K W Nelson Interior Design and Contracting Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8411)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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.

HIGHLIGHTS

- During the year ended 31 December 2018 (the "Year" or "2018"), the Group achieved an increase in revenue of approximately 39.2% to approximately HK$124.4 million from approximately HK$89.3 million for the year ended 31 December 2017 (the "Previous Year" or "2017"). 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$48.9 million for the Year from approximately HK$38.8 million for the Previous Year, representing an increase of approximately 25.9%.

- The Group's profit attributable to shareholders increased to approximately HK$28.7 million for the Year from approximately HK$26.1 million for the Previous Year.

- The Board is pleased to share the Group's performance with our shareholders and recommends the payment of a final dividend of HK0.25 cent per share for the Year (2017: HK0.20 cent).

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of K W Nelson Interior Design and Contracting Group Limited (the "Company") is pleased to present the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	**2018** **HK$'000**	2017 HK$'000
Revenue	*2*	**124,385**	89,343
Direct costs		**(75,496)**	(50,502)
Gross profit		**48,889**	38,841
Other revenue	*3*	**633**	170
General and administrative expenses		**(14,818)**	(7,708)
Profit before taxation	*4*	**34,704**	31,303
Income tax	*5*	**(5,970)**	(5,201)
Profit for the year		**28,734**	26,102
Earnings per share	*6*		
Basic and diluted		**HK2.9 cents**	HK2.6 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
Profit for the year	**28,734**	26,102
Other comprehensive income for the year (net of nil tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiary with functional currency other than Hong Kong dollars	**(153)**	163
Total comprehensive income for the year	**28,581**	26,265

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 HK$'000	2017 HK$'000 (Note)
Non-current assets			
Property, plant and equipment		**2,842**	511
Current assets			
Contract assets		**2,941**	–
Gross amount due from customers for contract work		**–**	5,762
Trade and other receivables	*7*	**59,112**	19,379
Pledged bank deposits		**8,670**	2,000
Cash and cash equivalents		**69,149**	71,305
		139,872	98,446
Current liabilities			
Contract liabilities		**4,676**	–
Gross amount due to customers for contract work		**–**	2,525
Trade and other payables	*8*	**27,225**	10,955
Tax payable		**314**	1,529
		32,215	15,009
Net current assets		**107,657**	83,437
Total assets less current liabilities		**110,499**	83,948
Non-current liabilities			
Deferred tax liabilities		**54**	84
NET ASSETS		**110,445**	83,864
CAPITAL AND RESERVES			
Share capital		**10,000**	10,000
Reserves		**100,445**	73,864
TOTAL EQUITY		**110,445**	83,864

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Share premium	Exchange reserve	Merger reserve	Capital contribution reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2017	10,000	33,728	(285)	(380)	5,000	9,536	57,599
Changes in equity for 2017:							
Profit for the year	–	–	–	–	–	26,102	26,102
Other comprehensive income	–	–	163	–	–	–	163
Total comprehensive income	–	–	163	–	–	26,102	26,265
Balance at 31 December 2017 and 1 January 2018	**10,000**	**33,728**	**(122)**	**(380)**	**5,000**	**35,638**	**83,864**
Changes in equity for 2018:							
Profit for the year	**–**	**–**	**–**	**–**	**–**	**28,734**	**28,734**
Other comprehensive income	**–**	**–**	**(153)**	**–**	**–**	**–**	**(153)**
Total comprehensive income	**–**	**–**	**(153)**	**–**	**–**	**28,734**	**28,581**
Dividend approved and paid in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**(2,000)**	**(2,000)**
Balance at 31 December 2018	**10,000**	**33,728**	**(275)**	**(380)**	**5,000**	**62,372**	**110,445**

1 BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

(a) Statement of compliance

The annual results set out in the announcement do not constitute the Group's financial statements for the year ended 31 December 2018 but are extracted from those financial statements.

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise K W Nelson Interior Design and Contracting Group Limited (the "Company") and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRS and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(i) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. There is no significant impact on the Group's financial position and financial result upon initial application at 1 January 2018.

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

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Under HKFRS 9, the classification for all of the Group's financial assets and financial liabilities measured at amortised cost remain the same. The carrying amounts for all financial assets and financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

b. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade and other receivables); and

— contract assets as defined in HKFRS 15

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

There is no significant impact on the Group's financial position and financial result upon initial application at 1 January 2018. Comparative information continues to be reported under HKASs 11 and 18.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from construction contracts was recognised over time.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The timing of revenue recognition of certain performance obligations identified in the Group's contracts change from over time to point in time as they do not meet any of the 3 situations identified under HKFRS 15 for revenue recognition over time. However as these performance obligations are usually satisfied over a short period of time ranging from a few days to a few weeks, this does not have any significant impact on its revenue recognition in any particular financial year.

b. Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to construction contracts in progress were presented in the statement of financial position under "Gross amount due from customers for contract work" or "Gross amount due to customers for contract work" respectively, and the revenue was recognised for the reasons explained in paragraph a. above.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

(i) "Gross amount due from customers for contract work" and "Retention receivables" under "Trade and other receivables" (note 7) amounting to HK$5,762,000 and HK$2,980,000 respectively, are now included under contract assets; and

(ii) "Gross amount due to customers for contract work" and "Receipt in advance" under "Trade and other payables" (note 8) amounting to HK$2,525,000 and HK$2,018,000 respectively, are now included under contract liabilities.

c. *Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018*

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

	Amounts reported in accordance with HKFRS 15 (A) *HK$'000*	Hypothetical amounts under HKASs 18 and 11 (B) *HK$'000*	Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)-(B) *HK$'000*
Line items in the consolidated statement of profit or loss for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Direct costs	**(75,496)**	(74,942)	(554)
Gross profit	**48,889**	49,443	(554)
Profit before taxation	**34,704**	35,258	(554)
Income tax	**(5,970)**	(6,061)	91
Profit for the year	**28,734**	29,197	(463)
Line items in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Total comprehensive income for the year	**28,581**	29,044	(463)

	Amounts reported in accordance with HKFRS 15	Hypothetical amounts under HKASs 18 and 11	Difference: Estimated impact of adoption of HKFRS 15 on 2018
	(A)	(B)	(A)-(B)
	HK$'000	*HK$'000*	*HK$'000*
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:			
Contract assets	**2,941**	–	2,941
Gross amount due from customers for contract work	**–**	1,534	(1,534)
Trade and other receivables	**59,112**	61,073	(1,961)
Contract liabilities	**(4,676)**	–	(4,676)
Gross amount due to customers for contract work	**–**	(4,676)	4,676
Line items in the reconciliation of profit before taxation to cash generated from operations for year ended 31 December 2018 impacted by the adoption of HKFRS 15:			
Decrease in contract assets	**5,801**	–	5,801
Decrease in gross amount due from customer for contract work	**–**	4,228	(4,228)
Increase in trade and other receivables	**(42,713)**	(41,694)	(1,019)
Increase in contract liabilities	**133**	–	133
Increase in gross amount due to customer for contract work	**–**	2,151	(2,151)
Increase in trade and other payables	**18,288**	16,270	2,018

The significant differences arise as a result of the changes in accounting policies described above.

(iii) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

2 REVENUE AND SEGMENT REPORTING

(a) Revenue and business segment

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.

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

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

The Group's customer base includes two (2017: one) customers with whom transactions has exceeded 10% of the Group's revenue for the year ended 31 December 2018. Contract revenue earned from these customers, amounted to HK$60,872,000 (2017: HK$14,636,000) for the year ended 31 December 2018.

Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its construction contracts such that the Group does not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the construction contracts as all contract works have an original expected duration of one year or less.

(b) Geographic information

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**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (place of domicile)	**121,810**	87,554	**2,840**	508
Mainland China	**2,575**	1,789	**2**	3
	124,385	89,343	**2,842**	511

3 OTHER REVENUE

	2018	2017
	HK$'000	*HK$'000*
Interest income	**544**	170
Gain on disposal of property, plant and equipment	**88**	–
Others	**1**	–
	633	170

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging

	2018	2017
	HK$'000	*HK$'000*
(a) Staff costs		
Salaries, wages and other benefits	**8,278**	5,222
Contributions to defined contribution retirement plan	**247**	218
	8,525	5,440

	2018	2017
	HK$'000	*HK$'000*
(b) Other items		
Depreciation	**1,238**	487
Operating lease charges: minimum lease payments	**823**	640
Net foreign exchange loss	**–**	20
Auditors' remuneration		
— audit services	**950**	850
— other services	**423**	–
Direct costs *(note)*	**75,496**	50,502

Note: Direct costs includes HK$4,306,000 (2017: HK$3,312,000) relating to staff costs, which is also included in the respective total amounts disclosed separately in note 4(a).

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Income tax in the consolidated statement of profit or loss represents:

	2018	2017
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**5,607**	5,129
Under-provision in respect of prior years	**345**	129
Current tax — PRC Corporate Income Tax	**5,952**	5,258
Provision for the year	**48**	19
Deferred tax		
Reversal of temporary differences	**(30)**	(76)
	5,970	5,201

The provision for Hong Kong Profits Tax for 2018 is calculated at 8.25% (2017: 16.5%) of the first $2,000,000 and 16.5% (2017: 16.5%) of the remaining estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2017-18 subject to a maximum reduction of $30,000 for each business (2017: a maximum reduction of $20,000 was granted for the year of assessment 2016-17 and was taken into account in calculating the provision for 2017). Taxation for the PRC subsidiary in 2018 was charged at a reduced rate for small and low-profit enterprise at 10% of the estimated profits for the year (2017: 10%).

6 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2018	2017
Profit for the year attributable to the ordinary equity shareholders of the Company *(HK$'000)*	**28,734**	26,102
Weighted average number of ordinary shares in issue (thousand shares)	**1,000,000**	1,000,000

(b) Diluted earnings per share

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 years ended 31 December 2018 and 2017.

7 TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**51,358**	13,061
Retention receivables *(note)*	**–**	2,980
Deposits, prepayments and other receivables	**7,754**	3,338
	59,112	19,379

Note: Upon the adoption of HKFRS 15, some of receivables, for which the Group's entitlement to the consideration was conditional on satisfactory completion of the retention period, were reclassified to "Contract assets".

The amount of deposits, prepayments and other receivables expected to be recovered or recognised as expense after more than one year is HK$55,000 (2017: HK$174,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

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 loss allowance), based on the invoice date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**25,492**	8,153
Over 1 month to 2 months	**17,180**	1,737
Over 2 months to 3 months	**1,899**	1,699
Over 3 months	**6,787**	1,472
	51,358	13,061

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.

As at 31 December 2018, none (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.

(b) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**21,754**	7,666
Within 1 month past due	**10,758**	490
Over 1 month to 3 months past due	**12,062**	3,640
Over 3 months past due	**6,784**	1,265
	29,604	5,395
	51,358	13,061

8 TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**7,668**	3,531
Receipt in advance *(note)*	**–**	2,018
Other payables and accruals	**19,557**	5,406
	27,225	10,955

Note: As a result of the adoption of HKFRS 15, receipt in advance is included in "Contract liabilities".

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:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**3,294**	2,076
Over 1 month to 3 months	**3,099**	1,266
Over 3 months	**1,275**	189
	7,668	3,531

9 DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Final dividend proposed after the end of the reporting period of HK0.25 cent per share (2017: HK0.20 cent per share)	**2,500**	2,000

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

10 COMMITMENTS

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

	2018	2017
	HK$'000	*HK$'000*
Within 1 year	**470**	643
After 1 year but within 5 years	**302**	166
	772	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.

11 CONTINGENT LIABILITY

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

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 we are responsible for the tailor-made interior design proposals, project management and fitting-out works; (ii) decoration projects in which we are responsible for project management and fitting-out works; and (iii) other interior design and fitting-out services.

During the Year, the Group achieved an increase in revenue of approximately 39.2% to approximately HK$124.4 million from approximately HK$89.3 million for the Previous Year. 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$48.9 million for the Year from approximately HK$38.8 million for the Previous Year, representing an increase of approximately 25.9%.

The Group's profit attributable to shareholders increased to approximately HK$28.7 million for the Year from approximately HK$26.1 million for the Previous Year.

Outlook

During the Year, the Group had obtained a major decoration project with a telecommunication corporate client for 4 storeys. In addition, the Group's international team has secured certain projects in Macau ranging from PRC telecommunication clients to food and beverage client.

With the new contracts on hand, and the recent completed decoration project for a famous professional medical tower in Central, the management believes that the Group would be able to perform multidimension design and decoration services to different sectors of clients in Hong Kong, Macau and the PRC.

The Company has submitted a formal application to the Stock Exchange on 7 February 2018 for the proposed transfer of the listing of Shares from GEM to the Main Board pursuant to Chapter 9A of the Listing Rules. The application has automatically lapsed as the process of the application has taken more than six months since the submission of the application. On 27 August 2018, the Company re-submitted the application for the proposed transfer of listing to the Stock Exchange to renew the application. The Board believes that the transfer of listing will enhance the profile of the Group, strengthen its recognition among public investors and hence increase the trading liquidity of the Shares. This will strengthen the Group's position in the industry and enhance the Group's competitive strengths in retaining and attracting the

Group's professional staff and customers. The Board also considers that the listing of the Shares on the Main Board will be beneficial to the future growth, financing flexibility and business development of the Group, and it will create a long-term value to the Shareholders.

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

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

Financial Review

Revenue

The Group's revenue is principally generated from (i) design & decoration projects; (ii) decoration projects; and (iii) other interior design and fitting-out services. During the Year, the Group's revenue increased by approximately 39.2% to approximately HK$124.4 million (2017: HK$89.3 million).

The following table sets forth a breakdown of the Group's revenue by use of premises of our projects for the years ended 31 December 2018 and 2017:

	For the year ended 31 December			
Use of premises	**2018**		2017	
	HK$'000	*%*	*HK$'000*	*%*
Office	**69,307**	**55.7**	56,238	63.0
Medical centre	**48,284**	**38.8**	7,924	8.8
Retail and restaurant	**364**	**0.3**	17,092	19.1
Others *(Note)*	**6,430**	**5.2**	8,089	9.1
Total	**124,385**	**100.0**	89,343	100.0

Note: Others mainly comprise schools, hotel and residential premises.

The following table sets forth a breakdown of the Group's revenue and number of projects by project types and geographical locations for the years ended 31 December 2018 and 2017:

Project types and locations	**For the year ended 31 December**					
	2018			2017		
	No. of projects	***HK$'000***	***%***	*No. of projects*	*HK$'000*	*%*
Design & decoration						
Hong Kong	**21**	**40,946**	**32.9**	22	65,756	73.6
The PRC and Macau	**2**	**3,385**	**2.7**	1	1,508	1.7
	23	**44,331**	**35.6**	23	67,264	75.3
Decoration						
Hong Kong	**21**	**76,789**	**61.7**	8	16,208	18.1
The PRC and Macau	**3**	**2,815**	**2.3**	–	–	–
	24	**79,604**	**64.0**	8	16,208	18.1
Others						
Hong Kong		**450**	**0.4**		5,590	6.3
PRC		**–**	**–**		281	0.3
		450	**0.4**		5,871	6.6
Total	**47**	**124,385**	**100.0**	31	89,343	100.0

Increase in revenue during the year was principally attributed to (i) increase of approximately HK$40.4 million derived from medical centre from approximately HK$7.9 million in 2017 to approximately HK$48.3 million in 2018; and (ii) increase of approximately HK$13.1 million derived from office premises from approximately HK$56.2 million in 2017 to approximately HK$69.3 million in 2018.

Cost of Services and Gross Profit

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 increase in revenue for the Year.

The following table sets forth the breakdown of the Group's gross profit and gross profit margin by use of premises for the years ended 31 December 2018 and 2017:

Use of premises	For the year ended 31 December			
	2018		2017	
	Gross Profit	***Gross Profit Margin***	*Gross Profit*	*Gross Profit Margin*
	HK$'000	***%***	*HK$'000*	*%*
Office	**27,142**	**39.2**	24,826	44.1
Medical centre	**20,142**	**41.7**	3,010	38.0
Retail and restaurant	**94**	**25.8**	8,978	52.5
Others	**1,511**	**23.5**	2,027	25.1
Total	**48,889**	**39.3**	38,841	43.5

Gross profit margin of the Group's office projects decreased from approximately 44.1% in 2017 to approximately 39.2% in 2018 was mainly due to an office management project with approximately HK$1.9 million project management fee received in 2017, while no such type of projects in 2018. Gross profit margin of the Group's medical centre projects increased from approximately 38.0% in 2017 to approximately 41.7% in 2018 was mainly due to a decoration project for a medical centre with a 42.5% gross profit margin in 2018, while there was a project with a below average profit margin of 31.0% in 2017.

The following table sets forth the breakdown of the Group's gross profit and gross profit margin by project types for the years ended 31 December 2018 and 2017:

Project types	For the year ended 31 December			
	2018		2017	
	Gross Profit	***Gross Profit Margin***	*Gross Profit*	*Gross Profit Margin*
	HK$'000	***%***	*HK$'000*	*%*
Design & decoration	**17,801**	**40.2**	27,815	41.4
Decoration	**31,047**	**39.0**	6,974	43.0
Others	**41**	**9.1**	4,052	69.0
Total	**48,889**	**39.3**	38,841	43.5

The overall gross profit increased by approximately HK$10.0 million or 25.9% from approximately HK$38.8 million in 2017 to approximately HK$48.9 million in 2018, was mainly due to the offsetting impact of the increase in gross profit from decoration projects of approximately HK$24.1 million; and the decrease in gross profit from design & decoration projects of approximately HK$10.0 million.

Gross profit margin of the Group's design & decoration projects remained stable which range from approximately 41.4% in 2017 to approximately 40.2% in 2018. Gross profit margin of the Group's decoration projects decreased from approximately 43.0% in 2017 to approximately 39.0% in 2018 was mainly due to a premium decoration project for a restaurant with over 50% gross profit margin in 2017 and a major decoration project for an office with gross profit margin of 39.2% in 2018.

Considering of the above, the Group's overall gross profit margin decreased from 43.5% in 2017 to 39.3% in 2018.

General and Administrative Expenses

The Group's general and administrative expenses amounted to approximately HK$14.8 million and approximately HK$7.7 million for the years ended 31 December 2018 and 2017 respectively, representing an increase of approximately 92.2%, which mainly due to the increase in staff costs and the marketing expenses incurred during the Year.

Income tax

Income tax of the Group for the Year was approximately HK$6.0 million (2017: HK$5.2 million) and such growth was consistent with the increase in assessable profits during the Year as compared to the Previous Year. Expenses relating to transfer of listing incurred during the Year were not deductible for tax purpose.

Profit for the year

Profit for the year of the Group increased from approximately HK$26.1 million for the Previous Year to approximately HK$28.7 million for the Year was mainly due to the increase in gross profit from decoration projects, which offset by increase in staff costs and marketing expanses.

Dividend

The Board recommended a final dividend of HK0.25 cent per share for the Year (2017: HK0.20 cent per share) which is subject to the approval of shareholders at the forthcoming annual general meeting of the Company. The total payout will amount to HK$2.5 million (2017: HK$2 million). Conditional upon the passing of an ordinary resolution by the shareholders at the annual general meeting of the Company to be held on 9 April 2019, the proposed final dividend will be payable on or around 8 May 2019 to the shareholders whose names appear on the register of members of the Company on 18 April 2019, being the record date for determining shareholders' entitlement to the proposed final dividend.

Liquidity, Financial Resources, Gearing Ratio and Capital Structure

During the Year, the Group financed its operations by its internal resources. As at 31 December 2018, the Group had net current assets of approximately HK$107.7 million (2017: HK$83.4 million), including cash and cash equivalents balances of approximately HK$69.1 million (2017: HK$71.3 million) mainly denominated in Hong Kong dollars. As at 31 December 2018, the Group had an unutilised banking facility of HK$2.0 million (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 4.3 times as at 31 December 2018 (2017: 6.6 times). The decrease was mainly due to (i) the increase in trade and other payables of approximately HK$16.3 million and (ii) the increase in contract liabilities and gross amount due to customers for contract work of approximately HK$2.2 million.

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

The shares of the Company 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$110.4 million as at 31 December 2018 (2017: HK$83.9 million).

Pledge of Assets

As of 31 December 2018, bank deposits of HK$2.0 million (2017: HK$2.0 million) and HK$6.7 million (2017: Nil) were pledged to secure the banking facilities and a performance bond respectively. Save for the above, the Group did not have any charges on its assets.

Foreign Exchange Exposure and Treasury Policy

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

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

Human Resources Management

As at 31 December 2018, the Group had a total of 19 (2017: 13) employees. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

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

Contingent Liabilities

Save as disclosed in note 11 to this announcement, the Group had no other contingent liabilities as at 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Company places high value on the corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of the shareholders of the Company (the "Shareholders").

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. During the Year, 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 separated 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 of the Company (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.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory requirements and regulations and the CG Code and align with the latest developments.

DIVIDEND

The Board recommended a final dividend of HK0.25 cent per share for the Year (2017: HK0.20 cent per share) which is subject to the approval of shareholders at the forthcoming annual general meeting of the Company. The total payout will amount to HK$2.5 million (2017: HK$2 million). Conditional upon the passing of an ordinary resolution by the shareholders at the annual general meeting of the Company to be held on 9 April 2019, the proposed final dividend will be payable on or around 8 May 2019 to the shareholders whose names appear on the register of members of the Company on 18 April 2019, being the record date for determining shareholders' entitlement to the proposed final dividend.

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 year ended 31 December 2018.

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 Year. The Company was not aware of any non-compliance during the Year.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2018 and up to the date of this announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on Tuesday, 9 April 2019. A circular containing the details of AGM and the notice of AGM and form of proxy accompanying thereto will be despatched to the Shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 3 April 2019 to Tuesday, 9 April 2019, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 2 April 2019.

For determining the entitlement to the proposed final dividend payable to shareholders of the Company, the register of members of the Company will be closed from Tuesday, 16 April 2019 to Thursday, 18 April 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 15 April 2019. The expected date of payment of the final dividend is Wednesday, 8 May 2019.

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 as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Audit Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. 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. As at 31 December 2018, the Audit Committee 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 with management of the Group the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the annual consolidated financial statements for the Year, with the external auditor. There were no disagreements from the auditor of the Company or the Audit Committee in respect of the accounting policies adopted by the Company.

SCOPE OF WORK OF AUDITOR

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

By order of the Board of
K W Nelson Interior Design and Contracting Group Limited
Lau King Wai
Chairman and Chief Executive Officer

Hong Kong, 28 January 2019

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 will remain on the "Latest Company Information" page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication. This announcement will also be published on the Company's website at www.kwnelson.com.hk.