



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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8411

Interim Report 2018

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

## HIGHLIGHTS

- During the six months ended 30 June 2018 (the "Period"), the Group achieved an increase in revenue of approximately 121.9% to approximately HK\$76.1 million from approximately HK\$34.3 million for the six months ended 30 June 2017 (the "Previous Period"). The growth was mainly driven by the increase in revenue from decoration projects for commercial premises. In line with the increase in revenue, the Group's gross profit increased to approximately HK\$29.9 million for the Period from approximately HK\$14.7 million for the Previous Period.
- The Group's profit attributable to shareholders increased to approximately HK\$17.9 million for the Period from approximately HK\$8.7 million for the Previous Period. The increase in profit attributable to shareholders was mainly due to the increase in gross profit for the Period.
- The board of directors does not recommend the payment of an interim dividend for the Period (Previous Period: Nil).

## UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

The board of the Directors (the "Board") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018, together with the comparative unaudited figures for the corresponding period in 2017 as follows:

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

For the six months ended 30 June 2018

	Note	Three months ended 30 June		Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Revenue</b>	3	<b>42,693</b>	22,577	<b>76,109</b>	34,337
Cost of services		<b>(24,293)</b>	(12,720)	<b>(46,211)</b>	(19,675)
<b>Gross profit</b>		<b>18,400</b>	9,857	<b>29,898</b>	14,662
Other revenue	4	<b>85</b>	21	<b>148</b>	54
General and administrative expenses		<b>(5,442)</b>	(2,329)	<b>(8,578)</b>	(4,324)
<b>Profit before taxation</b>	5	<b>13,043</b>	7,549	<b>21,468</b>	10,392
Income tax	6	<b>(2,198)</b>	(1,251)	<b>(3,589)</b>	(1,718)
<b>Profit for the period</b>		<b>10,845</b>	6,298	<b>17,879</b>	8,674
<b>Other comprehensive income for the period</b>					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of overseas subsidiary with functional currency other than Hong Kong dollars					
		<b>(138)</b>	38	<b>(30)</b>	58
Total comprehensive income for the period		<b>10,707</b>	6,336	<b>17,849</b>	8,732
<b>Earnings per share</b>					
Basic and diluted					
	7	<b>HK1.08 cents</b>	HK0.63 cent	<b>HK1.79 cents</b>	HK0.87 cent

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Note	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	9	2,596	511
<b>Current assets</b>			
Contract assets	11	74	–
Gross amount due from customers for contract work	11	–	5,762
Trade and other receivables	10	38,388	19,379
Pledged bank deposits		2,000	2,000
Cash and cash equivalents		84,373	71,305
		<b>124,835</b>	98,446
<b>Current liabilities</b>			
Contract liabilities	11	1,492	–
Gross amount due to customers for contract work	11	–	2,525
Trade and other payables	13	21,039	10,955
Tax payable		5,133	1,529
		<b>27,664</b>	15,009
<b>Net current assets</b>		<b>97,171</b>	83,437
<b>Total assets less current liabilities</b>		<b>99,767</b>	83,948
<b>Non-current liabilities</b>			
Deferred tax liabilities		54	84
<b>NET ASSETS</b>		<b>99,713</b>	83,864
<b>CAPITAL AND RESERVES</b>			
Share capital	12	10,000	10,000
Reserves		89,713	73,864
<b>TOTAL EQUITY</b>		<b>99,713</b>	83,864

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Capital contribution reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Balance at 1 January 2017 (Audited)</b>	10,000	33,728	(285)	(380)	5,000	9,536	57,599
Profit for the period	-	-	-	-	-	8,674	8,674
Other comprehensive income for the period	-	-	58	-	-	-	58
Total comprehensive income for the period	-	-	58	-	-	8,674	8,732
<b>Balance at 30 June 2017 (Unaudited)</b>	10,000	33,728	(227)	(380)	5,000	18,210	66,331
<b>Balance at 1 January 2018 (Audited)</b>	10,000	33,728	(122)	(380)	5,000	35,638	83,864
Profit for the period	-	-	-	-	-	17,879	17,879
Other comprehensive income for the period	-	-	(30)	-	-	-	(30)
Total comprehensive income for the period	-	-	(30)	-	-	17,879	17,849
Dividend approved in respect of the previous year	-	-	-	-	-	(2,000)	(2,000)
<b>Balance at 30 June 2018 (Unaudited)</b>	10,000	33,728	(152)	(380)	5,000	51,517	99,713

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018

	<i>Note</i>	<b>Six months ended 30 June 2018 HK\$'000 (Unaudited)</b>	Six months ended 30 June 2017 HK\$'000 (Unaudited)
<b>Operating activities</b>			
Cash generated from operations	16	<b>14,936</b>	5,307
Tax paid:			
— Hong Kong Profits Tax paid		—	(1,555)
— People's Republic of China ("PRC") Corporate Income Tax paid		<b>(16)</b>	—
<b>Net cash generated from/(used in) operating activities</b>		<b>14,920</b>	3,752
<b>Investing activities</b>			
Payment for the purchase of property, plant and equipment		—	—
Interest received		<b>148</b>	4
<b>Net cash generated from investing activities</b>		<b>148</b>	4
<b>Financing activities</b>			
Dividend paid		<b>(2,000)</b>	—
<b>Net cash generated from financing activities</b>		<b>(2,000)</b>	—
<b>Net increase in cash and cash equivalents</b>		<b>13,068</b>	3,756
<b>Cash and cash equivalents at 1 January</b>		<b>71,305</b>	44,219
<b>Effect of foreign exchange rate changes</b>		—	81
<b>Cash and cash equivalents</b>		<b>84,373</b>	48,056

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2018*

## **1 GENERAL INFORMATION**

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

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

## **2 BASIS OF PREPARATION**

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

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

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

### 3 REVENUE AND SEGMENT REPORTING

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

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

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

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Hong Kong	42,693	22,571	76,109	34,057
The PRC	–	6	–	280
	<b>42,693</b>	<b>22,577</b>	<b>76,109</b>	<b>34,337</b>

### 4 OTHER REVENUE

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Interest Income	85	23	144	54
Sundry Income	–	(2)	4	–
	<b>85</b>	<b>21</b>	<b>148</b>	<b>54</b>

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

### 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)

(a) Staff costs

Salaries, wages and other benefits	<b>1,357</b>	1,864	<b>2,942</b>	3,467
Contributions to defined contribution retirement plan	<b>50</b>	65	<b>101</b>	116
	<b>1,407</b>	1,929	<b>3,043</b>	3,583

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

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

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)

(b) Other items

Depreciation	<b>398</b>	122	<b>508</b>	243
Operating lease charges: minimum lease payments				
— property rental	<b>182</b>	131	<b>316</b>	265
Cost of services (note)	<b>24,293</b>	12,720	<b>46,211</b>	19,675

Note: Cost of services for the Period includes HK\$1,790,000 (Previous Period: HK\$1,659,000) relating to staff costs, which is also included in the respective total amounts disclosed separately in note 5(a).

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

### 6 INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Current tax — Hong Kong Profits Tax	2,210	1,270	3,619	1,753
Deferred tax	(12)	(19)	(30)	(35)
	<b>2,198</b>	1,251	<b>3,589</b>	1,718

The provision for Hong Kong Profits Tax for the Period is calculated at 16.5% on (Previous Period: 16.5%) of the estimated assessable profits for the Period.

### 7 EARNINGS PER SHARE

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

Earnings	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Profit for the period attributable to the ordinary equity shareholders of the Company	10,845	6,298	17,879	8,674

Weighted average number of ordinary shares	Three months ended 30 June		Six months ended 30 June	
	2018 '000 (Unaudited)	2017 '000 (Unaudited)	2018 '000 (Unaudited)	2017 '000 (Unaudited)
Weighted average number of ordinary shares in issue during the period	1,000,000	1,000,000	1,000,000	1,000,000

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

### 8 DIVIDEND

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

### 9 PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group acquired property, plant and equipment of approximately HK\$2,593,000 (Previous Period: HK\$27,000).

### 10 TRADE AND OTHER RECEIVABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade receivables	35,613	13,061
Retention receivables	655	2,980
Deposits, prepayments and other receivables	2,120	3,338
	<b>38,388</b>	19,379

The amount of deposits, prepayments and other receivables expected to be recovered or recognised as expense after more than one year is HK\$120,000 (31 December 2017: HK\$202,000). 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 with nil allowance of doubtful debts), based on the invoice date, is as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within 1 month	15,442	8,153
Over 1 month to 2 months	10,502	1,737
Over 2 months to 3 months	1,140	1,699
Over 3 months	8,529	1,472
	<b>35,613</b>	13,061

Trade receivables are generally due within 7 to 21 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.

As at 30 June 2018, none (31 December 2017: none) of the Group's trade receivables was individually or collectively considered to be impaired. The Group does not hold any collateral over these balances.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

### 11 CONTRACT ASSETS AND CONTRACT LIABILITIES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
<b>Contract assets</b>		
Contract costs incurred plus recognised profits less recognised losses	<b>303</b>	10,885
Less: progress billings	<b>(229)</b>	(5,123)
	<b>74</b>	5,762
<b>Contract liabilities</b>		
Contract costs incurred plus recognised profits less recognised losses	<b>319</b>	15,472
Less: progress billings	<b>(1,811)</b>	(17,997)
	<b>(1,492)</b>	(2,525)

### 12 SHARE CAPITAL

	30 June 2018		31 December 2017	
	<i>Number of shares</i>	<i>HK\$'000</i>	<i>Number of shares</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
<b>Authorised:</b>				
Ordinary shares of HK\$0.01 each	<b>10,000,000,000</b>	<b>100,000</b>	10,000,000,000	100,000
<b>Issued and fully paid:</b>				
Ordinary shares of HK\$0.01 each	<b>1,000,000,000</b>	<b>10,000</b>	1,000,000,000	10,000

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

### 13 TRADE AND OTHER PAYABLES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Trade payables	17,988	3,531
Receipt in advance	–	2,018
Other payables and accruals	3,051	5,406
	<b>21,039</b>	10,955

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 dates, is as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within 1 month	13,691	2,076
Over 1 month to 3 months	2,309	1,266
Over 3 months	1,988	189
	<b>17,988</b>	3,531

### 14 COMMITMENTS

At 30 June 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Within 1 year	749	643
After 1 year but within 5 years	442	166
	<b>1,191</b>	809

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

### 15 MATERIAL RELATED PARTY TRANSACTIONS

During the Period, transactions with the following parties are considered to be related party transactions:

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

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

#### (a) Key management personnel remuneration

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

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Emoluments, salaries and other benefits	150	305	300	610
Contributions to defined contribution retirement plan	3	11	6	21
	<b>153</b>	<b>316</b>	<b>306</b>	<b>631</b>

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

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Salaries and other benefits	63	63	126	84
Contributions to defined contribution retirement plan	3	3	6	4
	<b>66</b>	<b>66</b>	<b>132</b>	<b>88</b>

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

### 15 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

#### (c) Other related party transactions

	Three months ended 30 June		Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Office rental paid to Further Concept Limited	54	54	108	108
Motor vehicle rental paid to Target King Limited	42	23	84	23

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).

### 16 RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited)
Profit before taxation	21,468	10,392
Adjustments for:		
Depreciation	508	243
Interest income	(144)	(54)
Sundry Income	(4)	–
Net foreign exchange gain	(30)	–
Changes in working capital:		
Increase in trade and other receivables	(19,009)	(4,545)
Decrease/(increase) in contract assets and gross amount due from customers for contract work	5,688	(858)
Increase in amount due from a related company	–	(370)
(Decrease)/increase in contract liabilities and gross amount due to customers for contract work	(1,033)	2,118
Increase/(decrease) in trade and other payables	7,492	(1,619)
Cash generated from operations	14,936	5,307

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND OUTLOOK

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 Period, the Group achieved an increase in revenue of approximately 121.9% to approximately HK\$76.1 million from approximately HK\$34.3 million for the Previous Period. The growth was mainly driven by the increase in revenue from decoration projects for commercial premises. In line with the increase in revenue, the Group's gross profit increased to approximately HK\$29.9 million for the Period from approximately HK\$14.7 million for the Previous Period.

The Group's profit attributable to shareholders increased to approximately HK\$17.9 million for the Period from approximately HK\$8.7 million for the Previous Period. The increase in profit attributable to shareholders was mainly due to the increase in gross profit for the Period.

Looking forward, the Group is positive about the prospects of the interior design and decoration market and will continue to focus on the core business. In order to maximise the long term returns of the shareholders of the Company, the Group will devote more resources towards the development of the interior design and decoration business for commercial premises.

The Company has submitted a formal application to the Stock Exchange on 7 February 2018 for the proposed transfer of listing from GEM to the Main Board of the Stock Exchange (the "Main Board"). The Board believes that, if materialised, the proposed 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. As at the date of this report, the application is still in progress.

## 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 increased by approximately 121.9% to approximately HK\$76.1 million (Previous Period: HK\$34.3 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 2018 and 2017:

Project types and locations	Six months ended 30 June					
	2018			2017		
	<i>No. of projects</i>	<i>HK\$'000</i> (Unaudited)	<i>%</i>	<i>No. of projects</i>	<i>HK\$'000</i> (Unaudited)	<i>%</i>
<b>Design &amp; decoration</b>						
Hong Kong	11	13,203	17.4	13	33,175	96.6
Macau	1	2,376	3.1	–	–	–
	<b>12</b>	<b>15,579</b>	<b>20.5</b>	13	33,175	96.6
<b>Decoration</b>						
Hong Kong	12	59,665	78.4	–	–	–
	<b>12</b>	<b>59,665</b>	<b>78.4</b>	–	–	–
<b>Others</b>						
Hong Kong		865	1.1		882	2.6
PRC		–	–		280	0.8
		<b>865</b>	<b>1.1</b>		1,162	3.4
<b>Total</b>	<b>24</b>	<b>76,109</b>	<b>100.0</b>	13	34,337	100.0

As shown in above table, (i) the design & decoration; and (ii) decoration projects contributed to approximately 98.9% and 96.6% of the Group's total revenue for the six months ended 30 June 2018 and 2017, respectively. Revenue from (i) design & decoration; and (ii) decoration projects increased to approximately HK\$75.2 million for the Period from approximately HK\$33.2 million for the Previous Period, representing an increase of approximately 126.5%. The increase in revenue was mainly driven by the increase in number of decoration projects for the Period.

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Cost of Services and Gross Profit Margin

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

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

Project types	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Design & decoration	39.6%	43.7%
Decoration	39.4%	–
Others	25.9%	13.7%
<b>Overall</b>	<b>39.3%</b>	<b>42.7%</b>

The Group's overall gross profit margin decreased to approximately 39.3% for the Period from approximately 42.7% for the Previous Period, which was mainly due to the lower gross profit margin for design and decoration projects and decoration projects.

### General and Administrative Expenses

The Group's general and administrative expenses amounted to approximately HK\$8.6 million and approximately HK\$4.3 million for the six months ended 30 June 2018 and 2017 respectively, representing an increase of approximately 100%. Such increase was primarily due to the increase in legal and professional fees and marketing expense during the Period.

### Income Tax

Income tax of the Group for the Period was approximately HK\$3.6 million (Previous Period: HK\$1.7 million) and such growth was consistent with the increase in assessable profits during the Period as compared to the Previous Period.

### Profit for the period

Profit for the period of the Group increased to approximately HK\$17.9 million for the Period from approximately HK\$8.7 million for the Previous Period, mainly due to the increase in gross profit for the Period.

### Dividend

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

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

During the Period, the Group financed its operations by its internal resources. As at 30 June 2018, the Group had net current assets of approximately HK\$97.2 million (31 December 2017: HK\$83.4 million), including cash and cash equivalents balances of approximately HK\$84.4 million (31 December 2017: HK\$71.3 million) mainly denominated in Hong Kong dollars. As at 30 June 2018, the Group had an unutilised banking facility of HK\$2.0 million (31 December 2017: HK\$2.0 million) which was secured by pledged bank deposits.

The current ratio, being the ratio of current assets to current liabilities, was approximately 4.5 times as at 30 June 2018 (31 December 2017: 6.6 times).

## MANAGEMENT DISCUSSION AND ANALYSIS

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

The shares of the Company (the "Shares") were listed on GEM of the Stock Exchange on 8 December 2016 by way of placing and 250,000,000 new shares offered by the Company at a placing price of HK\$0.2 per share were issued under the placing. There has been no change in capital structure of the Company since then. The equity attributable to owners of the Company amounted to approximately HK\$99.7 million as at 30 June 2018 (31 December 2017: HK\$83.9 million).

### PLEDGE OF ASSETS

As of 30 June 2018, the Group had pledged bank deposits of HK\$2.0 million (31 December 2017: HK\$2.0 million) to secure the banking facilities granted to the Group. Save for the above, the Group did not have any charges on its assets.

### FOREIGN EXCHANGE EXPOSURE AND TREASURY POLICY

The majority of the Group's business operations were conducted in Hong Kong. The transactions, monetary assets and liabilities of the Group were mainly denominated in Hong Kong dollars. During the Period, there was no material impact to the Group arising from the fluctuation in the foreign exchange rates. The Group did not engage in any derivatives agreement and did not commit to any financial instruments to hedge its foreign exchange exposure during the Period.

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

### CAPITAL COMMITMENTS

As at 30 June 2018 and 31 December 2017, the Group did not have any material capital commitment.

### HUMAN RESOURCES MANAGEMENT

As at 30 June 2018, the Group had a total of 28 (31 December 2017: 15) employees. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance.

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

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

### CONTINGENT LIABILITIES

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

## 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 2018:

#### Business objectives up to 30 June 2018 as set out in the Prospectus

#### Actual business progress up to 30 June 2018

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

- |  |  |
|--|--|
| — Recruit staff, rent and decorate a new office, procure new projects for the international team | <p>The Group has recruited three administrative staff to coordinate and negotiate in the process of staff recruitment, office rental and decoration and equipment procurement.</p> <p>The Group has recruited a design directors, two designers, a marketing director and a project manager to conduct overseas travelling to explore business opportunities and handle new projects.</p> <p>The Group has rented a new office in North Point for its office expansion, and has completed the decoration of its new and existing office.</p> |
| — Purchase equipment for interior design and technical use, office facilities and a vehicle      | <p>The Group is in the process of exploring and identifying suitable interior design and technical use equipment, office facilities and vehicle.</p>   |
| — 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>   |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business objectives up to 30 June 2018 as set out in the Prospectus

### Actual business progress up to 30 June 2018

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

- |  |   |
|--|---|
| — Participate in industry related exhibitions, fairs and networking events | The Group has been participating in industry related exhibitions, fairs and networking events.  |
| — Establish a showroom for visual display of design and decoration         | 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. |
| — Provide trainings to our staff   | The Group has been providing trainings to our staff.  |
| — Recruit marketing staff and designer                                     | The Group has recruited one designer and two marketing executives to handle the design work and participate in marketing activities.        |
| — Prepare and distribute marketing materials                               | The Group has been preparing and distributing marketing materials.  |

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

- |  |   |
|--|---|
| — Recruit designers and project managers | The Group has recruited one designer and one project manager and is looking for more experienced design and project management staff. |
|--|---|

#### Expand our business in the PRC market

- |   |   |
|---|---|
| — Expand our office facilities and recruit marketing staff in the PRC | <p>The Group has been pitching for projects continuously, and plans to expand our office facilities and recruit marketing staff after securing new business in the PRC.</p> <p>The Group has recruited six marketing executives to participate in marketing activities for its PRC expansion.</p> <p>The Group is at the stage of exploring to set up a new office in Hengqin, the PRC.</p> |
|---|---|

## 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 2018:

	Planned use of proceeds as stated in the Prospectus up to 30 June 2018 <i>HK\$ million</i>	Actual use of proceeds up to 30 June 2018 <i>HK\$ million</i>	Balance as at 30 June 2018 <i>HK\$ million</i>
Establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities	13.8	4.9	8.9
Maintain and strengthen our market position in Hong Kong and the PRC and focus on reputable customers	6.0	3.9	2.1
Increase our capacity to capture more business opportunities	4.6	2.0	2.6
Expand our business in the PRC market	3.1	0.2	2.9
General working capital	3.1	2.3	0.8
	30.6	13.3	17.3

## 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 2018, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the 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
Mr. Lau King Wai	Interest of a controlled corporation ( <i>Note</i> )	750,000,000	75%

*Note:* Mr. Lau King Wai beneficially owns 100% of the issued share capital of Sino Emperor Group Limited ("Sino Emperor"). By virtue of the SFO, Mr. Lau King Wai is deemed to be interested in all the Shares held by Sino Emperor.

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

## OTHER INFORMATION

### **SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY**

So far as the Directors are aware, as at 30 June 2018, other than the Directors or chief executives of the Company whose interests or short positions are disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company 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**

<b>Name</b>	<b>Nature of interest</b>	<b>Number of Shares</b>	<b>Approximate percentage shareholding</b>
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.

Saved as disclosed above, as at 30 June 2018, the Directors were not aware of any other person (other than the Directors or chief executives as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company 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 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 2018 and up to the date of this interim report.

### **CORPORATE GOVERNANCE**

The Company adopted the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules as its own code of corporate governance. During the six months ended 30 June 2018, the Company has complied with the code provisions set out in the CG Code except for the deviation from code provision A.2.1 of the CG Code.

## OTHER INFORMATION

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

### COMPLIANCE ADVISER'S INTEREST IN THE COMPANY

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

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

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

### CHANGES IN INFORMATION OF DIRECTORS

The changes in Directors' information subsequent to the date of annual report for the year ended 31 December 2017, as required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules, are set out below:

Name of Director	Details of Changes
Mr. Li Wai Kwan	<p>Appointed as an independent non-executive director of TL Natural Gas Holdings Limited, a company listed on GEM of the Stock Exchange (Stock Code: 8536), with effect from 28 June 2017.</p> <p>Appointed as an independent non-executive director of China Greenfresh Group Company Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 6183), with effect from 20 July 2018.</p>

## 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 condensed consolidated financial statements of the Group for the six months ended 30 June 2018 and this interim report and is of the view that such statements and report have been prepared in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

By order of the Board

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

**Lau King Wai**

*Chairman and chief executive officer*

Hong Kong, 3 August 2018

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