



K W Nelson Interior Architect Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8411

Annual Report 2016

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

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Lau King Wai
Ms. Leung May Yan
Mr. Wong Siu Hong Edward

Independent non-executive Directors

Mr. Li Wai Kwan
Mr. Hui Harry Chi
Ms. So Patsy Ying Chi

Compliance Officer

Mr. Lau King Wai

Authorised Representatives

Mr. Lau King Wai
Mr. Ho Sai Man Simon, *AICPA, HKICPA*

Company Secretary

Mr. Ho Sai Man Simon, *AICPA, HKICPA*

Audit Committee Members

Ms. So Patsy Ying Chi (*Chairlady*)
Mr. Li Wai Kwan
Mr. Hui Harry Chi

Remuneration Committee Members

Mr. Hui Harry Chi (*Chairman*)
Mr. Li Wai Kwan
Ms. So Patsy Ying Chi

Nomination Committee Members

Mr. Li Wai Kwan (*Chairman*)
Ms. So Patsy Ying Chi
Mr. Hui Harry Chi

Legal Advisers to the Company

As to Hong Kong law:

Loeb & Loeb LLP
21st Floor, CCB Tower
3 Connaught Road Central
Hong Kong

As to PRC law:

Dentons Law Offices
15/F, Shanghai Tower
501 Yincheng Road (M), Pudong New Area
Shanghai
PRC

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Auditor

KPMG
Certified Public Accountants

Principal Banker

Bank of China (Hong Kong) Limited

Registered Office

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Head Office, Headquarters and Principal Place of Business in Hong Kong

Room 1703, 17th Floor
Technology Plaza
651 King's Road
Quarry Bay
Hong Kong

CORPORATE INFORMATION

Place of Business in the PRC

Unit 1319, 1 of No. 2 of Guangwei Road
Yuxiu District
Guangzhou
PRC

Principal Share Registrar and Transfer Office

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch share registrar

Tricor Investor Services Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Compliance Adviser

Prosperity Capital Holdings Limited

Company Website

www.kwnelson.com.hk

GEM Stock Code

8411

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of K W Nelson Interior Architect Group Limited (the "Company") and its subsidiaries (collectively the "Group"), I am delighted to present the first annual report of the Group for the year ended 31 December 2016 since the listing (the "Listing") of the shares of the Company on GEM of the Stock Exchange on 8 December 2016 (the "Listing Date").

APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my gratitude to our shareholders, customers, subcontractors and business partners who trust and remain faithful to the Group. I would also like to express our sincere thanks to our management and staff for their diligence, dedication and contribution throughout the years.

OVERVIEW

During the year ended 31 December 2016 (the "Year" or "2016"), the Group achieved an increase in revenue of approximately 23.3% to approximately HK\$59.9 million from approximately HK\$48.6 million for the year ended 31 December 2015 (the "Previous Year" or "2015"). The growth was mainly driven by the increase in revenue from design & decoration projects for office premises. In line with the increase in revenue, the Group's gross profit increased to approximately HK\$26.0 million for the Year from approximately HK\$19.7 million for the Previous Year.

Though the Group's profit attributable to shareholders decreased to approximately HK\$4.7 million for the Year from approximately HK\$12.9 million for the Previous Year, the decrease in profit attributable to shareholders was mainly due to the one-off listing expenses of approximately HK\$12.8 million (2015: HK\$0.7 million) incurred during the Year. Excluding such non-recurring expenses, the Group's profit would have been approximately HK\$17.5 million (2015: HK\$13.6 million).

FORWARD

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

Lau King Wai

Chairman and Chief Executive Officer

Hong Kong, 16 March 2017

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out as follows:

EXECUTIVE DIRECTORS

Mr. Lau King Wai (劉經緯) (“Mr. Nelson Lau”), aged 52, was appointed as an executive Director, the chairman of the Board and the chief executive officer on 7 January 2016. Mr. Nelson Lau is the Founder and he is responsible for the overall business development, strategic planning and major decision-making of the Group.

Mr. Nelson Lau has over 28 years of experience in the interior design and decoration industry. Mr. Nelson Lau started working as an architectural draftsman of King Yip Engineering & Architectural Co., whose principal business is architectural and building services, from July 1985 to July 1987, and he was responsible for preparing architectural drawings. Mr. Nelson Lau then worked as a site co-ordinator of OGLE Contracting Co., whose principal business is interior design services, from September 1987 to February 1988, and he was responsible for work coordination at construction sites. He worked at Frankwell Commodities Ltd, whose principal business is trading of commodities, from April 1988 to 1989, and his last position was account executive responsible for supervising trading accounts of clients. Mr. Nelson Lau was a project director, operator and owner of FCS Interior Design & Contracting Co., which was an interior design firm, from October 1989 to December 1990, and he was responsible for project management. He was a project director and operator of FCS Interior Design & Contracting Co., which was engaged in interior design and project management and was a branch office of Further Concept Limited (a company controlled by Mr. Nelson Lau), from January 1991 to December 1999, and he was responsible for project management. Mr. Nelson Lau was a chief executive officer of F.C.S. Interior Design and Contracting Co. Limited, whose principal business was interior design and project management services, from January 2000 to April 2011, and he was responsible for the overall business development. F.C.S. Interior Design and Contracting Co. Limited (which was deregistered in April 2011) was controlled by Mr. Nelson Lau. In February 2009, Mr. Nelson Lau established K W Nelson Interior Architect Limited (“K W Nelson”) which incorporates his name in the company name, both English and Chinese, in order to better position and brand his business in the market as well as to differentiate his business and management team from other players in the industry. As confirmed by Mr. Nelson Lau, F.C.S. Interior Design and Contracting Co. Limited did not have active operations after the establishment of K W Nelson in February 2009 and had not been subject to any material non-compliant incidents, claims, litigation or legal proceedings. Subsequent to the receipt of certain trade receivables, an application for deregistration was made in November 2010 and F.C.S. Interior Design and Contracting Co. Limited was dissolved in April 2011.

Mr. Nelson Lau obtained a certificate in basic site surveying and a certificate in engineering preparatory from Vocational Training Council Hong Kong in July 1984 and July 1985 respectively. He completed a distance learning course approved by Business & Technician Education Council, London at Morrison Hill Technical Institute (currently known as The Hong Kong Institute of Vocational Education (Morrison Hill)) and was awarded a national certificate in building studies by Business & Technician Education Council, London in July 1987.

Mr. Nelson Lau was a director of the following companies which were incorporated in Hong Kong and were deregistered pursuant to section 291AA of the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) which provides that a defunct and solvent company, may be dissolved by way of deregistration.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

It is confirmed by Mr. Nelson Lau that the following deregistrations were voluntary and made by way of submission of applications to the Companies Registry of Hong Kong. The relevant details are as follows:

Name of Company	Nature of business	Date of submission of application for deregistration	Date of deregistration
Further Concept Group Limited	Investment holding	3 March 2003	11 July 2003
Good Bridge Investments Limited	Investment holding	2 April 2001	10 August 2001
Top Wisdom Engineering Limited	Investment holding	18 April 2000	1 September 2000
F.C.S. Interior Design and Contracting Co. Limited	Interior design	22 November 2010	8 April 2011

It is confirmed by Mr. Nelson Lau that none of the predecessor companies owned and operated by him, comprising FCS Interior Design & Contracting Co., Further Concept Limited and the deregistered companies listed in the table above, has been subject to any material non-compliant incidents, claims, litigation or legal proceedings (whether actual or threatened).

Ms. Leung May Yan (梁美恩), aged 41, was appointed as an executive Director on 24 February 2016. She joined the Group in February 2009 and has been a design director of the Group. Ms. Leung is responsible for overseeing the operation of projects of the Group.

Ms. Leung has approximately 20 years of experience in interior design. Prior to joining the Group, she was an assistant interior designer of FCS Interior Design & Contracting Co., whose principal business was interior design and project management services, from July 1996 to September 1998, and she was responsible for assisting in the preparation of interior design drawings and floor plan design. She served as an interior designer of F.C.S. Interior Design and Contracting Co. Limited, which was engaged in the provision of interior design and project management services, from January 2000 to February 2009, and she was responsible for developing design concepts and preparing design proposals.

Ms. Leung graduated from Lee Wai Lee Technical Institute (currently known as The Hong Kong Institute of Vocational Education (Lee Wai Lee)) with a diploma degree in design (interior) in August 1996.

Mr. Wong Siu Hong Edward (黃兆康), aged 40, was appointed as an executive Director on 24 February 2016. He joined the Group in February 2009. He has been an interior designer responsible for creating three-dimensional virtual walk-through animations for the Group.

Mr. Wong has approximately 13 years of experience in three-dimensional interior design. Prior to joining to the Group, he was a three-dimensional designer of F.C.S. Interior Design and Contracting Co. Limited, whose principal business was interior design and project management services, from April 2003 to February 2009, and he was responsible for preparing three-dimensional drawings and graphic design. He was a three-dimensional animator of Flapper Computer Trainer Limited, whose principle business was provision of information technology training courses, from January 1999 to May 1999, and he was responsible for preparing three-dimensional drawings.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong graduated from First Institute of Art and Design with a diploma degree in interior & environmental design in August 1998.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Wai Kwan (李偉君), aged 45, was appointed as an independent non-executive Director on 18 November 2016. He is the chairman of the nomination committee and a member of the audit committee, remuneration committee and nomination committee.

Mr. Li has approximately 12 years of experience in finance and investment management. He is the chief financial officer of Zhuhai Da Heng Qin Holding Limited* (珠海大橫琴股份有限公司), which is principally engaged in primary land development, since December 2013. From March 2005 to September 2006, he worked for Esprit Holding Limited, which is listed on the Main Board (stock code: 330) and principally engaged in retail and wholesale distribution of lifestyle products, and he served as a vice president of operational finance and a vice president of finance in Asia Pacific from March 2005 to July 2006 and from August 2006 to September 2006 respectively, and he was responsible for finance and operational matters. From October 2006 to September 2010, he was a vice president of China Agri-Industries Holdings Limited, which is listed on the Main Board (stock code: 606) and principally engaged in processing on agricultural products, and he was responsible for finance and investment matters. He was a managing director of COFCO Agricultural Industrial Investment Fund Management Company Limited, which is principally engaged in asset management, from September 2010 to October 2011, and he was responsible for managing overall business and investment matters. He was a managing director of Origo Partners Plc, whose shares are listed on alternative investment market of the London stock exchange and principal business is private equity investment, from November 2011 to January 2013, and he was responsible for investment matters. Since December 2016, he has become the independent non-executive director of Miricor Enterprises Holdings Limited, which is listed on GEM (stock code: 8358).

Mr. Li is an executive committee member and treasurer of Hong Kong-ASEAN Economic Cooperation Foundation since 2015 and an executive director of the Certified Management Accountants Australia Hong Kong Branch since 2016. Mr. Li was a member of the general committee and the chairman of the investor relations committee of The Chamber of Hong Kong Listed Companies from 2008 to 2010. He was appointed as an honorary vice chairman of China Enterprise Reputation & Credibility Association (Overseas) in 2009. He was the chairman of the partnership and promotion committee of Hong Kong Investor Relations Association from 2009 to 2010. He was a member of the Organising Committee of Directors of the Year Awards 2010 organised by The Hong Kong Institute of Directors. He was a member of finance committee of Hong Kong Housing Authority from 2010 to 2012.

Mr. Li graduated from University of Toronto in Canada with a bachelor of commerce degree in November 1995. He further obtained a master of business administration degree from York University in Canada in November 1996. Mr. Li was admitted as a certified member of The Institute of Certified Management Accountants in August 2000 and the Certified General Accountants Association of Canada in October 2002. He became a chartered financial analyst of the Association for Investment Management and Research in September 2001 and a certified public accountant of Hong Kong Institute of Certified Public Accountants in October 2004. In addition, he was admitted as an associate of The Institute of Chartered Accountants in England and Wales in June 2008 and a fellow member of Association of Chartered Certified Accountants in April 2010, and a chartered professional accountant member of the Chartered Professional Accountants of British Columbia, Canada in June 2015. In December 2015, he became a member of Hong Kong Business Accountants Association.

Ms. So Patsy Ying Chi (蘇瑩枝), aged 57, was appointed as an independent non-executive Director on 18 November 2016. She is the chairlady of the audit committee and a member of the audit committee, remuneration committee and nomination committee.

* For identification purpose only

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Ms. So has approximately 17 years of experience in investment and institutional banking and approximately 5 years of experience in financial management in a listed company. Currently, she is an executive director of Progressive Consultation Limited which is principally engaged in business advisory services since June 2010, and she is responsible for overseeing the overall business and provision of consultancy services. Ms. So worked at Westpac Banking Corporation from December 1988 to April 2004, the last position she served was the head of operations and finance responsible for overseeing the overall operations. Subsequently, she worked at VXL Capital Limited (currently known as Crown International Corporation Ltd.), which is listed on the Main Board (stock code: 727) and principally engaged in property investment and hotel investment and operations, and she served as a financial controller responsible for financial management and an executive director responsible for overseeing business development from June 2004 to July 2009 and from February 2005 to July 2008, respectively.

Ms. So obtained a bachelor of commerce degree in accounting, finance and systems from The University of New South Wales in Australia in October 1982. She became an associate member of Chartered Accountants Australia and New Zealand in December 1986.

Mr. Hui Harry Chi (許志偉), aged 53, was appointed as an independent non-executive Director on 18 November 2016. He is the chairman of the remuneration committee and a member of the audit committee, remuneration committee and nomination committee.

Mr. Hui has approximately 13 years of experience in marketing and business management. He is a managing director of ClearVue Partners (Shanghai) Limited, which is principally engaged in private equity investment, since 31 October 2012, and he is responsible for the overall business development and investment strategies. He was a president of Universal Music International Limited, which is principally engaged in music production, from 2002 to 2006, and he was responsible for managing overall business in Asia (except Japan). From December 2006 to 2010, he was a vice president of China beverages business unit of Pepsico Investment (China) Limited in China, which is principally engaged in sale and distribution of beverages, and he was responsible for customer service relation strategies.

Mr. Hui obtained a bachelor of science in economics and business degree from University at Albany-SUNY in the United States in May 1985 and a master of business administration degree from University of Southern California in the United States in December 1992.

SENIOR MANAGEMENT

Mr. Ho Sai Man Simon (何世民), aged 44, joined the Group in January 2016 and was appointed as the company secretary and financial controller on 27 January 2016. Mr. Ho is primarily responsible for overseeing the overall financial management and company secretarial matters of the Group.

Mr. Ho has over 13 years of experience in accounting and financial management. Prior to joining the Group, Mr. Ho was a finance manager of J. Walter Thompson Company Limited, whose principal business is advertising services, from August 2002 to July 2013, and he was responsible for financial management. Mr. Ho was an accountant of Swire Coca-Cola HK Limited, which operates as a franchised bottler for beverages, from April 2001 to July 2002, and he was responsible for preparing accounting records and financial statements.

Mr. Ho graduated from The University of Virginia in the United States with a bachelor of science degree in commerce in May 1997. He was admitted as a member of American Institute of Certified Public Accountants in December 1999. He has been an associate member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since May 2000.

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.

Our 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. Our design & decoration projects contributed to approximately 78.1% and 73.1% of our total revenue for the years ended 31 December 2016 and 2015, respectively. Our decoration projects contributed to approximately 13.2% and 23.4% of our total revenue for the years ended 31 December 2016 and 2015, respectively.

Looking forward, the Group will continue to devote more resources towards the development of our interior design and decoration business for commercial premises. The Group will focus on the following business strategies: (i) establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities; (ii) maintain and strengthen our market position in Hong Kong and the PRC and focus on reputable customers; (iii) increase our capacity to capture more business opportunities; and (iv) expand our business in the PRC market. Details of the business strategies have been disclosed in the prospectus of the Company dated 29 November 2016.

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 23.3% to approximately HK\$59.9 million (2015: HK\$48.6 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 2016 and 2015:

Use of premises	For the year ended 31 December			
	2016		2015	
	HK\$'000	%	HK\$'000	%
Office	44,924	75.1	37,412	77.0
Retail	5,566	9.3	6,324	13.0
Others ^(Note)	9,368	15.6	4,876	10.0
Total	59,858	100.0	48,612	100.0

Note: Others mainly comprise a restaurant, a medical centre and schools.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2016 and 2015:

Project types and locations	For the year ended 31 December					
	2016			2015		
	No. of projects	HK\$'000	%	No. of projects	HK\$'000	%
Design & decoration						
Hong Kong	21	45,304	75.7	14	35,528	73.1
PRC	1	1,461	2.4	—	—	—
	22	46,765	78.1	14	35,528	73.1
Decoration						
Hong Kong	8	7,921	13.2	18	10,663	21.9
PRC	—	—	—	1	715	1.5
	8	7,921	13.2	19	11,378	23.4
Others^(Note)						
Hong Kong		5,172	8.7		1,706	3.5
Total	30	59,858	100.0	33	48,612	100.0

Note: We provided our customers at over 30 premises and over 25 premises for the years ended 31 December 2016 and 2015, respectively, with other interior design and fitting-out services including (i) handling fitting-out works for variation orders of our customers; (ii) handling maintenance works; (iii) provision of interior design proposals and/or project management services and (iv) handling various miscellaneous fitting-out works.

As shown in above tables, revenue from office projects increased to approximately HK\$44.9 million for the year ended 31 December 2016 from approximately HK\$37.4 million for the year ended 31 December 2015, representing an increase of approximately 20.1%. Revenue from office projects contributed over 75.0% of the Group's total revenue for the two years ended 31 December 2016 and 2015. Revenue from design & decoration projects increased to approximately HK\$46.8 million for the year ended 31 December 2016 from approximately HK\$35.5 million for the year ended 31 December 2015, representing an increase of approximately 31.8%. Revenue from design & decoration projects contributed over 70% of the Group's total revenue for both the years ended 31 December 2016 and 2015. The increases in both office projects and design & decoration projects were mainly driven by two major premium design & decoration projects for office premises, each with over HK\$5.0 million revenue, for the year ended 31 December 2016.

Cost of Services and Gross Profit Margin

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the breakdown of the Group's gross profit margin by use of premises for the years ended 31 December 2016 and 2015:

Use of premises	For the year ended 31 December	
	2016 <i>Gross Profit Margin</i>	2015 <i>Gross Profit Margin</i>
Office	42.3%	41.0%
Retail	28.8%	41.3%
Others	58.1%	35.7%
Overall	43.5%	40.5%

The following table sets forth the breakdown of the Group's gross profit margin by project types for the years ended 31 December 2016 and 2015:

Project types	For the year ended 31 December	
	2016 <i>Gross Profit Margin</i>	2015 <i>Gross Profit Margin</i>
Design & decoration	42.9%	41.1%
Decoration	24.8%	39.2%
Others	77.6%	35.1%
Overall	43.5%	40.5%

The Group's gross profit margin for office projects and design & decoration projects generally increased to around 42.5% for 2016 from around 41.0% for 2015 mainly due to the aforementioned two major premium design & decoration projects for office premises, each with around 50.0% gross profit margin, for the year ended 31 December 2016.

The Group's gross profit margin for retail projects and decoration projects generally decreased to around 27.0% for 2016 from around 40.0% for 2015 mainly due to a below average gross profit margin for a retail and decoration project in order to retain the existing customer with approximately 28.8% gross profit margin for the year ended 31 December 2016. The Group's gross profit margin for others projects generally increased to over 58.0% for 2016 from around 35.0% for 2015 mainly due to a design project for a medical centre with HK\$3.0 million design fee revenue for the year ended 31 December 2016.

General and Administrative Expenses

The Group's general and administrative expenses amounted to approximately HK\$5.1 million and approximately HK\$4.1 million for the years ended 31 December 2016 and 2015 respectively, representing an increase of approximately 24.4%. Such increase was primarily due to the increase in staff costs, rental expenses and other administrative expenses during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax

Income tax of the Group for the Year was approximately HK\$3.5 million (2015: HK\$2.7 million) and such growth was consistent with the increase in assessable profits during the Year as compared to the Previous Year. Listing expenses incurred during the Year were not deductible for tax purpose, resulting in a rise in effective tax rate for the Year.

Profit for the year

Profit for the Year of the Group decreased to approximately HK\$4.7 million from approximately HK\$12.9 million for the Previous Year. Excluding the one-off listing expenses of approximately HK\$12.8 million (2015: HK\$0.7 million), the Group's profit for the Year would have been approximately HK\$17.5 million (2015: HK\$13.6 million) and the increase of profit for the Year would be approximately 28.7% over the Previous Year.

Final Dividend

The Board does not recommend the payment of a final dividend for the Year (2015: Nil).

Interim Dividend

During the year ended 31 December 2016, interim dividend of HK\$38.0 million (2015: Nil) was declared and paid prior to the Listing of the Group.

Comparison of the Business Objectives with the Actual Business Progress

The Shares of the Company were listed on GEM of the Stock Exchange on 8 December 2016 shortly before the year ended 31 December 2016. The business objectives as listed in the prospectus of the Company dated 29 November 2016 (the "Prospectus") were prepared to a latest practicable date at 21 November 2016. The Board confirms that between 21 November 2016 and 31 December 2016, there was no significant progress as to the business objectives prescribed in the Prospectus. The unutilised net proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong. The Directors had evaluated the Group's business strategies and considered that, as at the date of this report, no modification of the business strategies regarding the use of proceeds as described in the Prospectus was required.

The following table sets forth the status of the use of proceeds from the placing subsequent to the listing of the Group and up to 31 December 2016:

Use of proceeds	Net proceeds <i>HK\$ million</i>	Utilised proceeds <i>HK\$ million</i>	Unutilised proceeds <i>HK\$ million</i>
Establish an international team with corresponding expansion of Hong Kong office and improvement of our equipment and facilities	13.8	—	13.8
Maintain and strengthen our market position in Hong Kong and the PRC and focus on reputable customers	6.0	—	6.0
Increase our capacity to capture more business opportunities	4.6	—	4.6
Expand our business in the PRC market	3.1	—	3.1
General working capital	3.1	—	3.1
	30.6	—	30.6

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES, GEARING RATIO AND CAPITAL STRUCTURE

During the year ended 31 December 2016, the Group financed its operations by its internal resources. As at 31 December 2016, the Group had net current assets of approximately HK\$56.8 million (2015: HK\$46.6 million), including cash and cash equivalents balances of approximately HK\$44.2 million (2015: HK\$1.9 million) mainly denominated in Hong Kong dollars. As at 31 December 2016, the Group had an unutilised banking facility of HK\$2.0 million (2015: Nil) which was secured by pledged bank deposits.

The current ratio, being the ratio of current assets to current liabilities, was approximately 13.1 times as at 31 December 2016 (2015: 7.8 times). The increase was mainly due to (i) the increase in trade and other receivables of approximately HK\$8.2 million and (ii) the decrease in tax payable of approximately HK\$2.8 million.

The gearing ratio of the Group as at 31 December 2016 was nil (2015: 0.9%) 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 the Listing Date. The equity attributable to owners of the Company amounted to approximately HK\$57.6 million as at 31 December 2016 (2015: HK\$47.8 million).

PLEDGE OF ASSETS

As of 31 December 2016, the Group had pledged bank deposits of HK\$2.0 million (2015: Nil) to secure the banking facilities granted to the Group. Save for the above, the Group did not have any charges on its assets.

FOREIGN EXCHANGE EXPOSURE AND TREASURY POLICY

The majority of the Group's business operations were conducted in Hong Kong. The transactions, monetary assets and liabilities of the Group were mainly denominated in Hong Kong dollars. During the 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 2016 and 2015, the Group did not have any material capital commitment.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES MANAGEMENT

As at 31 December 2016, the Group had a total of 13 (2015: 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

As at 31 December 2016 and 2015, the Group did not have any material contingent liability.

DIRECTORS' REPORT

The Board is pleased to present their first annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016 after its listing on the GEM of the Stock Exchange on 8 December 2016 (the "Listing Date" and the "Listing", respectively).

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 7 January 2016. Pursuant to the special resolution duly passed by the sole shareholder on 5 September 2016, the name of Company changed from FCS Nelson Holdings Limited to K W Nelson Interior Architect Group Limited.

Under a group reorganisation scheme (the "Reorganisation") in November 2016 to rationalise the structure of the Group in preparation for the initial public offering of the shares of the Company on GEM of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. Further details of the Reorganisation are set out in the prospectus of the Company dated 29 November 2016 (the "Prospectus").

The shares of the Company have been listed on GEM of the Stock Exchange since the Listing Date.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 2 to the consolidated financial statements. The Group is principally engaged in the provision of interior designs, project management services and fitting-out works for commercial premises, including office and retail space.

SEGMENTAL INFORMATION

The Group's segment information and revenue for the year ended 31 December 2016 are set out in Note 2 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Company and of the Group as at that date are set out in the consolidated financial statements on pages 38 to 73.

During the year ended 31 December 2016, interim dividend of HK\$38.0 million (2015: Nil) was declared and paid prior to the Listing.

During the year ended 31 December 2016, there was no arrangement under which any shareholder waived or agreed to waive any dividend.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

BUSINESS REVIEW

A fair review of the business of the Group as well as discussion and analysis of the Group's performance during the year under review and the material factors underlying its financial performance and financial position can be found in the "Chairman's Statement" and "Management Discussion and Analysis" set out on page 5 and pages 10 to 15 respectively.

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties. All the risks relating to the Group's business have been set out in the Prospectus under the section headed "Risk Factors".

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group commits to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

The Group also commits to the principle and practice of recycling and reducing. To help conserve the environment, it implements green office practices such as re-deployment of office furniture as far as possible, encourage use of recycled paper for printing and copying, double-sided printing and copying, reduce energy consumption by switching off idle lightings, air conditioning and electrical appliances.

The Environmental, Social and Governance Report of the Company containing the details of the environmental, social and governance performance of the Group will be issued in June 2017.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the importance of maintaining a good relationship with its suppliers, customers and other stakeholders to meet its immediate and long-term goals.

During the year under review, there were no material and significant dispute between the Group and its suppliers, customers and/or other stakeholders.

PERMITTED INDEMNITY

Pursuant to the memorandum and articles of association ("Articles of Association") of the Company, the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in the execution of their duties in their offices. Such permitted indemnity provision has been in force throughout the year under review. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

ANNUAL GENERAL MEETING

The 2017 annual general meeting of the Company (the "2017 AGM") will be held on Thursday, 8 June 2017. A circular containing the details of 2017 AGM and the notice of 2017 AGM and form of proxy accompanying thereto will soon be despatched to shareholders of the Company.

DIRECTORS' REPORT

RESERVES

Details of movements in the reserves of the Company and the Group during the year under review are set out in Note 18 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$33,727,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year under review are set out in Note 10 to the consolidated financial statements.

INTEREST CAPITALISED

No interest was capitalised by the Group during the year ended 31 December 2016.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group, as extracted from the consolidated financial statements, is set out on page 74 of this Annual Report. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital and movements during the year under review are set out in Note 18 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's articles of association (the "Articles of Association") or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the year under review is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	10.0%	–
Five largest customers in aggregate	42.5%	–
The largest supplier	–	9.8%
Five largest suppliers in aggregate	–	28.2%

At no time during the year under review, none of the Directors, their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the major customers and suppliers disclosed above.

DIRECTORS' REPORT

DIRECTORS

The Directors during the year under review and up to the date of this Annual Report are as follows:

Executive Directors

Mr. Lau King Wai (*Chairman and Chief Executive Officer*) (*appointed on 7 January 2016*)

Ms. Leung May Yan (*appointed on 24 February 2016*)

Mr. Wong Siu Hong Edward (*appointed on 24 February 2016*)

Independent non-executive Directors

Mr. Li Wai Kwan (*appointed on 18 November 2016*)

Mr. Hui Harry Chi (*appointed on 18 November 2016*)

Ms. So Patsy Ying Chi (*appointed on 18 November 2016*)

Pursuant to article 83(3) of the Articles of Association, Mr. Lau King Wai, Ms. Leung May Yan, Mr. Wong Siu Hong Edward, Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi shall retire from office as Directors at the conclusion of the 2017 AGM and, being eligible, offer themselves for re- election at the 2017 AGM.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 6 to 9 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. Lau King Wai has entered into a service agreement with the Company on 24 February 2016 for an initial period from 7 January 2016 to the Listing Date and three years from the Listing Date unless terminated by not less than three months' notice in writing served by either party on the other or otherwise in accordance with the service agreement.

Each of the executive Directors has entered into a service agreement with the Company on 24 February 2016 for an initial period from 24 February 2016 to the Listing Date and three years from the Listing Date unless terminated by not less than three months' notice in writing served by either party on the other or otherwise in accordance with the service agreement.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of one year commencing from their respective dates of appointment and such letter of appointment may be terminated by either party giving at least three months' notice in writing.

Save as disclosed above, none of the Directors being proposed for re-election at the 2017 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

INDEPENDENCE CONFIRMATION

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

DIRECTORS' REPORT

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Notes 7 and 8 to the consolidated financial statements.

MANAGEMENT CONTRACTS

As at 31 December 2016, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

EMOLUMENT POLICY

In order to recruit, develop and retain talented employees, we offer competitive remuneration packages to the staff, including internal promotion opportunities, performance-based commission and bonus. The remuneration packages are subject to review on a regular basis.

The emoluments of the Directors are reviewed by the Remuneration Committee, having regard to the Company's operating results, individual performance, seniority, experience, duties and responsibilities within the Group and comparable market statistics. Each executive Director may also receive a discretionary bonus in respect of each completed calendar year of service. The amount of such bonus will be determined by the Remuneration Committee, subject to the approval by shareholders in general meeting.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group are set out in Note 5 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACT

Saved as disclosed under the section "Connected Transactions" below, no contract of significance to which the Company, or any of its holding company or subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year under review or at any time during the year under review.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or the substantial shareholders of the Company ("Substantial Shareholders") or their respective close associates (as defined in the GEM Listing Rules) has interests in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the year ended 31 December 2016 and up to the date of this Annual Report.

CHANGES IN INFORMATION OF DIRECTORS

The changes in Directors' information subsequent to the Listing Date, as required to be disclosed pursuant to Rule 17.50A (1) of the GEM Listing Rules, are set out below:

- Mr. Li Wai Kwan was appointed as an independent non-executive director of Miricor Enterprises Holdings Limited, a company listed on the GEM (Stock code: 8358), with effect from 19 December 2016.

DIRECTORS' REPORT

NON-COMPETITION UNDERTAKING

Each of Mr. Lau King Wai and Sino Emperor Group Limited ("Sino Emperor"), which is beneficially and wholly owned by Mr. Lau King Wai, as covenantor (each a "Covenantor", collectively, "Covenantors") entered into a non-competition undertaking dated 18 November 2016 in favour of the Group (the "Non-competition Undertaking").

The Company has received from each of the Covenantors an annual written confirmation on the compliance with the Non-competition Undertaking for the period from the Listing Date to 31 December 2016. The independent non-executive Directors have reviewed the compliance of the Non-competition Undertaking from the Covenantors and evaluated the effectiveness of the implementation of the Non-competition Undertaking, and were satisfied that the Covenantors have complied with the Non-competition Undertaking for the period from the Listing Date to 31 December 2016.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, the interests or short positions of the Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, will be as follows:

Long Positions in Shares of the Company

Name	Company/name of associated corporation	Capacity/Nature of interest	Interests in Shares	Approximate percentage shareholding
Mr. Lau King Wai	The Company	Interest of a controlled corporation (<i>Note</i>)	750,000,000	75%

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

Saved as disclosed above, as at 31 December 2016, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the section "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares or Debentures of the Company and Its Associated Corporations" above, at no time during the year ended 31 December 2016 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

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

So far as the Directors are aware, as at 31 December 2016, other than the Directors or chief executives of the Company whose interests or short positions are disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares or Debentures of the Company and Its Associated Corporations" above, the following person has an interest or short position in the shares or underlying shares of the Company which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, and who were expected, directly or indirectly, to be interested in 5% or more of the issued shares of the Company are listed as follows:

Long Positions in Shares of the Company

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage shareholding
Sino Emperor (<i>Note 1</i>)	Beneficial owner	750,000,000	75%
Ms. Chan Pui Shan, Jessica (<i>Note 2</i>)	Interest of spouse	750,000,000	75%

Notes:

1. Sino Emperor is beneficially and wholly owned by Mr. Lau King Wai. By virtue of the SFO, Mr. Lau King Wai is deemed to be interested in all the Shares held by Sino Emperor.
2. 750,000,000 Shares are held by Sino Emperor, which is a company controlled by Mr. Lau King Wai. By virtue of the SFO, Ms. Chan Pui Shan, Jessica, who is the spouse of Mr. Lau King Wai, is taken to be interested in these Shares.

Saved as disclosed above, as at 31 December 2016, the Directors were not aware of any other person (other than the Directors or chief executives as disclosed in the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares or Debentures of the Company and Its Associated Corporations" above) who had, or deemed to have, interests or short positions in the shares, underlying shares or debentures of the Company which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, or who were directly or indirectly interested in 5% or more of the issued shares of the Company.

DIRECTORS' REPORT

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 period from the Listing Date to 31 December 2016.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2016 are disclosed in Note 21 to the consolidated financial statements.

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2016

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2016 and up to the date of approval of this Annual Report.

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 period from the Listing Date to 31 December 2016. The Company was not aware of any non-compliance during the period from the Listing Date to 31 December 2016.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" section of this Annual Report.

COMPLIANCE ADVISER'S INTEREST IN THE COMPANY

As at 31 December 2016, as notified by the Company's compliance adviser, Prosperity Capital Holdings Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 18 November 2016, neither the Compliance Adviser nor its directors, employees or its close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed with the 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 audited consolidated financial statements for the year ended 31 December 2016, with 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.

DIRECTORS' REPORT

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 have been audited by KPMG, Certified Public Accountants, ("KPMG") who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company will be proposed at the 2017 AGM.

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

Hong Kong, 16 March 2017

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2016.

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. As the Company's ordinary shares of HK\$0.01 each (the "Shares") were initially listed on the GEM on 8 December 2016 (the "Listing Date" and the "Listing", respectively), before the Listing Date, the CG Code was not applicable to the Company. During the period from the Listing Date to 31 December 2016, 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.

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.

BOARD OF DIRECTORS

Board Composition

The Board of the Company currently comprises six members, of which three are executive Directors namely Mr. Lau King Wai (Chairman and Chief Executive Officer ("CEO")), Ms. Leung May Yan and Mr. Wong Siu Hong Edward and three are independent non-executive Directors namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi. Each of the Directors' respective biographical details is set out in the section headed "Biographical Details of the Directors and Senior Management" of this Annual Report. The Board included at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise at all times during the year ended 31 December 2016. None of the members of the Board is related to one another.

CHAIRMAN AND CEO

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. In view of Mr. Lau King Wai, being the founder of the Group and his experience and his roles in the Group, the Board considers it beneficial to the business prospect and operational efficiency of the Group that Mr. Lau King Wai acts as the chairman of the Board (the "Chairman") and continues to act as the 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 Chairman is responsible for the Group's strategic planning and the management of the operations of the Board, while the CEO takes the lead in the Group's operations and business development. There is a clear division of responsibilities between the Chairman and CEO of the Company which provides a balance of power and authority.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of one year commencing from their respective dates of appointment and such letter of appointment may be terminated by either party giving at least three months' notice in writing. Also, the independent non-executive Directors are subject to re-election on retirement by rotation at the annual general meeting in accordance with the Articles of Association of the Company.

The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Rule 5.09 of the GEM Listing Rules. The Company considers all independent non-executive Directors namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi to be independent in accordance with the independence guidelines set out in the GEM Listing Rules for the year ended 31 December 2016.

ROLE AND FUNCTION OF THE BOARD

The Board is responsible for overall management of the Company's business, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

DELEGATION BY THE BOARD

The Board reserves for its decisions on all major matters of the Company, including the approval and monitoring of major policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and senior management. The delegated functions and work tasks are reviewed from time to time. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board.

DIRECTORS' INSURANCE COVER OF LEGAL ACTION

Proper insurance coverage in respect of legal actions against the Directors' liability, which has complied with the CG Code, has been arranged by the Company.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

CORPORATE GOVERNANCE REPORT

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

The Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness.

PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to the newly appointed Directors before their appointment as Directors. All Directors have been updated on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure Directors, upon request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Directors confirmed that they have complied with the code provision A.6.5 of the CG Code on Directors' training. During the year ended 31 December 2016, before the Listing, all Directors have participated in continuous professional development by attending seminars/in-house briefing/reading materials to develop and refresh their knowledge and skills and provided a record of training to the Company. These covered a broad range of topics including Directors' duties, corporate governance and recent updates on the GEM Listing Rules.

Name of Directors	Attended seminars or briefing/read materials
Executive Directors	
Mr. Lau King Wai (<i>Chairman and Chief Executive officer</i>) (<i>appointed on 7 January 2016</i>)	✓
Ms. Leung May Yan (<i>appointed on 24 February 2016</i>)	✓
Mr. Wong Siu Hong Edward (<i>appointed on 24 February 2016</i>)	✓
Independent non-executive Directors	
Mr. Li Wai Kwan (<i>appointed on 18 November 2016</i>)	✓
Mr. Hui Harry Chi (<i>appointed on 18 November 2016</i>)	✓
Ms. So Patsy Ying Chi (<i>appointed on 18 November 2016</i>)	✓

BOARD MEETINGS

Notice of at least 14 days have been given to all Directors for all regular Board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying Board papers in respect of regular Board meetings are sent out in full to all Directors within reasonable time before the meeting. Draft minutes of all Board meetings are circulated to Directors for comment within a reasonable time prior to confirmation.

Minutes of Board meetings and meetings of Board committees are kept by duly appointed secretaries of the respective meetings and all Directors have access to Board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

CORPORATE GOVERNANCE REPORT

NUMBER OF MEETINGS AND ATTENDANCE RECORDS

During the period from the Listing Date to 31 December 2016, no Board meeting was held.

BOARD COMMITTEE

Audit Committee

The Company established an audit committee (the "Audit Committee") on 18 November 2016 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The 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 2016, 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.

During the period from the Listing Date to 31 December 2016, no meeting of Audit Committee was held.

Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") on 18 November 2016 with written terms of reference in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules and paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Remuneration Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group; review performance-based remuneration; and ensure none of the Directors determine their own remuneration. As at 31 December 2016, the Remuneration Committee consists of three members, namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi. Mr. Hui Harry Chi is the chairman of the Remuneration Committee. The Remuneration Committee has adopted the operation model where it performs an advisory role to the Board, with the Board retaining the final authority to approve the remuneration packages of individual executive Directors and senior management.

During the period from the Listing Date to 31 December 2016, no meeting of Remuneration Committee was held.

Nomination Committee

The Company established a nomination committee (the "Nomination Committee") on 18 November 2016 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The terms of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the GEM website and the Company's website. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; identify individuals suitably qualified to become Board members; assess the independence of independent non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. As at 31 December 2016, the Nomination Committee consists of three members, namely Mr. Li Wai Kwan, Mr. Hui Harry Chi and Ms. So Patsy Ying Chi. Mr. Li Wai Kwan is the chairman of the Nomination Committee.

CORPORATE GOVERNANCE REPORT

Where vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, including the independence status in the case of an independent non-executive Director, the Company's needs and other relevant statutory requirements and regulations. During the period from the Listing Date to 31 December 2016, no new Director was appointed.

During the period from the Listing Date to 31 December 2016, no meeting of Nomination Committee was held.

Corporate Governance Function

All members of the Board are responsible for performing the corporate governance functions. The terms of reference of corporate governance functions was adopted by the Board at the Board meeting held on 18 November 2016 and is in compliance with paragraph D.3.1 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The Board will review the policy of the corporate governance and the corporate governance report of the Company annually.

DIRECTORS' SECURITIES TRANSACTIONS

The Group adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions of the Company. Upon the Company's specific enquiry, each Director had confirmed that during the period from the Listing Date to 31 December 2016, they had fully complied with the required standard of dealings and there was no event of non-compliance.

AUDITOR'S REMUNERATION

During the year ended 31 December 2016, the fees paid/payable to KPMG, Certified Public Accountants (the "KPMG"), the auditor of the Company, and its affiliate companies in respect of audit and non-audit services provided by them to the Group were as follows:

Service rendered	Fees paid/payable HK\$
Audit services	830,000
Non-audit services:	
Other services	2,450,000
Total	3,280,000

The non-audit services mainly included the service fee paid to KPMG as the reporting accountant of the Company in relation to the Listing. The Audit Committee was satisfied that the non-audit services in 2016 did not affect the independence of the auditor.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

The Group has maintained internal control policies to provide sufficient guidelines for the management staff and employees of the Company to work efficiently under a standardised work procedure. The internal control policies cover various operating processes from risk assessment, financial reporting, cost management, pricing for projects, staff recruitment and training to IT system control. The internal control system is generally overseen by the executive Directors and senior management. During the year ended 31 December 2016, the Group has engaged an independent external consulting firm as the Group's internal control consultant (the "Consultant") to review the effectiveness of the Group's internal control measures. In the opinion of the Consultant, the Group has established effective internal control measures to ensure that the operations of the Group will be in full compliance with the applicable laws and regulations in Hong Kong and the PRC.

The Board is committed to implementing an effective and sound internal control system to safeguard the interest of Shareholders and the Group's assets and the internal control systems will be reviewed annually.

RISK MANAGEMENT

In the course of conducting the business of the Group, the Company is exposed to various types of risks, including business risks, financial risks, operation and other risks. All the risks relating to the Group's business have been set out under the section headed "Risk Factors" in the prospectus of the Company dated 29 November 2016.

The Board is ultimately responsible for the risk management of the Group. At operational level, a risk management team is in place to carry out risk identification and monitoring procedures. The risk management team consists of the operation staff, the company secretary and Mr. Lau King Wai. The objectives of the risk management are to enhance the governance and corporate management processes as well as to safeguard the Group against unacceptable levels of risks and losses.

The risk management process of the Group will involve, among others, (i) a quarterly risk identification and analysis exercise which involves assessment of the consequence and likelihood of risks and the development of risk management plans for mitigating such risks; and (ii) a quarterly review of the implementation of the risk management plans and fine tune when necessary.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group and ensure that the consolidated financial statements are prepared in accordance with statutory requirements and applicable accounting standards. In preparing the consolidated financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

The statement of external auditor of the Company, KPMG, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS AND COMMUNICATION

The Board recognises the importance of good communications with all shareholders. The Company encourages two-way communications with both its institutional and private investors. A shareholder's communication policy was adopted by the Board at the Board meeting held on 18 November 2016 aiming at providing the shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. Extensive information about the Company's activities is provided in its interim report, quarterly reports and this Annual Report, which are sent to shareholders of the Company. The annual general meeting provides a valuable forum for direct communication between the Board and the Company's shareholders. The Chairman of the Board as well as Chairmen of the Board Committees together with the auditor will present to answer shareholders' questions. The circulars of the annual general meeting are distributed to all shareholders at least 21 clear days before the meeting. Separate resolutions are proposed at general meetings on each separate issue and voting of which are taken by poll pursuant to the GEM Listing Rules. Any results of the poll are published on both the GEM website and the Company's website. All corporate communication with shareholders will be posted on the Company's website for shareholders' information.

During the period from the Listing Date to 31 December 2016, no general meeting was held.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's head office.

COMPANY SECRETARY

The company secretary of the Company ("Company Secretary"), Mr. Ho Sai Man Simon, was appointed on 27 January 2016. He is responsible for facilitating the Board meeting process, as well as communications among Board members, with shareholders and management. Mr. Ho's biography is set out in the "Biographical Details of the Directors and Senior Management" section. During the year ended 31 December 2016, Mr. Ho undertook not less than 15 hours of professional training to update his skills and knowledge.

SHAREHOLDERS' RIGHT

Procedures for Shareholders to Convene an Extraordinary General Meeting

Pursuant to the Article of Association, an extraordinary general meeting of the Company (the "EGM") may be convened by the Board upon requisition by any shareholder holding not less than one-tenth of the issued share capital of the Company and the securities being held carrying the right of voting at any general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary at the head office of the Company at Room 1703, 17th Floor, Technology Plaza, 651 King's Road, Quarry Bay, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

CORPORATE GOVERNANCE REPORT

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. Pursuant to the Article of Association, the Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business.

If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such EGM, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward Proposals at a General Meeting

A shareholder shall make a written requisition to the Board or the Company Secretary at the head office of the Company at Room 1703, 17th Floor, Technology Plaza, 651 King's Road, Quarry Bay, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the Company Secretary at the head office of the Company at Room 1703, 17th Floor, Technology Plaza, 651 King's Road, Quarry Bay, Hong Kong, or send email to info@kwnelson.com.hk. Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

Except for the adoption of amended and restated memorandum of association of the Company (the "M&A") by the Company to comply with the applicable legal and regulatory requirements (including the GEM Listing Rules) on 18 November 2016 in anticipation of the Listing, there were no changes in the constitutional documents of the Company during the year ended 31 December 2016.

The amended and restated M&A is available on the respective websites of GEM and the Company.

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report to the shareholders of K W Nelson Interior Architect Group Limited *(Incorporated in the Cayman Islands with limited liability)*

Opinion

We have audited the consolidated financial statements of K W Nelson Interior Architect Group Limited and its subsidiaries ("the Group") set out on pages 38 to 73, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Revenue recognition

Refer to accounting policy note 1(o)(i) and note 2 to the consolidated financial statements

The key audit matter

The Group's principal activities are the provision of interior decorating services focusing on commercial premises, including office and retail space, mainly located in Hong Kong. Revenue represents contract revenue from the provision of interior design services, project management services and fitting-out works.

The Group generally takes one to six months to complete a project, with majority of the projects being completed within three months.

Revenue from fixed price contract work is recognised based on the stage of completion of the contract, provided that the stage of contract completion and the gross billing value of the contract work can be measured reliably. The stage of completion of a contract is established according to the completion of specific detailed components of the total contract as set out in the contract. Variations in contract work are included in contract revenue to the extent that they will result in revenue and they are capable of being reliably measurable.

We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue included the following:

- evaluating the design, implementation and operating effectiveness of key internal controls which govern revenue recognition;
- inspecting contracts, on a sample basis, to assess whether management recognised the related revenue in accordance with the Group's accounting policies, with reference to the requirements of the prevailing accounting standards;
- conducting site visits throughout the year to a selection of projects to understand the scope and nature of the projects and to assess the progress of the projects;
- comparing, on a sample basis, revenue transactions recorded during the year with the underlying contracts and variation orders (if any), floor plans, progress reports, photographs of completed projects, invoices and bank-in slips for settled balances and assessing the business substance of the underlying transactions and whether the related revenue had been recognised in accordance with the Group's revenue recognition policies;
- obtaining confirmations, on a sample basis, from major customers of the Group to confirm revenue recognised during the year and, for unreturned confirmations, performing alternative procedures by comparing details with contracts, bank-in slips and other underlying project related documentation;
- conducting site visits to projects in progress as at the year end, physically inspecting the stage of completion and discussing with the Group management and project managers the physical status of the projects in progress with reference to the specifications in the contracts; and
- scrutinising all the revenue journals raised throughout the reporting period and comparing details of a sample of these journals, which met certain risk-based criteria, with relevant underlying documentation.

INDEPENDENT AUDITOR'S REPORT

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee Ka Nang.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

16 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Note	2016 HK\$'000	2015 HK\$'000
Revenue	2	59,858	48,612
Cost of services		(33,830)	(28,936)
Gross profit		26,028	19,676
Other revenue	3	3	79
Other net income	4	—	669
General and administrative expenses		(5,059)	(4,116)
Listing expenses		(12,782)	(701)
Profit before taxation	5	8,190	15,607
Income tax	6(a)	(3,522)	(2,681)
Profit for the year		4,668	12,926
Earnings per share	9		
Basic and diluted		HK0.6 cent	HK1.7 cent

The notes on pages 43 to 73 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2016
(Expressed in Hong Kong dollars)*

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit for the year	4,668	12,926
Other comprehensive income for the year (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiary with functional currency other than Hong Kong dollars	(175)	(225)
Total comprehensive income for the year	4,493	12,701

The notes on pages 43 to 73 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

(Expressed in Hong Kong dollars)

	Note	2016 HK\$'000	2015 HK\$'000
Non-current assets			
Property, plant and equipment	10	971	1,354
Current assets			
Trade and other receivables	12	14,069	5,872
Tax recoverable	15(a)	1,200	—
Amount due from a director	17	—	45,658
Pledged bank deposits	13	2,000	—
Cash and cash equivalents	13	44,219	1,910
		61,488	53,440
Current liabilities			
Gross amounts due to customers for contract work	14	150	—
Trade and other payables	16	4,550	3,587
Amount due to a director	17	—	407
Tax payable	15(a)	—	2,819
		4,700	6,813
Net current assets		56,788	46,627
Total assets less current liabilities		57,759	47,981
Non-current liabilities			
Deferred tax liabilities	15(b)	160	223
NET ASSETS		57,599	47,758
CAPITAL AND RESERVES			
Share capital	18(c)	10,000	—*
Reserves		47,599	47,758
TOTAL EQUITY		57,599	47,758

* The balance represents an amount less than HK\$1,000.

Approved and authorised for issue by the board of directors on 16 March 2017.

Lau King Wai
Director

Leung May Yan
Director

The notes on pages 43 to 73 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Share capital	Share premium	Exchange reserve	Merger reserve	Capital contribution reserve	Retained profits	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2015	—*	—	115	—	—	29,942	30,057
Changes in equity for 2015:							
Profit for the year	—	—	—	—	—	12,926	12,926
Other comprehensive income	—	—	(225)	—	—	—	(225)
Total comprehensive income	—	—	(225)	—	—	12,926	12,701
Contribution from the controlling shareholder	—	—	—	—	5,000	—	5,000
Balance at 31 December 2015 and 1 January 2016	—*	—	(110)	—	5,000	42,868	47,758
Changes in equity for 2016:							
Profit for the year	—	—	—	—	—	4,668	4,668
Other comprehensive income	—	—	(175)	—	—	—	(175)
Total comprehensive income	—	—	(175)	—	—	4,668	4,493
Dividend declared in respect of the current year	18(b)	—	—	—	—	(38,000)	(38,000)
Issuance of new shares	18(c)	2,500	40,848	—	—	—	43,348
Reorganisation and capitalisation issue	18(c)	7,500	(7,120)	(380)	—	—	—
Balance at 31 December 2016	10,000	33,728	(285)	(380)	5,000	9,536	57,599

* The balance represents an amount less than HK\$1,000.

The notes on pages 43 to 73 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016
(Expressed in Hong Kong dollars)

	Note	2016 HK\$'000	2015 HK\$'000
Operating activities			
Cash generated from operations	13(b)	1,529	10,427
Tax paid:			
— Hong Kong Profits Tax paid		(7,594)	(5,868)
— People's Republic of China ("PRC") Corporate Income Tax paid		(10)	(8)
Net cash (used in)/generated from operating activities		(6,075)	4,551
Investing activities			
Payment for the purchase of property, plant and equipment		(93)	(35)
Proceeds from sale of property, plant and equipment		—	1,869
Decrease/(increase) in amount due from a director		10,468	(12,377)
Increase in pledged bank deposits		(2,000)	—
Interest received		3	77
Net cash generated from/(used in) investing activities		8,378	(10,466)
Financing activities			
Payment of listing expenses		(6,652)	(234)
Proceeds from shares issued		50,000	—
Decrease in amount due to a director		(407)	(21)
Dividend paid		(2,810)	—
Net cash generated from/(used in) financing activities		40,131	(255)
Net increase/(decrease) in cash and cash equivalents		42,434	(6,170)
Cash and cash equivalents at 1 January	13(a)	1,910	8,160
Effect of foreign exchange rate changes		(125)	(80)
Cash and cash equivalents at 31 December	13(a)	44,219	1,910

The notes on pages 43 to 73 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“the GEM Listing Rules”). Significant accounting policies adopted by the Group are disclosed below. These financial statements are presented in Hong Kong dollars and all figures are rounded to the nearest thousand (“HK\$’000”) unless otherwise indicated.

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 these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise K W Nelson Interior Architect 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.

The Company was incorporated in the Cayman Islands on 7 January 2016. Pursuant to a reorganisation of the Group (“the Reorganisation”) which was completed on 17 November 2016 to rationalise the corporate structure in preparation for the listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”), the Company became the holding company of the subsidiaries now comprising the Group. The Company’s shares were listed on GEM of the Stock Exchange on 8 December 2016. Details of the Reorganisation are set out in the prospectus of the Company dated 29 November 2016 (the “Prospectus”). The Reorganisation has been accounted for in accordance with paragraph 5 of Accounting Guideline 5, *Merger accounting for common control combinations*, issued by the HKICPA, which requires the use of a principle similar to that for a reverse acquisition as set out in HKFRS 3, *Business combinations*. The issue of shares of the Company in exchange for the entire interest in Golden Icon Group Limited (“Golden Icon”) resulted in the Company becoming the holding of Golden Icon and the assets and liabilities of Golden Icon and its subsidiaries are recognised and measured at their historical carrying values prior to the Reorganisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 23.

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these 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.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(g)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Office equipment	5 years
— Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets

(i) *Impairment of trade and other receivables*

Trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 1(o). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade and other receivables". Amounts received before the related work is performed are presented as "Receipt in advance" under "Trade and other payables".

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(g)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(j) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(l) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)*

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised based on the stage of completion of the contract, provided that the stage of contract completion and the gross billing value of the contract work can be measured reliably. The stage of completion of a contract is established according to the proportion of work performed to date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Revenue recognition (Continued)

(i) Contract revenue (Continued)

Variations in contract work are included in contract revenue to the extent that they will result in revenue and they are capable of being reliably measurable.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations with functional currency other than Hong Kong dollars, are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(q) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Related parties (Continued)

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(r) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

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 the PRC.

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 is diversified and includes one (2015: one) customer with whom transactions has exceeded 10% of the Group's revenue for the year ended 31 December 2016. Contract revenue earned from this customer, amounted to HK\$5,998,000 (2015: HK\$7,078,000) for the year ended 31 December 2016. Details of concentrations of credit risk arising from the customers are set out in note 19(a).

(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.

	Revenues from external customers		Specified non-current assets	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Hong Kong (place of domicile)	58,397	47,897	968	1,353
The PRC	1,461	715	3	1
	59,858	48,612	971	1,354

3 OTHER REVENUE

	2016 HK\$'000	2015 HK\$'000
Interest Income	3	77
Sundry Income	—	2
	3	79

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

4 OTHER NET INCOME

	2016 HK\$'000	2015 HK\$'000
Net gain on disposal of property, plant and equipment	—	669

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2016 HK\$'000	2015 HK\$'000
<i>(a) Staff costs</i>		
Salaries, wages and other benefits	4,599	4,180
Contributions to defined contribution retirement plan	216	160
	4,815	4,340

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

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

	2016 HK\$'000	2015 HK\$'000
<i>(b) Other items</i>		
Depreciation (<i>note 10</i>)	476	463
Operating lease charges: minimum lease payments		
— property rental	526	301
Auditors' remuneration		
— audit services	830	39
— other services	2,450	—
Cost of services (<i>note</i>)	33,830	28,936

Note: Cost of services includes HK\$2,671,000 (2015: HK\$2,732,000) relating to staff costs, which is also included in the respective total amounts disclosed separately in note 5(a).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2016 HK\$'000	2015 HK\$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	3,465	2,774
Under-provision in respect of prior years	120	—
	3,585	2,774
Current tax — PRC Corporate Income Tax		
Provision for the year	—	9
Deferred tax		
Reversal of temporary differences (note 15(b))	(63)	(102)
	3,522	2,681

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year. Taxation for the PRC subsidiary in 2015 was charged at a reduced rate for small and low-profit enterprise at 10% of the estimated profits.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016 HK\$'000	2015 HK\$'000
Profit before taxation	8,190	15,607
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	1,378	2,557
Tax effect of non-deductible expenses	2,024	124
Under-provision in respect of prior years	120	—
Actual tax expense	3,522	2,681

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	2016 Total HK\$'000
Executive directors					
Mr. LAU King Wai	—	240	—	12	252
Ms. LEUNG May Yan	—	363	110	18	491
Mr. WONG Siu Hong Edward	—	242	110	13	365
Independent non-executive directors					
Ms. So Patsy Ying Chi	14	—	—	—	14
Mr. Li Wai Kwan	14	—	—	—	14
Mr. Hui Harry Chi	14	—	—	—	14
	42	845	220	43	1,150

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	2015 Total HK\$'000
Executive directors				
Mr. LAU King Wai	—	540	12	552
Ms. LEUNG May Yan	—	454	18	472
Mr. WONG Siu Hong Edward	—	308	13	321
	—	1,302	43	1,345

During the years ended 31 December 2015 and 2016, there was no amount paid or payable by the Group to the directors or any of the highest paid individuals as set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was also no arrangement under which a director has waived or agreed to waive any remuneration during the years ended 31 December 2015 and 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 2 (2015: 2) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other 3 (2015: 3) individuals are as follows:

	2016 HK\$'000	2015 HK\$'000
Salaries and other emoluments	1,393	1,222
Retirement scheme contributions	51	47
	1,444	1,269

The emoluments of the 3 (2015: 3) individuals with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
Nil — HK\$1,000,000	3	3

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$4,668,000 (2015: HK\$12,926,000) and the weighted average of 766,393,000 ordinary shares (2015: 750,000,000 ordinary shares) in issue during the year. The weighted average number of ordinary shares in issue during the years ended 31 December 2015 and 2016 is calculated based on the assumption that 750,000,000 shares were in issue throughout the entire years, taking into consideration of the effect of Reorganisation and the capitalisation issue.

Weighted average number of ordinary shares

	2016 '000	2015 '000
Reorganisation and capitalisation issue	750,000	750,000
Effect of shares issued pursuant to the placing on 8 December 2016	16,393	—
Weighted average number of ordinary shares at 31 December	766,393	750,000

(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 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong dollars unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT

	Office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At 1 January 2015	38	4,282	4,320
Additions	35	—	35
Disposals	—	(2,000)	(2,000)
At 31 December 2015	73	2,282	2,355
At 1 January 2016	73	2,282	2,355
Exchange adjustments	(1)	—	(1)
Additions	93	—	93
At 31 December 2016	165	2,282	2,447
Accumulated depreciation:			
At 1 January 2015	33	1,305	1,338
Charge for the year	7	456	463
Written back on disposals	—	(800)	(800)
At 31 December 2015	40	961	1,001
At 1 January 2016	40	961	1,001
Exchange adjustments	(1)	—	(1)
Charge for the year	20	456	476
At 31 December 2016	59	1,417	1,476
Net book value:			
At 31 December 2016	106	865	971
At 31 December 2015	33	1,321	1,354

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

11 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Golden Icon	British Virgin Islands ("BVI")	1 share of US\$1	100%	100%	—	Investment holding
K W Nelson Interior Architect Limited ("K W Nelson")	Hong Kong	10,000 shares	100%	—	100%	Provision of interior designs, project management services and fitting-out works
Guangzhou Nelson Decoration Limited ("Guangzhou Nelson") (「廣州市立以遜裝飾有限公司」) (Note)	PRC	HK\$1,000,000	100%	—	100%	Fitting-out and interior design

Note: Guangzhou Nelson is registered under the law of the PRC as foreign investment enterprise. The official name of the entity is in Chinese. The English name is for identification purpose only.

12 TRADE AND OTHER RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Trade receivables	12,304	2,379
Retention receivables	1,380	457
Deposits, prepayments and other receivables	385	3,036
	14,069	5,872

The amount of deposits, prepayments and other receivables expected to be recovered or recognised as expense after more than one year is HK\$165,000 (2015: HK\$360,000). All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

12 TRADE AND OTHER RECEIVABLES (Continued)

(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 allowance of doubtful debts), based on the invoice date, is as follows:

	2016 HK\$'000	2015 HK\$'000
Within 1 month	9,529	197
Over 1 month to 2 months	302	625
Over 2 months to 3 months	501	403
Over 3 months	1,972	1,154
	12,304	2,379

Trade receivables are generally due within 7 to 21 days from the date of billing. Negotiated on a case-by-case basis, the credit terms granted to certain customers could be up to three months. Further details on the Group's credit policy are set out in note 19(a).

As at 31 December 2016, none (2015: 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:

	2016 HK\$'000	2015 HK\$'000
Neither past due nor impaired	7,253	125
Within 1 month past due	2,646	143
Over 1 month to 3 months past due	511	957
Over 3 months past due	1,894	1,154
	5,051	2,254
	12,304	2,379

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

13 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2016 HK\$'000	2015 HK\$'000
Cash at bank and in hand	46,219	1,910
Less: pledged bank deposits (<i>note</i>)	(2,000)	—
Cash and cash equivalents in the consolidated statement of financial position and cash and cash equivalents as stated in the consolidated cash flow statement	44,219	1,910

Note: The balance represents bank deposits pledged to secure a banking facility of HK\$2 million. As at 31 December 2016, no banking facility was utilised.

(b) Reconciliation of profit before taxation to cash generated from operations:

	<i>Note</i>	2016 HK\$'000	2015 HK\$'000
Profit before taxation		8,190	15,607
Adjustments for:			
Depreciation	5(b)	476	463
Net gain on disposal of property, plant and equipment	4	—	(669)
Interest income	3	(3)	(77)
Foreign exchange gain		(50)	(167)
Changes in working capital:			
Increase in trade and other receivables		(8,197)	(495)
Increase/(decrease) in gross amounts due to customers for contract work		150	(441)
Increase/(decrease) in trade and other payables		963	(3,794)
Cash generated from operations		1,529	10,427

(c) Major non-cash transaction

During the year ended 31 December 2016, dividend of HK\$35,190,000 payable to the then controlling shareholder was used to set off against the "Amount due from a director".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

14 GROSS AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	2016 HK\$'000	2015 HK\$'000
Gross amounts due to customers for contract work		
Progress billings	1,066	–
Less: contract costs incurred plus recognised profits less recognised losses	(916)	–
	150	–

15 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2016 HK\$'000	2015 HK\$'000
Provision for Hong Kong Profits Tax for the year	3,465	2,774
Provisional Profits Tax paid	(4,665)	(3,267)
	(1,200)	(493)
Balance of Profits Tax provision relating to prior years	—	3,302
	(1,200)	2,809
PRC Corporate Income Tax	—	10
	(1,200)	2,819

(b) Deferred tax liabilities recognised:

The deferred tax liabilities recognised in the consolidated statement of financial position and the movement during the year is as follows:

	Depreciation allowances in excess of the related depreciation HK\$'000
Deferred tax arising from:	
At 1 January 2015	325
Credited to profit or loss	(102)
At 31 December 2015	223
At 1 January 2016	223
Credited to profit or loss	(63)
At 31 December 2016	160

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

16 TRADE AND OTHER PAYABLES

	2016 HK\$'000	2015 HK\$'000
Trade payables	2,401	2,113
Receipt in advance	—	872
Other payables and accruals	2,149	602
	4,550	3,587

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:

	2016 HK\$'000	2015 HK\$'000
Within 1 month	1,824	837
Over 1 month to 3 months	490	383
Over 3 months	87	893
	2,401	2,113

17 AMOUNT DUE FROM/(TO) A DIRECTOR

The amount due from/(to) a director is unsecured, interest-free and recoverable/repayable on demand.

The details of amount due from a director are as follows:

Name of borrower	Mr. LAU King Wai
Relationship	Director and controlling shareholder
Terms of the balance	
— duration and repayment terms	Recoverable on demand
— interest rate	Interest free
— security	Nil
Balance outstanding	
— at 31 December 2016	Nil
— at 31 December 2015	HK\$45,658,000
Maximum balance outstanding	
— during the year ended 31 December 2016	HK\$45,658,000
— during the year ended 31 December 2015	HK\$45,658,000

The amount due from a director was fully settled in November 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the date of incorporation and the end of the year are set out below:

Company

	Note	Share capital HK\$'000	Share premium HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
Balance at 7 January 2016 (date of incorporation)		—*	—	—	—
Changes in equity for the period ended 31 December 2016:					
Loss and total comprehensive income for the period		—	—	(1)	(1)
Issuance of new shares	18(c)	2,500	40,848	—	43,348
Reorganisation and capitalisation issue	18(c)	7,500	(7,120)	—	380
Balance at 31 December 2016		10,000	33,728	(1)	43,727

* The balance represents an amount less than HK\$1,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

18 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividend

	2016 HK\$'000	2015 HK\$'000
Interim dividend declared	38,000	—

The dividend represented dividend declared by a subsidiary of the Company prior to the Reorganisation. The rate of dividend per share is not presented as it does not indicate the rate which future dividend will be declared.

(c) Share capital

Issued share capital

	2016	
	No. of Share (‘000)	Amount HK\$'000
Authorised		
Ordinary shares of HK\$0.01 each	10,000,000	100,000
Ordinary shares, issued and fully paid		
At 7 January 2016 (date of incorporation)	— ^Δ	— [*]
Reorganisation	37,999	380
Issuance of new shares	250,000	2,500
Capitalisation issue	712,000	7,120
	1,000,000	10,000

* The balance represents an amount less than HK\$1,000.

Δ The balance represents the number of share less than 1,000 shares.

The holder of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

The Company was incorporated in the Cayman Islands on 7 January 2016 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On the same date, 1 share of HK\$0.01 was allotted and issued at nil paid form.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Share capital (Continued)

Issued share capital (Continued)

On 17 November 2016, pursuant to the share swap agreement, the controlling shareholder sold to the Company one share in issue in the capital of Golden Icon, being the entire issued share capital in Golden Icon in consideration of (i) the crediting as fully paid at par the initial one nil-paid share of the Company registered in the name of Sino Emperor Group Limited; and (ii) the allotment and issue by the Company of 37,999,999 shares, all credited as fully paid and rank *pari passu* in all respects with the existing issued shares.

Upon the completion of the Reorganisation on 17 November 2016, the Company became the holding company of the Group.

Pursuant to the written resolution of the shareholder of the Company on 8 December 2016, 250,000,000 new ordinary shares of HK\$0.01 each were issued, by way of placing, at a price of HK\$0.20 per share for a total cash consideration (before listing expenses) of HK\$50,000,000.

Pursuant to the written resolutions of the shareholder of the Company, an aggregate amount of HK\$7,120,000 was capitalised by the Company allotting and issuing 712,000,000 new shares, credited as fully paid, to the shareholders of the Company.

(d) Nature and purpose of reserves

(i) **Share premium**

The share premium account is governed by the Companies Law of the Cayman Islands and may be applied by the Company subject to the provisions, if any, of its memorandum and articles of association in paying distributions or dividends to equity shareholders.

No distribution or dividend may be paid to the equity shareholders out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

(ii) **Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of an entity with functional currency other than Hong Kong dollars. The reserve is dealt with in accordance with the accounting policies set out in note 1(p).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

18 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(iii) Merger reserve

The merger reserve represented the difference between the nominal value of the share capital of the subsidiary acquired as a result of the Reorganisation and the nominal value of the share capital of the Company issued in exchange thereof.

(iv) Capital contribution reserve

The capital contribution reserve represents contribution from the controlling shareholder.

(v) Distributability of reserve

At 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$33,727,000.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligations. At 31 December 2016, the ratio of the Group's total liabilities over its total assets was 8% (2015: 13%)

The Group is not subject to externally imposed capital requirements during the years ended 31 December 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due within 7 to 21 days from the date of billing. Negotiated on a case-by-case basis, the credit terms granted to certain customers could be up to three months. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentration of credit risk primarily arises when the Group has significant exposure to individual customers. At 31 December 2016, 14% (2015: 32%) of the total trade receivables were due from the Group's largest customer and 29% (2015: 59%) were due from the five largest customers of the Group respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 12.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

All financial liabilities are carried at amounts not materially different from the contractual undiscounted cash flows as at 31 December 2016 and 2015. The earliest date the Group is required to settle these liabilities is within one year or repayable on demand.

(c) Interest rate risk

As at 31 December 2016 and 2015, the Group was not exposed to any significant interest rate risk.

(d) Currency risk

The functional currency and reporting currency of the Company and its subsidiaries is Hong Kong dollars, except that the functional currency of the Group's PRC subsidiary is Renminbi ("RMB").

As at 31 December 2016 and 2015, the Group was not exposed to any significant currency risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

19 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(e) Fair values measurement

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 2015 because of the immediate or short term maturity of the financial instruments.

20 COMMITMENTS

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 HK\$'000	2015 HK\$'000
Within 1 year	468	247
After 1 year but within 5 years	544	107
	1,012	354

The Group is the lessee in respect of a number of properties 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.

21 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2016, transactions with the following parties are considered to be related party transactions:

Name of related party	Relationship with the Group
Mr. LAU King Wai	Director and the controlling shareholder of the Company
Further Concept Limited	Controlled by the controlling shareholder

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group enters into the following related party transactions:

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group is the amounts paid to the Group's directors as disclosed in note 7 and is included in "staff costs" (see note 5(a)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

(Expressed in Hong Kong dollars unless otherwise indicated)

21 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Other related party transactions

	2016 HK\$'000	2015 HK\$'000
Rental paid to Further Concept Limited	216	—

During the year ended 31 December 2015, part of the Group's office premise in Hong Kong was provided by Further Concept Limited for nil consideration. Subsequent to 31 December 2015, the Group entered into a rental agreement with Further Concept Limited. With reference to the market rental, the Group pays HK\$18,000 per month for the office premise provided by Further Concept Limited for the period from 1 January 2016 to 31 December 2018.

(c) Applicability of the Listing Rules relating to connected transactions

The related party transaction in respect of rental expenses above constitutes continuing connected transaction as defined in Chapter 20 of the GEM Listing Rules. However, the transaction is exempt from the disclosure requirements in Chapter 20 of the GEM Listing Rules as it is below the de minimis threshold under Rule 20.74(1).

22 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 HK\$'000
Non-current assets		
Investment in subsidiary	11	380
Current assets		
Amount due from a subsidiary		2,970
Cash and cash equivalents		40,377
		43,347
NET ASSETS		43,727
CAPITAL AND RESERVES		
	18	
Share capital		10,000
Reserves		33,727
TOTAL EQUITY		43,727

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in Hong Kong dollars unless otherwise indicated)

23 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

The methods, estimates and judgements the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements, on matters that are inherently uncertain.

The key sources of estimation uncertainty are as follows:

(a) Impairment losses for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the trade receivable balance, customer credit-worthiness and historical write-off experience. If the financial conditions of customers were to deteriorate, actual write-offs would be higher than estimated.

(b) Stage of completion of incomplete projects as at the end of the reporting period

As explained in the accounting policy note 1(o), revenue recognition on an incomplete project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and nature of the activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the revenue can be reliably estimated.

Based on the latest information available, the Group prepares budgets for construction contracts individually and the budget, which is used in the Group's financial reporting, is reviewed regularly. Foreseeable losses are provided when identified.

In preparing the financial statements for the year ended 31 December 2016, the directors of the Company have reviewed the contracts and consider that no provision for loss is required. Material adjustments to the budgeted costs may occur in future if there is significant change.

24. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, the directors consider the immediate parent of the Group to be Sino Emperor Group Limited, which is incorporated in the BVI and the ultimate controlling party of the Group to be Mr. LAU King Wai. None of the parties produces financial statements available for public use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

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25 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	1 January 2017
Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position. Further details are discussed as follows:

HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. The Group considers that the initial application of HKFRS 9 will not have a significant impact on the Group's results of operations and financial position.

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

The Group considers that the initial application of HKFRS 15 will not have a significant impact on the Group's results of operations and financial position.

NOTES TO THE FINANCIAL STATEMENTS

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25 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

HKFRS 16, Leases

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 20, at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to HK\$1,012,000 for properties, the majority of which is payable either within 1 year or between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last three financial years, extracted from the audited financial statements in this annual report and the Prospectus of the Company dated 29 November 2016, is as follows:

RESULTS

	For the year ended 31 December		
	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Revenue	59,858	48,612	79,984
Cost of services	(33,830)	(28,936)	(43,654)
Gross profit	26,028	19,676	36,330
Other revenue	3	79	82
Other net income	—	669	—
General and administrative expenses	(5,059)	(4,116)	(4,285)
Listing expenses	(12,782)	(701)	—
Impairment loss on other receivables	—	—	(5,000)
Profit before taxation	8,190	15,607	27,127
Income tax	(3,522)	(2,681)	(5,321)
Profit for the year	4,668	12,926	21,806

ASSET AND LIABILITIES

	As at 31 December		
	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Total assets	62,459	54,794	44,566
Total liabilities	4,860	7,036	14,509
Total equity	57,599	47,758	30,057