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 2019

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.

HIGHLIGHTS

- During the year ended 31 December 2019 (the "Year" or "2019"), the Group's revenue was decreased by approximately 15.7% to approximately HK$104.9 million from approximately HK$124.4 million for the year ended 31 December 2018 (the "Previous Year" or "2018"). The decrease was mainly driven by the decrease in revenue from decoration projects for commercial premises. The Group's gross profit was slightly decreased to approximately HK$48.6 million for the Year from approximately HK$48.9 million for the Previous Year, representing a decrease of approximately 0.6%.

- The Group's profit attributable to shareholders was decreased to approximately HK$27.2 million for the Year from approximately HK$28.7 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 (Previous Year: HK0.25 cent).

ANNUAL RESULTS

The board (the "Board") of directors (the "Directors") of K W Nelson Interior Design and Contracting Group Limited (the "Company") hereby present the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	**2019**	2018
		HK$'000	*HK$'000*
			(Note)
Revenue	*2*	**104,884**	124,385
Direct costs		**(56,253)**	(75,496)
Gross profit		**48,631**	48,889
Other revenue	*3*	**1,196**	633
General and administrative expenses		**(16,877)**	(14,818)
Profit from operations		**32,950**	34,704
Finance costs		**(67)**	–
Profit before taxation	*4*	**32,883**	34,704
Income tax	*5*	**(5,690)**	(5,970)
Profit for the year		**27,193**	28,734
Earnings per share	*6*		
Basic and diluted		**HK2.7 cents**	HK2.9 cents

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019

	2019	2018
	HK$'000	*HK$'000*
		(Note)
Profit for the year	**27,193**	28,734
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 a subsidiary	**(57)**	(153)
Item that will not be reclassified to profit or loss:		
Change in fair value of financial assets at fair value through other comprehensive income	**(7,082)**	–
Other comprehensive income for the year	**(7,139)**	(153)
Total comprehensive income for the year	**20,054**	28,581

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 HK$'000	2018 HK$'000 (Note)
Non-current assets			
Property, plant and equipment		**3,186**	2,842
Financial assets at fair value through other comprehensive income		**511**	–
Deferred tax assets		**90**	–
		3,787	2,842
Current assets			
Contract assets		**1,907**	2,941
Trade and other receivables	*7*	**73,346**	59,112
Pledged bank deposits		**2,000**	8,670
Cash and cash equivalents		**90,955**	69,149
		168,208	139,872
Current liabilities			
Contract liabilities		**16,979**	4,676
Trade and other payables	*8*	**19,629**	27,225
Lease liabilities		**688**	–
Tax payable		**6,069**	314
		43,365	32,215
Net current assets		**124,843**	107,657
Total assets less current liabilities		**128,630**	110,499
Non-current liabilities			
Lease liabilities		**631**	–
Deferred tax liabilities		**–**	54
		631	54
NET ASSETS		**127,999**	110,445
CAPITAL AND RESERVES			
Share capital		**10,000**	10,000
Reserves		**117,999**	100,445
TOTAL EQUITY		**127,999**	110,445

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to the ordinary equity shareholders of the Company							
	Share capital	Share premium	Exchange reserve	Fair value reserve (non-recycling)	Merger reserve	Capital contribution reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 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								
Exchange differences on translation of financial statements of a subsidiary	–	–	(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 and 1 January 2019	10,000	33,728	(275)	–	(380)	5,000	62,372	110,445
Changes in equity for 2019:								
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**27,193**	**27,193**
Other comprehensive income								
Exchange differences on translation of financial statements of a subsidiary	**–**	**–**	**(57)**	**–**	**–**	**–**	**–**	**(57)**
Change in fair value of financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**(7,082)**	**–**	**–**	**–**	**(7,082)**
Total comprehensive income	**–**	**–**	**(57)**	**(7,082)**	**–**	**–**	**27,193**	**20,054**
Dividend approved and paid in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**–**	**(2,500)**	**(2,500)**
Balance at 31 December 2019	**10,000**	**33,728**	**(332)**	**(7,082)**	**(380)**	**5,000**	**87,065**	**127,999**

1 SIGNIFICANT 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 2019 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 2019 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial assets at fair value through other comprehensive income are stated at their fair value.

(c) Changes in accounting policies

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

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

HKFRS 16, Leases

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

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

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

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

a. *New definition of a lease*

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

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. *Lessee accounting and transitional impart*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to properties leased for own use.

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

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

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

The following table reconciles the operating lease commitments as disclosed in note 10 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

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

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

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

	Carrying amount at 31 December 2018	**Capitalisation of operating lease contracts**	**Carrying amount at 1 January 2019**
	HK$'000	*HK$'000*	*HK$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	2,842	516	3,358
Total non-current assets	2,842	516	3,358
Lease liabilities (current)	–	231	231
Current liabilities	32,215	231	32,446
Net current assets	107,657	(231)	107,426
Total assets less current liabilities	110,499	285	110,784
Lease liabilities (non-current)	–	285	285
Total non-current liabilities	54	285	339
Net assets	110,445	–	110,445

c. *Impact on the financial result, segment results and cash flows of the Group*

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the period.

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

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in the consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16	**Add back: HKFRS 16 depreciation and interest expense**	**Deduct: Estimated amounts related to operating leases as if under HKAS 17** *(note i)*	**Hypothetical amounts for 2019 as if under HKAS 17**	Compared to amounts reported for 2018 under HKAS 17
	(A)	***(B)***	***(C)***	***(D=A+B-C)***	
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Financial result for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	**32,950**	**574**	**(616)**	**32,908**	34,704
Finance costs	**(67)**	**67**	**–**	**–**	–
Profit before taxation	**32,883**	**641**	**(616)**	**32,908**	34,704
Profit for the year	**27,193**	**641**	**(616)**	**27,218**	28,734

	Amounts reported under HKFRS 16	**Estimated amounts related to operating leases as if under HKAS 17** *(notes i & ii)*	**Hypothetical amounts for 2019 as if under HKAS 17**	Compared to amounts reported for 2018 under HKAS 17
	(A)	***(B)***	***(C=A+B)***	
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Line items in the consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	**25,352**	**(616)**	**24,736**	16,819
Net cash generated from operating activities	**25,273**	**(616)**	**24,657**	9,604
Capital element of lease rentals paid	**(549)**	**549**	**–**	–
Interest element of lease rentals paid	**(67)**	**67**	**–**	–
Net cash used in financing activities	**(3,116)**	**616**	**(2,500)**	(2,000)

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

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

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

The Group's customer base includes three (2018: two) customers with whom transactions has exceeded 10% of the Group's revenue for the year ended 31 December 2019. Contract revenue earned from these customers amounted to HK$54,645,000 (2018: HK$60,872,000) for the year ended 31 December 2019.

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**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
				(Note)
Hong Kong (place of domicile)	**100,906**	121,810	**3,184**	2,840
Mainland China	**3,978**	2,575	**2**	2
	104,884	124,385	**3,186**	2,842

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

3 OTHER REVENUE

	2019	2018
	HK$'000	*HK$'000*
Interest income	**972**	544
(Loss)/gain on disposal of property, plant and equipment	**(150)**	88
Others	**374**	1
	1,196	633

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2019	2018
	HK$'000	*HK$'000*
		(Note)
Interest on lease liabilities	**67**	–

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

(b) Staff costs

	2019	2018
	HK$'000	*HK$'000*
Salaries, wages and other benefits	**7,120**	8,278
Contributions to defined contribution retirement plan	**234**	247
	7,354	8,525

(c) Other items

	2019	2018
	HK$'000	*HK$'000*
Depreciation		
— owned property, plant and equipment	**1,097**	1,238
— right-of-use assets *(note ii)*	**574**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17 *(note ii)*	**–**	823
Impairment losses on trade receivables	**2,028**	–
Auditors' remuneration		
— audit services	**1,000**	950
— other services	**285**	423
Direct costs *(note i)*	**56,253**	75,496

Note i: Direct costs includes HK$3,869,000 (2018: HK$4,306,000) relating to staff costs, which is also included in the respective total amounts disclosed separately in note 4(b).

Note ii: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2019	2018
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**5,468**	5,607
Under-provision in respect of prior years	**333**	345
	5,801	5,952
Current tax — PRC Corporate Income Tax		
Provision for the year	**27**	48
Under-provision in respect of prior years	**6**	–
	33	48
Deferred tax		
Reversal of temporary differences	**(144)**	(30)
	5,690	5,970

The provision for Hong Kong Profits Tax for 2019 is calculated at 8.25% (2018: 8.25%) of the first HK$2,000,000 and 16.5% (2018: 16.5%) of the remaining estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 100% (2018: 75%) of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of HK$20,000 for each business (2018: a maximum reduction of HK$30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2018). Taxation for the PRC subsidiary in 2019 was charged at a reduced rate for small and low-profit enterprise at 5% (2018: 10%) of the estimated profits for the year.

6 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2019	2018
Profit for the year attributable to the ordinary equity shareholders of the Company *(HK$'000)*	**27,193**	28,734
Weighted average number of ordinary shares in issue *(thousand shares)*	**1,000,000**	1,000,000
Basic earnings per share attributable to ordinary equity shareholders of the Company *(HK cents)*	**2.7**	2.9

(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 2019 and 2018.

7 TRADE AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**74,124**	51,358
Less: loss allowance	**(2,028)**	–
Trade receivables, net of loss allowance	**72,096**	51,358
Deposits, prepayments and other receivables	**1,250**	7,754
	73,346	59,112

The amount of deposits, prepayments and other receivables expected to be recovered or recognised as expense after more than one year is HK$220,000 (2018: HK$55,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Ageing analysis

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

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**3,797**	25,492
Over 1 month to 2 months	**25,709**	17,180
Over 2 months to 3 months	**9,586**	1,899
Over 3 months	**33,004**	6,787
	72,096	51,358

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.

8 TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**4,905**	7,668
Other payables and accruals	**14,724**	19,557
	19,629	27,225

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:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**630**	3,294
Over 1 month to 3 months	**1,312**	3,099
Over 3 months	**2,963**	1,275
	4,905	7,668

9 DIVIDENDS

Dividend payable to ordinary shareholders of the Company attributable to the year

	2019	2018
	HK$'000	*HK$'000*
Final dividend proposed after the end of the reporting period of HK0.25 cent per share (2018: HK0.25 cent per share)	**2,500**	2,500

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

	2018
	HK$'000
Within 1 year	462
After 1 year but within 5 years	294
	756

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

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 had pledged bank deposits for the above performance bond. If the Group failed to provide satisfactory performance to the customer to whom performance bond had given, the customer might demand the bank to pay to the customer the sum stipulated in the demand. The Group would then become liable to compensate the bank accordingly. The performance bond was released upon completion of the contract work during the year ended 31 December 2019.

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 year ended 31 December 2019 (the "Year"), the Group's revenue was decreased by approximately 15.7% to approximately HK$104.9 million from approximately HK$124.4 million for the year ended 31 December 2018 (the "Previous Year"). The decrease was mainly driven by the decrease in revenue from decoration projects for commercial premises. The Group's gross profit was slightly decreased to approximately HK$48.6 million for the Year from approximately HK$48.9 million for the Previous Year, representing a decrease of approximately 0.6%.

The Group's profit attributable to shareholders was decreased to approximately HK$27.2 million for the Year from approximately HK$28.7 million for the Previous Year.

Outlook

During the Year, the Group had certain decoration projects with medical centres and offices, and had completed decoration project for a famous professional medical tower in Central. Although the protests and marches in Hong Kong in 2019 and the coronavirus outbreak in the People's Republic of China (the "PRC") recently may have an impact on the business of the Group, the management believes that the Group will be able to perform multidimension design and decoration services to different sectors of clients in Hong Kong, Macau and the PRC.

The Company has submitted a formal application to the Stock Exchange on 7 February 2018 for the proposed transfer of the listing of the ordinary shares of the Company (the "Shares") from GEM to the Main Board pursuant to Chapter 9A of the Listing Rules. The application has automatically lapsed as the process of the application has taken more than six months since the submission of the application. On 27 August 2018, the Company re-submitted the application (the "Resubmission") to renew the application. Such application has automatically lapsed as the process has taken more than six months since the Resubmission. The Company has already appointed a sponsor to consider to make a new application. 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 business 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 was decreased by approximately 15.7% to approximately HK$104.9 million (Previous Year: HK$124.4 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 2019 and 2018:

	For the year ended 31 December			
Use of premises	**2019**		2018	
	HK$'000	***%***	*HK$'000*	*%*
Office	**34,244**	**32.6**	69,307	55.7
Medical centre	**33,407**	**31.9**	48,284	38.8
Retail, restaurant and shopping mall	**23,227**	**22.1**	2,863	2.3
Others*(Note)*	**14,006**	**13.4**	3,931	3.2
Total	**104,884**	**100.0**	124,385	100.0

Note: Others mainly comprise schools consulate, 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 2019 and 2018:

Project types and locations	For the year ended 31 December **2019**			2018		
	No. of projects	***HK$'000***	***%***	*No. of projects*	*HK$'000*	*%*
Design & decoration						
Hong Kong	**17**	**58,797**	**56.1**	21	40,946	32.9
The PRC and Macau	**–**	**–**	**–**	2	3,385	2.7
	17	**58,797**	**56.1**	23	44,331	35.6
Decoration						
Hong Kong	**14**	**40,416**	**38.5**	21	76,789	61.7
The PRC and Macau	**5**	**3,978**	**3.8**	3	2,815	2.3
	19	**44,394**	**42.3**	24	79,604	64.0
Others						
Hong Kong		**1,693**	**1.6**		450	0.4
		1,693	**1.6**		450	0.4
Total	**36**	**104,844**	**100.0**	47	124,385	100.0

The overall decrease in revenue during the Year was principally attributed to the decrease in revenue from decoration projects from approximately HK$79.6 million for the Previous Year to approximately HK$44.4 million for the Year, which was offset by the increase in revenue of approximately HK$14.5 million mainly derived from design and decoration projects of restaurant and shopping malls during the Year.

Cost of Services and Gross Profit

The Group's direct costs mainly comprised subcontracting costs and direct staff costs.

The following table sets forth the breakdown of the Group's gross profit and gross profit margin by use of premises for the years ended 31 December 2019 and 2018:

Use of premises	**For the year ended 31 December**			
	2019		2018	
	Gross Profit	***Gross Profit Margin***	*Gross Profit*	*Gross Profit Margin*
	HK$'000	***%***	*HK$'000*	*%*
Office	**15,294**	**44.7**	27,142	39.2
Medical centre	**17,125**	**51.3**	20,142	41.7
Retail, restaurant and shopping mall	**12,489**	**53.8**	1,403	49.0
Others	**3,723**	**26.6**	202	–
Overall	**48,631**	**46.4**	48,889	39.3

Gross profit margin of the Group's office projects increased from approximately 39.2% in 2018 to approximately 44.7% in 2019 was mainly due to two major projects with gross profit margin of 41% and 48% was recognised during the Year. Gross profit margin of the Group's medical centre projects was increased from approximately 41.7% in 2018 to approximately 51.3% in 2019 which was mainly due to the combined impact of higher specification required and project cost reversal upon finalisation of accounts with customers, suppliers and subcontractors.

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 2019 and 2018:

Project types	**For the year ended 31 December**			
	2019		2018	
	Gross Profit	***Gross Profit Margin***	*Gross Profit*	*Gross Profit Margin*
	HK$'000	***%***	*HK$'000*	*%*
Design & decoration	**26,147**	**44.5**	17,801	40.2
Decoration	**21,939**	**49.4**	31,047	39.0
Others	**545**	**32.2**	41	9.1
Overall	**48,631**	**46.4**	48,889	39.3

The Group's overall gross profit margin was increased to approximately 46.4% for the Year from approximately 39.3% for the Previous Period, which was mainly due to (i) the higher gross profit margin for decoration projects of medical centres which required higher specification; (ii) during the Year, there was project management fee income for shopping malls, restaurant and office of approximately HK$4.2 million (Previous Year: HK$2.2 million); and (iii) project cost reversal upon finalisation of accounts with customers, suppliers and subcontractors which led to favourable financial impact to the Group in the Year.

General and administrative expenses

The Group's general and administrative expenses amounted to approximately HK$16.9 million and approximately HK$14.8 million for the Year and Previous Year respectively, representing an increase of approximately 14.2%, which mainly due to the increase in transfer of listing expenses and marketing expenses incurred during the Year.

Income tax

Income tax of the Group for the Year was approximately HK$5.7 million (Previous Year: HK$6.0 million) and such decrease was consistent with the decrease in assessable profits during the Year as compared to the Previous Year. Expenses relating to transfer of listing incurred were not deductible for tax purpose.

Profit for the Year

Profit for the Year of the Group was decreased from approximately HK$28.7 million for the Previous Year to approximately HK$27.2 million for the Year which was mainly due to the decrease in gross profit from decoration projects and the increase in transfer of listing expenses and marketing expenses.

Dividend

The Board recommended a final dividend of HK0.25 cent per share for the Year (2018: HK0.25 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 (2018: HK$2.5 million). Conditional upon the passing of an ordinary resolution by the shareholders at the annual general meeting of the Company to be held on 15 April 2020, the proposed final dividend will be payable on or around 13 May 2020 to the shareholders of the Company whose names appear on the register of members of the Company on 24 April 2020, 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 2019, the Group had net current assets of approximately HK$124.8 million (2018: HK$107.7 million), including cash and cash equivalents balances of approximately HK$91.0 million (2018: HK$69.1 million) mainly denominated in Hong Kong dollars. As at 31 December 2019, the Group had an unutilised banking facility of HK$2.0 million (2018: HK$2.0 million) which was secured by pledged bank deposits.

The current ratio, being the ratio of current assets to current liabilities, was approximately 3.88 times as at 31 December 2019 (2018: 4.3 times). The decrease was mainly due to the increase in contract liabilities of approximately HK$12.3 million, which was offset by the decrease in trade and other payables of approximately HK$7.6 million.

As at 31 December 2019, the Group had no outstanding borrowings (2018: nil) as the Group was not in need of any material debt financing during the Year, and hence no gearing ratio was presented. 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$128.0 million as at 31 December 2019 (2018: HK$110.4 million).

Pledge of Assets

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

Foreign Exchange Exposure and Treasury Policy

The majority of the Group's business operations were conducted in Hong Kong. The transactions, monetary assets and liabilities of the Group were mainly denominated in Hong Kong dollars. During the 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 2019 and 2018, the Group did not have any material capital commitment.

Human Resources Management

As at 31 December 2019, the Group had a total of 20 (2018: 19) employees. To ensure that the Group is able to attract and retain staff capable of attaining the best performance levels, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees by reference to the Group's results and individual performance.

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

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

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2019.

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.

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 2019.

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 2019 and up to the date of this announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on Wednesday, 15 April 2020. 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, 8 April 2020 to Wednesday, 15 April 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 7 April 2020.

For determining the entitlement to the proposed final dividend payable to Shareholders, the register of members of the Company will be closed from Wednesday, 22 April 2020 to Friday, 24 April 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 21 April 2020. The expected date of payment of the final dividend is Wednesday, 13 May 2020.

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 2019, 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 2019 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, 31 January 2020

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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