,482
Current liabilities			
Contract liabilities		6,456	1,393
Trade and other payables	12	7,633	13,470
Lease liabilities		591	509
		14,680	15,372
Net current assets		141,252	140,110
Total assets less current liabilities		143,265	142,153
Non-current liabilities			
Lease liabilities		414	122
		414	122
NET ASSETS		142,851	142,031
CAPITAL AND RESERVES			
Share capital		10,000	10,000
Reserves		132,851	132,031
TOTAL EQUITY		142,851	142,031

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

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	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	Treasury shares held under share award scheme HK\$'000	Capital contribution reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
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
For the six months ended 30 June 2021									
Balance at 1 January 2021	10,000	33,728	(140)	(7,490)	(380)	-	5,000	101,313	142,031
Profit for the period	-	-	-	-	-	-	-	1,266	1,266
Other comprehensive income									
Exchange difference on translation of financial statements of a subsidiary	-	-	41	-	-	-	-	-	41
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	(6)	-	-	-	-	(6)
Total comprehensive income	-	-	41	(6)	-	-	-	1,266	1,301
Shares purchased under share award scheme	-	-	-	-	-	(481)	-	-	(481)
Balance at 30 June 2021	10,000	33,728	(99)	(7,496)	(380)	(481)	5,000	102,579	142,851

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

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2021

	Six months ended	
	30 June 2021 HK\$'000	30 June 2020 HK\$'000
Operating activities		
Cash generated from operations	15,621	12,630
Tax paid:		
— Hong Kong Profits Tax paid	—	(6,562)
Net cash generated from operating activities	15,621	6,068
Investing activities		
Interest received	50	301
Payment for the purchase of property, plant and equipment	(24)	—
Net cash generated from investing activities	26	301
Financing activities		
Capital element of lease rentals paid	(348)	(339)
Interest element of lease rentals paid	(24)	(30)
Payment for purchase of shares under share award scheme	(481)	—
Dividend paid	—	(2,500)
Net cash used in financing activities	(853)	(2,869)
Net increase in cash and cash equivalents	14,794	3,500
Cash and cash equivalents at 1 January	113,650	90,955
Effect of foreign exchange rate changes	41	(63)
Cash and cash equivalents at 30 June	128,485	94,392

The above unaudited condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULT

For the six months ended 30 June 2021

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 12 August 2021.

The interim financial result has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of an interim financial result 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 result 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 2020 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 result is unaudited but has been reviewed by the Company's audit committee.

The measurement basis used in the preparation of the unaudited interim financial result 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 result 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 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 result. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULT

For the six months ended 30 June 2021

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		2021	2020
	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Hong Kong (place of domicile)	15,134	23,930	31,278	50,481	1,545	1,405
Mainland China and Macau	157	–	157	–	3	2
	15,291	23,930	31,435	50,481	1,548	1,407

5 OTHER REVENUE

	Three months ended		Six months ended	
	30 June		30 June	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income	22	136	50	301
Sundry income	4	–	4	–
Government grant	–	132	–	132
	26	268	54	433

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULT

For the six months ended 30 June 2021

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Three months ended 30 June		Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interest on lease liabilities	14	14	24	30

(b) Staff costs (including directors' remuneration)

	Three months ended 30 June		Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Salaries, wages and other benefits	1,530	1,430	3,556	2,923
Contributions to defined contribution retirement plan	53	62	115	118
	1,583	1,492	3,671	3,041

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULT

For the six months ended 30 June 2021

6 PROFIT BEFORE TAXATION (Continued)

(c) Other items

	Three months ended 30 June		Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Depreciation				
— owned property, plant and equipment	57	274	259	550
— right-of-use assets	173	172	345	344
Impairment losses on trade receivables	801	485	544	485
Auditor's remuneration	—	250	—	250
Direct costs (note)	9,655	9,098	23,146	24,087

Note: Direct costs for the six months ended 30 June 2021 included approximately HK\$2,009,000 (six months ended 30 June 2020: HK\$1,878,000) relating to staff costs, which is also included in the respective total amounts disclosed separately in note 6(b).

7 INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Current tax — Hong Kong Profits Tax	34	1,935	101	3,425
Deferred tax	118	37	165	37
	152	1,972	266	3,462

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 2021 (six months ended 30 June 2020: same).

No PRC Corporate Income Tax provision was made for the PRC subsidiary as the PRC subsidiary has sustained a loss for taxation purpose for the six months ended 30 June 2021 (six months ended 30 June 2020: same).

There were no material unrecognised deferred tax assets and liabilities as at 30 June 2021 (31 December 2020: Nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULT

For the six months ended 30 June 2021

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	
	2021 (Unaudited)	2020 (Unaudited)	2021 (Unaudited)	2020 (Unaudited)
Profit for the period attributable to the ordinary equity shareholders of the Company (HK\$'000)	769	8,513	1,266	15,875
Weighted average number of ordinary shares in issue less shares held for the share award scheme (thousand shares)	999,650	1,000,000	999,824	1,000,000
Basic earnings per share attributable to ordinary equity shareholders of the Company (HK cents)	0.08	0.85	0.13	1.59

(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 2021 and 2020.

9 DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

10 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

During the six months ended 30 June 2021, there was addition to right-of-use assets of HK\$721,000 which related to the capitalised lease payments payable under new tenancy agreements (six months ended 30 June 2020: Nil).

(b) Acquisitions of owned assets

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of approximately HK\$24,000 (six months ended 30 June 2020: Nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULT

For the six months ended 30 June 2021

11 TRADE AND OTHER RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade receivables	21,747	38,581
Less: loss allowance	(4,424)	(3,880)
Trade receivables, net of loss allowance	17,323	34,701
Deposits, prepayments and other receivables	4,536	757
	21,859	35,458

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 2020: HK\$176,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

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 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 1 month	1,381	6,478
Over 1 month to 2 months	4,182	2,188
Over 2 months to 3 months	662	749
Over 3 months	11,098	25,286
	17,323	34,701

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULT

For the six months ended 30 June 2021

12 TRADE AND OTHER PAYABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade payables	7,530	5,312
Other payables and accruals	103	8,158
	7,633	13,470

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 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within 1 month	1,428	1,066
Over 1 month to 3 months	1,015	713
Over 3 months	5,087	3,533
	7,530	5,312

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULT

For the six months ended 30 June 2021

13 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 2021 and 31 December 2020.

	Level 1	
	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Financial assets at fair value through other comprehensive income		
— Listed equity securities	97	103

During the six months ended 30 June 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2020: 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 2021 and 31 December 2020 because of the immediate or short-term maturity of the financial instruments.

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULT

For the six months ended 30 June 2021

14 CONTINGENT LIABILITY

The Group had no material contingent liabilities as at 30 June 2021 and 31 December 2020.

15 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2021 and 2020, 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		Six months ended	
	30 June		30 June	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Emoluments, salaries and other benefits	495	365	905	730
Contributions to defined contribution retirement plan	12	12	25	24
	507	377	930	754

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULT

For the six months ended 30 June 2021

15 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Remuneration of the spouse of the controlling shareholder

	Three months ended 30 June		Six months ended 30 June	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Salaries and other benefits	92	63	255	126
Contributions to defined contribution retirement plan	3	3	7	6
	95	66	262	132

(c) Financing arrangement

	Amounts owed by the Group to related party		Related interest expense			
	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)	Three months ended 30 June		Six months ended 30 June	
			2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Lease liabilities due to Further Concept Limited	118	233	2	6	5	11

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).

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 2021 (the "Period"), the Group's revenue decreased by approximately 37.7% to approximately HK\$31.4 million (six months ended 30 June 2020 (the "Previous Period"): HK\$50.5 million). The decrease was mainly driven by the decrease in revenue from decoration projects for medical centre and gallery. The Group's gross profit decreased to approximately HK\$8.3 million for the Period (Previous Period: approximately HK\$26.4 million).

The Group's profit attributable to ordinary equity shareholders decreased to approximately HK\$1.3 million for the Period from approximately HK\$15.9 million for the Previous Period.

OUTLOOK

During the Period, the Group completed/awarded certain projects of residential care homes for the elderly and offices premises. The unexpected outbreak of COVID-19 in 2020 has brought unprecedented impact to the economy, the Group's business has been disrupted. 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 to approximately HK\$31.4 million (Previous Period: HK\$50.5 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 2021 and 2020:

Project types and locations	Six months ended 30 June					
	2021			2020		
	No. of projects	HK\$'000 (Unaudited)	%	No. of projects	HK\$'000 (Unaudited)	%
Design & decoration						
Hong Kong	8	26,958	85.7	7	12,318	24.4
	8	26,958	85.7	7	12,318	24.4
Decoration						
Hong Kong	2	3,919	12.5	14	35,979	71.3
	2	3,919	12.5	14	35,979	71.3
Others						
Hong Kong		401	1.3		2,184	4.3
The PRC		157	0.5		–	–
		558	1.8		2,184	4.3
Total	10	31,435	100.0	21	50,481	100.0

The increase in revenue of design and decoration projects from HK\$12.3 million for the Previous Period to HK\$27.0 million for the Period was mainly due to increase in revenue derived from projects of residential care homes for the elderly and office premises by HK\$7.8 million and HK\$6.7 million respectively.

The decrease in revenue of decoration projects by HK\$32.1 million during the Period was principally attributed to absent of project of medical centre and gallery during the Period (Previous Period: HK\$31.6 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Direct Costs and Gross Profit Margin

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

The following table sets forth the breakdown of the Group's gross profit margin by project types for the six months ended 30 June 2021 and 2020:

Project types	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Design & decoration	26.0%	46.1%
Decoration	26.8%	54.7%
Others	40.0%	47.1%
Overall	26.4%	52.3%

The Group's overall gross profit margin decreased from approximately 52.3% for the Previous Period to approximately 26.4% for the Period, mainly due to (i) the lower gross profit margin for design and decoration projects of residential care homes for the elderly for the purpose of expanding the Group's client portfolio; and (ii) the absent of decoration projects for medical centre with relatively higher gross profit margin during the Period.

General and Administrative Expenses

The Group's general and administrative expenses mainly consisted of (i) staff costs; (ii) impairment on trade receivables; (iii) legal and professional fee; and (iv) depreciation.

General and administrative expenses decreased from HK\$7.5 million for the Previous Period to HK\$6.8 million for the Period, which was mainly due to absent of transfer of listing expenses for the Period (Previous Period: HK\$1.6 million).

Income Tax

Income tax of the Group for the Period was approximately HK\$0.3 million (Previous Period: HK\$3.5 million) and such decrease was consistent with the decrease in assessable profits.

Profit for the period

As a result of the foregoing, profit for the period of the Group decreased from approximately HK\$15.9 million for the Previous Period to approximately HK\$1.3 million for the Period.

Dividend

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

MANAGEMENT DISCUSSION AND ANALYSIS

Provision of loss allowance for trade receivables

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

As at 30 June 2021, loss allowance of HK\$4.4 million (31 December 2020: HK\$3.9 million) was recognised with respect to the Group's trade receivables.

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

During the Period, the Group financed its operations by its internal resources. As at 30 June 2021, the Group had net current assets of approximately HK\$141.3 million (31 December 2020: HK\$140.1 million), including cash and cash equivalents balances of approximately HK\$128.5 million (31 December 2020: HK\$113.7 million) mainly denominated in Hong Kong dollars. As at 30 June 2021, the Group had an unutilised banking facility of HK\$2.0 million (31 December 2020: HK\$2.0 million) which was secured by pledged bank deposits.

The current ratio, being the ratio of current assets to current liabilities, was approximately 10.6 times as at 30 June 2021 (31 December 2020: 10.1 times).

As at 30 June 2021, the Group had no outstanding borrowings (31 December 2020: 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. 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\$142.9 million as at 30 June 2021 (31 December 2020: HK\$142.0 million).

PLEDGE OF ASSETS

As at 30 June 2021, bank deposits of HK\$2.0 million (31 December 2020: HK\$2.0 million) were pledged to secure the banking facilities. Save for the above, the Group did not have any charges on its assets.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2021 and 31 December 2020, the Group had no material capital commitment.

HUMAN RESOURCES MANAGEMENT

As at 30 June 2021, the Group had a total of 18 (31 December 2020: 20) employees. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance. Employees may also be granted share awards under the share award scheme adopted by the Company.

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

The Group did not have any significant investments, material acquisitions, and disposals of subsidiaries and affiliated companies during the Period, nor there was any future plans for material investments or additions of capital assets as at 30 June 2021.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2021 and 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2021:

	Planned use of proceeds as stated in the Prospectus up to 30 June 2021 <i>HK\$ million</i>	Actual use of proceeds up to 30 June 2021 <i>HK\$ million</i>	Balance as at 30 June 2021 <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	2.0	1.1
General working capital	3.1	3.1	–
	30.6	29.5	1.1

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 2021.

Use of proceeds	Actual use of proceeds since Listing to 31 December 2020 <i>HK\$ million</i>	Actual use of proceeds for the six months ended 30 June 2021 <i>HK\$ million</i>	Proceeds planned to be used from 1 July 2021 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	13.8	—	—
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	1.8	0.2	1.1
5. General working capital	3.1	—	—
	29.3	0.2	1.1

Business strategies	Implementation activities	Amount of use of proceeds to be utilised
Expand our business in the PRC market	— Retain existing marketing executives	Net proceeds of approximately HK\$1.1 million
	— Additional marketing expenses for procuring new projects	

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 2021, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the 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 2021.

Saved as disclosed above, as at 30 June 2021, none of the Directors and chief executives of the Company had any other interests or short positions in any Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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 2021, other than the Directors or chief executives of the Company whose interests or short positions are disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company 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 2021.

Saved as disclosed above, as at 30 June 2021, the Directors were not aware of any other person (other than the Directors or chief executives as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company 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 2021 and up to the date of this announcement.

OTHER INFORMATION

EQUITY-LINKED AGREEMENTS

Other than the “share award scheme” as disclosed below, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Period or subsisted at the end of the Period.

Share Award Scheme

The Company has adopted a share award scheme (the “Share Award Scheme”) on 17 May 2021 (the “Adoption Date”) for the purpose of retaining participants and encouraging them to make contributions to the growth and development of the Group.

Pursuant to the rules of the Share Award Scheme (the “Scheme Rules”), the Board may grant an award to anyone (other than any excluded participant) who is an employee, non-executive director, supplier, customer or consultant etc. of any member of the Group for participation in the Share Award Scheme and determine the terms of the award. The Share Award Scheme is subject to the administration of the Board in accordance with the Scheme Rules. The Board may engage one or more trustees to administer the Share Award Scheme as the Board thinks fit. The Share Award Scheme will terminate on the tenth anniversary of the Adoption Date or such earlier date as the Board may determine. The Board shall not grant any further awards if such award would cause the aggregate number of shares underlying such award and all other outstanding awards (taken together with all unvested awarded shares granted under the Scheme Rules) to exceed 10% of the number of issued shares at the date of grant. The Board may, from time-to-time remit funds to the trustee for the purposes of the Share Award Scheme, and such money will form part of the trust fund. The Board may instruct the trustee to purchase the number of shares underlying the award from the open market (either on-market or off-market) and the trustee shall hold such shares on trust for the participants until they are vested in accordance with the Scheme Rules.

During the Period, the trustee purchased a total number of 3,000,000 shares (the “Share Purchase”) on the market at a total consideration of approximately HK\$481,000 for the purpose of the Share Award Scheme. During the Period, no share awards have been granted under the Share Award Scheme.

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

Except as disclosed in elsewhere in this announcement, 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 2021.

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 2021, 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.

OTHER INFORMATION

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 2021. The Company was not aware of any non-compliance during the six months ended 30 June 2021.

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 2021 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.

By order of the Board

K W Nelson Interior Design and Contracting Group Limited

Lau King Wai

Chairman and chief executive officer

Hong Kong, 12 August 2021

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 GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief, (1) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and (2) 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 www.hkgem.com for a minimum period of seven days from the date of the publication. This announcement will also be published on the website of the Company at www.kwnelson.com.hk.