You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements as of and for each of the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2015 and related notes in the Accountant's Report included in Appendix I to this document which have been prepared in accordance with HKFRS. You should read the whole of the Accountant's Report included in Appendix I to this document and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results and the timing of selected events could differ significantly from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this document.

OVERVIEW

We provide bespoke and total interior design solutions to global luxury jewelry and fashion brands, which cover a wide range of services including millwork and furniture provision, facade development and fabrication, interior solutions and design and project consultancy. According to the Frost & Sullivan Report, we are the largest luxury retail interior designer in Hong Kong in terms of revenue in 2014. We have been conducting our business since 1999 and have expanded our business to China, the United States, Europe, Middle East and other Asian countries.

We enjoyed growth in net profit during the three years ended June 30, 2015. For the financial year ended June 30, 2013, 2014 and 2015, we generated revenue of HK$123.8 million, HK$113.8 million and HK$130.6 million, respectively, representing a growth of 5.5% over the three years primarily due to expansion of our global client base. For the same period, our net profits was HK$17.3 million, HK$20.2 million and HK$23.8 million, respectively, representing a growth of 37.3% over the three years. The increase was primarily due to improvement on the efficiency of our operation.

For the six months ended December 31, 2014 and 2015, we generated a revenue of HK$76.9 million and HK$59.8 million, respectively, representing a contraction of 22.3% primarily as a result of the decrease in revenue generated from interior solutions and our strategy to focus more on millwork and furniture provision. And also, revenue generated from two of our major millwork and furniture provision projects for the year ended June 30, 2016 will be recognized in the second half of the financial year rather than the six months ended December 31, 2015. For the same period, our net profits was HK$17.4 million and HK$8.8 million, respectively, representing a contraction of 49.5%. The contraction was primarily due to the decrease in revenue and the one-off [REDACTED] incurred for the six months ended December 31, 2015.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Island as an exempted company with limited liability on March 18, 2016 and became the ultimate holding company of our Group on March 22, 2016 subsequent to our Reorganization in preparation for the [REDACTED]. See the section headed "History, Development and Reorganization — Reorganization" in this document for further information about the

Reorganization. The Reorganization involved companies under the common control of the Controlling Shareholders and our Group is therefore regarded as a continuing entity resulting from the Reorganization. Accordingly, the information in this section has been prepared by applying the principles of merger accounting as if the group structure under the Reorganization had been in existence throughout the relevant periods or since the respective dates of incorporation or establishment of the entities now comprising our Group, whichever is the shorter period.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of our Group for the Track Record Period have been prepared using the financial information of all the companies now comprising our Group from the date when each of them first became under common control of the Controlling Shareholders as if the current group structure had been in existence throughout the Track Record Period or since their respective dates of incorporation or establishment, or since the date when the companies first came under the common control of the Controlling Shareholder. The combined statement of financial position of our Group as of June 30, 2013, 2014, 2015 and December 31, 2015 have been prepared to present the assets and liabilities of the companies now comprising our Group at these dates, as if the current group structure had been in existence as at these dates. The net assets and results of our Group were combined using the carrying value from the perspective of the Controlling Shareholders.

The financial information is presented in Hong Kong Dollars, which is also the functional currency of our Company.

FACTORS AFFECTING OUR FINANCIAL RESULTS

Global economic environment

Our results of operations are subject to political, economic, legal and social developments in the world because our business, operations and client base are global in nature. As the majority of our clients are world famous prestigious luxury jewelry and fashion brands, changes in the global world economy or changes in the financial and economic conditions may depress the demand for luxury goods that would have a negative impact on the expansion or renovation plans of our clients and thereby reduce demand for our services, which may affect our results of operations. A reduced demand and/or lower contract sums could adversely affect our gross profit and negatively impact our cash flow. However, our clients may also engage us for downsizing or relocation of their boutiques due to the deterioration of global economic conditions which reduce our exposure to global economic downturn.

Our client relationships and factors affecting our clients

We maintain close and stable relationships with our major clients. As at the Latest Practicable Date, we have established business relationships with our five largest clients during the Track Record Period for a period with an average of over five years. As a result of these stable relationships, we are able to receive recurring businesses from the existing clients. However, the future results of our operation may be particularly impacted by changes in relationships with our major clients or by factors that affect the market demand for luxury jewelry and fashion brand.

And also, as the majority of our clients are world famous prestigious luxury jewelry and fashion brands, our projects must be completed in accordance with our client's specifications, quality standards, safety measures and time frame. Failure to comply with any of these requirements may not only tarnish our reputation but also drag down our revenue and profitability. We have not been claimed for any damages or penalties by our clients for any of the aforesaid reasons. With our commitment to excellence, we will continue to give full effort to ensure our current and future projects are completed in accordance with all the requirements.

The business of our Group is project-based

The business of our Group is project-based. Since our Group provides a wide range of services including millwork and furniture provision, facade development and fabrication, interior solutions and design and project consultancy, which can be individually or collectively engaged by our clients according to their needs for each individual project, therefore, the type of projects we carry out will vary and, in turn, the revenue mix of our Group may fluctuate from time to time.

And also, as our business operations are project-based, it is common in the industry that no long term contracts are signed between our clients and our Group, even though we maintain close and stable relationships with our major clients. There is no guarantee that our clients will engage us for new business and we cannot assure that we will be able to maintain or improve our relationships with our major clients and any of them may terminate their respective relationships with us as they do not have long term commitments with us.

Pricing of our contracts

Our results of operations are affected by the prices that we quote when we received invitation for quotations for new projects. The price that we quote for our services is generally based on our estimated project costs and time plus a mark-up margin. In order to compete with our competitors, we need to balance the competing considerations and at the same time maintain the quality of our services and our profitability. We seek to submit sufficiently competitive and attractive price quotes while avoid being overly competitive that may have a material adverse impact on our results of operations. Pricing is particularly important for our projects since once the contract price is fixed, we will have to bear any cost increment due to unforeseen circumstances, save and except in the event of any variation orders agreed in advance between the parties. We believe effective cost management and our research and development capabilities will assist us in striking a balance between quoting a competitive price and maintaining the quality of our services and our profitability. By keeping our costs at a manageable level, we seek to price our services at a competitively level whilst at the same time continue to maintain the quality of our services and our profitability.

Competition

We are a provider of one-stop interior design solutions which cover a wide range of services including millwork and furniture provision, facade development and fabrication, interior solutions and design and project consultancy. Although there are only a limited number of competitors in the market that can provide a full spectrum of services to their client, our Group also compete with small to medium scale interior designer companies, which provide a limited scope of design or construction services. As the majority of our clients are world famous prestigious luxury jewelry and fashion brands, market participants have to, not only come up with innovative and high quality design ideas, but also be price competitive. Although the market entry barrier to the interior design industry is not very high, it is challenging for new entrants to enter into business relationships with luxury brands. In particular, luxury brands look to interior designers that can offer one-stop solutions to their needs while providing high quality products and services and authentic design.

CRITICAL ACCOUNTING POLICIES

Our Directors have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. The significant accounting policies which are important for an understanding of our financial condition and results of operation, is set forth in detail in Note 2 to the accountants' report included in Appendix I to this document. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. The determination of these items requires management judgments based on information and financial data that may change in future periods. Our Directors believe the following critical accounting policies involved the most significant estimates and judgments used in the preparation of our financial statements.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. For instance:

- revenue from millwork and furniture provision is recognized when the goods are delivered and the risks and rewards of ownership have passed to the client;
- revenue from facade development and fabrication is recognized when the goods are delivered and the risks and rewards of ownership have passed to the client;
- revenue from interior solutions is recognized based on the stage of completion of the contracts, provided that the stage of contract completion and the contract costs of the contracting work can be measure reliably. The stage of completion of a contract is established by reference to the proportion that contract costs incurred for work performed to date bear to the estimate total contract costs. For further details, please refer to Note 2.8 to the accountants' report included in Appendix I to this document or the subsection headed "Financial Information — Critical Accounting Policies — Construction contracts" below; and
- revenue from design and project consultancy is recognized upon services rendered.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts for variation orders, claims and incentive payments to the extent that it is probable that they will result in revenue, and they are capable of being reliably measured. Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise site labour costs (including site supervision), costs of subcontracting, costs of materials used in construction, depreciation of equipment used on the contract, costs of design, and technical assistance that is directly related to the contract.

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of each of the relevant periods.

The outcome of a construction contract can be estimated reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. When the outcome of a construction cannot be estimated reliably, contract revenue is recognized only to the extent of costs incurred that are expected to be recoverable, and contract costs are recognized as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is treated as an amount due to contract clients.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is treated as an amount due from contract clients.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth, for the periods indicated, our combined results of operations. All the ratios calculated in this document are calculated with number rounded to the nearest thousands, except when otherwise indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended June 30,					Six months ended December 31		
	2013 *HK$'000*	% *change*	2014 *HK$'000*	% *change*	2015 *HK$'000*	2014 *HK$'000* (unaudited)	% *change*	2015 *HK$'000*
Revenue	123,767	(8.1%)	113,798	14.7%	130,578	76,934	(22.3%)	59,768
Direct cost	(90,400)	(15.1%)	(76,751)	12.5%	(86,376)	(50,354)	(21.8%)	(39,392)
Gross profit	33,367	11.0%	37,047	19.3%	44,202	26,580	(23.3%)	20,376
Other income	3	0.0%	3	33.3%	4	1	100.0%	2
Other gains	—	—	306	(85.6%)	44	21	—	—
Administrative expenses	(12,523)	3.9%	(13,006)	20.1%	(15,615)	(5,724)	22.3%	(7,001)
[REDACTED]	—		—		—	—		(2,910)
Operating profit	20,847	16.8%	24,350	17.6%	28,635	20,878	(49.9%)	10,467
Finance costs	(7)	(28.6%)	(5)	(40.0%)	(3)	(2)	(100.0%)	—
Profit before income tax expense	20,840	16.8%	24,345	17.6%	28,632	20,876	(49.9%)	10,467
Income tax expense	(3,522)	18.2%	(4,164)	16.5%	(4,849)	(3,455)	(51.6%)	(1,673)
Profit for the year/period and attributable to owners of the Company	17,318	16.5%	20,181	17.8%	23,783	17,421	(49.5%)	8,794
Items that may be reclassified subsequently to profit or loss								
Exchange differences on translating foreign operations	39	—	—	—	—	—	—	(59)
Other comprehensive income for the year/period and attributable to owners of the Company, net of tax	39	—	—	—	—	—	—	(59)
Total comprehensive income for the year/period and attributable to owners of the Company	17,357	16.3%	20,181	17.8%	23,783	17,421	(49.9%)	8,735

Revenue

Our revenue was HK$123.8 million, HK$113.8 million, HK$130.6 million, HK$76.9 million and HK$59.8 million for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively. The overall increase of our revenue for the three years ended June 30, 2015 was primarily due to the growth of our global client base. The contraction of our revenue for the six months ended December 31, 2015 was primarily due to the decrease in revenue generated from interior solutions because of local economic downturn and our major clients focused more on overseas markets, therefore, our revenue generated from millwork and furniture provision increased. And also, revenue generated from two of our major millwork and furniture provision projects for the year ended June 30, 2016 is expected to be recognized in the second half of the financial year, which affected our revenue for the six months ended December 31, 2015.

The following table set forth our revenue by region for the periods indicated:

	Year ended June 30,						Six months ended December 31			
	2013	*% of*	**2014**	*% of*	**2015**	*% of*	**2014**	*% of*	**2015**	*% of*
	HK$'000	*revenue*	*HK$'000*	*revenue*	*HK$'000*	*revenue*	*HK$'000* (unaudited)	*revenue*	*HK$'000*	*revenue*
Asia										
— Hong Kong	81,917	66.2%	52,040	45.7%	66,753	51.1%	50,524	65.7%	14,494	24.2%
— China	6,517	5.3%	5,946	5.2%	4,933	3.8%	3,119	4.1%	5,021	8.4%
— Others	19,804	15.9%	17,577	15.5%	24,747	19.0%	7,678	9.9%	13,935	23.3%
Subtotal	108,238	87.4%	75,563	66.4%	96,433	73.9%	61,321	79.7%	33,450	55.9%
Europe	10,709	8.7%	23,834	20.9%	31,137	23.8%	12,993	16.9%	21,443	35.9%
Middle East	519	0.4%	4,163	3.7%	—	0.0%	—	0.0%	—	0.0%
Americas	4,301	3.5%	10,238	9.0%	3,008	2.3%	2,620	3.4%	4,875	8.2%
Total	123,767	100.0%	113,798	100.0%	130,578	100.0%	76,934	100.0%	59,768	100.0%

During the Track Record Period, revenue generated from Hong Kong, other Asia countries and Europe accounts for a substantial portion of our revenue, reflecting our global client base. For the six months ended December 31, 2015, we further expanded our business in Europe. We expect that revenue generated from Americas and Europe will continue grow in the near future.

The following table set forth the components of our revenue by our services for the periods indicated:

	Year ended June 30,						Six months ended December 31			
	2013	*% of*	**2014**	*% of*	**2015**	*% of*	**2014**	*% of*	**2015**	*% of*
	HK$'000	*revenue*	*HK$'000*	*revenue*	*HK$'000*	*revenue*	*HK$'000* (unaudited)	*revenue*	*HK$'000*	*revenue*
Millwork and furniture provision	38,434	31.1%	64,726	56.9%	57,904	44.3%	32,370	42.1%	41,135	68.8%
Facade development and fabrication	16,153	13.1%	8,346	7.3%	6,823	5.2%	4,221	5.5%	5,729	9.6%
Interior solutions	69,145	55.8%	40,721	35.8%	64,752	49.7%	39,285	51.0%	12,862	21.5%
Design and project consultancy	35	0.0%	5	0.0%	1,099	0.8%	1,058	1.4%	42	0.1%
Total	123,767	100.0%	113,798	100.0%	130,578	100.0%	76,934	100.0%	59,768	100.0%

We generated revenue principally from providing four major categories of interior design services, including: (i) millwork and furniture provision, (ii) facade development and fabrication, (iii) interior solutions and (iv) design and project consultancy.

Millwork and furniture provision

Our revenue from millwork and furniture provision was HK$38.4 million, HK$64.7 million, HK$57.9 million, HK$32.4 million and HK$41.1 million for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively, which represent 31.1%, 56.9%, 44.3%, 42.1% and 68.8% of our total revenue for the same period. As it is our strategy to focus more on millwork and furniture provision, we expect our revenue generated from millwork and furniture provision will continue to account for a substantial portion of our total revenue.

Facade development and fabrication

Our revenue from facade development and fabrication was HK$16.2 million, HK$8.3 million, HK$6.8 million, HK$4.2 million and HK$5.7 million for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively, which represent 13.1%, 7.3%, 5.2%, 5.5% and 9.6% of our total revenue for the same period.

Interior solutions

Our revenue from interior solutions was HK$69.1 million, HK$40.7 million, HK$64.8 million, HK$39.3 million and HK$12.9 million for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively, which represent 55.8%, 35.8%, 49.7%, 51.0% and 21.5% of our total revenue for the same period. We expect the proportion of this segment's contribution to our revenue will decrease.

Design and project consultancy

Our revenue from design and project consultancy was HK$35,000, HK$5,000, HK$1,099,000, HK$1,058,000 and HK$42,000 for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively, which represent 0.0%, 0.0%, 0.8%, 1.4% and 0.1% of our total revenue for the same period.

Direct cost

Direct cost primarily consists of costs of materials and subcontracting. Our direct cost was HK$90.4 million, HK$76.8 million, HK$86.4 million, HK$50.4 million and HK$39.4 million for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively.

Gross profit and gross margin

Our gross profit was HK$33.4 million, HK$37.0 million, HK$44.2 million, HK$26.6 million and HK$20.4 million for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively. Our gross profit margin was 27.0%, 32.6%, 33.9%, 34.5% and 34.1% for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively. Our gross profit margin increased primarily due to our improvement of production methodology and our creative use of cost effective materials which lower our direct cost while there was an increase in our revenue.

Other income

Our other income was HK$3,000, HK$3,000, HK$4,000, HK$1,000 and HK$2,000 for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively. Other income consists of bank interest income and sundry income.

Other gains

Our other gains was nil, HK$306,000, HK$44,000, HK$21,000 and nil for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively. Other income consists of gain on disposal of property, plant and equipment and net exchange gain.

Administrative expenses

Administrative expenses primarily consist of employee benefit expenses, rental expenses, provision for bad and doubtful debt and traveling expenses. Our administrative expenses was HK$12.5 million, HK$13.0 million, HK$15.6 million, HK$5.7 million and HK$7.0 million for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively. During the Track Record Period, our administrative expenses increased due to the increase of employees' compensation levels.

[REDACTED]

The total expenses for [REDACTED] are estimated to be approximately [REDACTED], of which approximately [REDACTED] was recognized as [REDACTED] in our combined statements of comprehensive income during the six months ended December 31, 2015, and approximately [REDACTED] was capitalized as deferred expenses in our combined statement of financial position to be recognized as a deduction in equity. We expect to incur additional [REDACTED] of approximately [REDACTED] which will be recognized as [REDACTED] for the year ending June 30, 2016.

Operating profit

As a result of the foregoing, our operating profit was HK$20.8 million, HK$24.4 million, HK$28.6 million, HK$20.9 million and HK$10.5 million for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively.

Finance costs

Finance costs primarily consist of interest on finance leases of office equipment. Our finance costs was HK$7,000, HK$5,000, HK$3,000, HK$2,000 and nil for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively. During the Track Record Period, our finance costs decreased due to the reduction on outstanding principal of the equipment under finance leases. Our finance leases of office equipment was terminated during the year end June 30, 2015.

Income tax expenses

The following table sets forth our income tax expenses for the periods indicated:

	Year ended June 30,			Six months ended December 31,	
	2013	2014	2015	2014	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Current tax — Hong Kong profit tax — tax for the year	3,508	4,110	4,860	3,454	1,477
Current tax — overseas profit tax — tax for the year	2	2	4	1	217
Deferred tax expense (credit)	12	52	(15)	—	(21)
Total	3,522	4,164	4,849	3,455	1,673

We were not subject to any income, estate, corporation, capital gains or other tax in the Cayman Islands pursuant to the tax rules and regulations of the Cayman Islands during the Track Record Period. Additionally, dividend payments made by us are not subject to withholding tax in the Cayman Islands or the British Virgin Islands.

We are subject to the Hong Kong profit tax at the tax rate of 16.5% of the estimated assessable profits during the Track Record Period.

Our PRC subsidiary, Crosstec (Shenzhen), is subject to PRC Enterprise Income Tax at the tax rate of 25% during the Track Record Period.

Taxation on our Macau subsidiary, CX (Macau), is calculated at the rate prevailing in the Macau jurisdiction. No provision for Macau profits tax had been made as the Group had no assessable income for the years ended June 30, 2013, 2014 and 2015. For the six months ended December 31, 2015, our Macau subsidiary is subject to profit tax at the tax rate of 12%.

Our effective income tax rates for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 were 16.9%, 17.1%, 16.9%, 16.6% and 16.0% respectively. During the Track Record Period, our effective income tax rates had been stable.

During the Track Record Period, we paid all relevant taxes and had no disputes or any unsolved tax issues with the relevant tax authorities.

Profit for the year

As a result of the foregoing, our profit for the year was HK$17.3 million, HK$20.2 million, HK$23.8 million, HK$17.4 million and HK$8.8 million for the years ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2014 and 2015 respectively.

REVIEW OF HISTORICAL RESULTS OF OPERATION

Comparison for the six months ended December 31, 2015 to the six months ended December 31, 2014

Revenue

Our revenue decreased from HK$76.9 million for the six months ended December 31, 2014 to HK$59.8 million for the six months ended December 31, 2015, representing a decrease of 22.3%. The decrease in our revenue was primarily due to the decrease in revenue generated from interior solutions because of local economic downturn, partially off-set by the increase in revenue generated from millwork and furniture provision because of the increase in demand from our client. And also, revenue generated from two of our major millwork and furniture provision projects for the year ended June 30, 2016 will be recognized in the second half of the financial year, which affected our revenue for the six months ended December 31, 2015.

Millwork and furniture provision

Our revenue from millwork and furniture provision increased from HK$32.4 million for the six months ended December 31, 2014 to HK$41.1 million for the six months ended December 31, 2015, representing an increase of 27.1%. The increase in our revenue from millwork and furniture provision was primarily due to our strategy to focus more on this segment. And also, the expansion plans of our major clients also focused more on oversea markets, which increased their demands of our millwork and furniture.

Facade development and fabrication

Our revenue from facade development and fabrication increased from HK$4.2 million for the six months ended December 31, 2014 to HK$5.7 million for the six months ended December 31, 2015, respesenting an increase of 35.7%. The increase in our revenue from facade development and fabrication was primarily due to the global launch of new concept by one of our major clients which increased our revenue generated from facade development and fabrication for the six months ended December 31, 2015.

Interior solutions

Our revenue from interior solutions decreased from HK$39.3 million for the six months ended December 31, 2014 to HK$12.9 million for the six months ended December 31, 2015, representing a decrease of 67.3%. The decrease in our revenue from interior solutions was primarily due to our strategy to focus more on millwork and furniture provision and the local economic downturn.

Design and project consultancy

Our revenue from design and project consultancy decreased from HK$1.1 million for the six months ended December 31, 2014 to HK$42,000 for the six months ended December 31, 2015, representing a decrease of 96.0%. The decrease in our revenue from design and project consultancy was primarily due to the limited resources allocated to design and project consultancy because the percentage of revenue generated from this segment was significantly lower than the other segments historically.

Direct cost

Our direct cost decreased from HK$50.4 million for the six months ended December 31, 2014 to HK$39.4 million for the six months ended December 31, 2015, representing a decrease of 21.8%. The decrease in our direct cost was primarily due to the decrease in our revenue for the six months ended December 31, 2015 compared to the six months ended December 31, 2014.

Gross profit and gross margin

As a result of the foregoing, our gross profit decreased by 23.3% from HK$26.6 million for the six months ended December 31, 2014 to HK$20.4 million for the six months ended December 31, 2015. Our gross profit margin had been stable with 34.5% for the six months ended December 31, 2014 and 34.1% for the six months ended December 31, 2015.

Other income

Our other income increased by 100% from HK$1,000 for the six months ended December 31, 2014 to HK$2,000 for the six months ended December 31, 2015 as a result of the increase in bank interest income.

Other gains

Our other gains decreased from HK$21,000 for the six months ended December 31, 2014 to nil for the six months ended December 31, 2015 as a result of the decrease in exchange gain due to the change in currency exchange rates of the foreign currency deposit of our Company.

Administrative expenses

Our administrative expenses increased by 22.3% from HK$5.7 million for the six months ended December 31, 2014 to HK$7.0 million for the six months ended December 31, 2015. The increase in administrative expenses was primarily due to the increase in employee benefit expenses by HK$0.7 million and the number of employees increased from 19 to 27 (including four temporary employees).

[REDACTED]

The [REDACTED] of our Company for the six months ended December 31, 2015 was [REDACTED], which is one-off in nature and will not affect our future financial performance.

Operating profit

As a result of the foregoing, our operating profit decreased by 49.9% from HK$20.9 million for the six months ended December 31, 2014 to HK$10.5 million for the six months ended December 31, 2015.

Finance costs

Our finance costs decreased from HK$2,000 for the six months ended December 31, 2014 to nil for the six months ended December 31, 2015 as a result of the decrease in interests on finance leases due to the termination of our finance leases of office equipment during the year ended June 30, 2015.

Income tax expenses

Our income tax expenses decreased by 51.6% from HK$3.5 million for the six months ended December 31, 2014 to HK$1.7 million for the six months ended December 31, 2015. The decrease in income tax expenses was primarily due to the decrease in our profit before income tax.

Profit for the six months

As a result of the foregoing, our profit for the year decreased by 49.5% from HK$17.4 million for the six months ended December 31, 2014 to HK$8.8 million for the six months ended December 31, 2015. Our net profit margin decreased from 22.6% for the six months ended December 31, 2014 to 14.7% for the six months ended December 31, 2015, primarily due to the [REDACTED] of [REDACTED] and the increase in employee benefit expenses.

Comparison of the financial year ended June 30, 2015 to the financial year ended June 30, 2014

Revenue

Our revenue increased from HK$113.8 million for the year ended June 30, 2014 to HK$130.6 million for the year ended June 30, 2015, representing an year-on-year increase of 14.7%. The increase in our revenue was primarily due to the increase in revenue from interior solutions because of the expansion of one of our major clients in Asia.

Millwork and furniture provision

Our revenue from millwork and furniture provision decreased from HK$64.7 million for the year ended June 30, 2014 to HK$57.9 million for the year ended June 30, 2015, representing an year-on-year decrease of 10.5%. Our revenue generated from millwork and furniture provision decreased because the demand of interior solutions services increased, leading to our increase in resources allocation to that segment.

Facade development and fabrication

Our revenue from facade development and fabrication decreased from HK$8.3 million for the year ended June 30, 2014 to HK$6.8 million for the year ended June 30, 2015, representing a year-on-year decrease of 18.2%. The decrease in our revenue from facade development and fabrication was primarily due to a change in revenue mix as a result of increased proportion of interior solutions.

Interior solutions

Our revenue from interior solutions increased from HK$40.7 million for the year ended June 30, 2014 to HK$64.8 million for the year ended June 30, 2015, representing an year-on-year increase of 59.0%. The increase in our revenue from interior solutions was primarily due to the increase in demand from our client on this segment, leading to our increase in resources allocation to this segment.

Design and project consultancy

Our revenue from design and project consultancy increased from HK$5,000 for the year ended June 30, 2014 to HK$1,099,000 for the year ended June 30, 2015, representing an year-on-year increase of 21,880.0%. The increase in our revenue from design and project consultancy was primarily due to the engagement of two new clients.

Direct cost

Our direct cost increased from HK$76.8 million for the year ended June 30, 2014 to HK$86.4 million for the year ended June 30, 2015, representing a year-on-year increase of 12.5%. The increase in our direct cost was primarily due to the increase in our revenue for the year ended June 30, 2015 compared to the year ended June 30, 2014.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 19.3% from HK$37.0 million for the year ended June 30, 2014 to HK$44.2 million for the year ended June 30, 2015. Our gross profit margin increased from 32.6% for the year ended June 30, 2014 to 33.9% for the year ended June 30, 2015 because of the purchase of millwork and furniture in bulk which created economy of scale.

Other income

Our other income increased by 33.3% from HK$3,000 for the year ended June 30, 2014 to HK$4,000 for the year ended June 30, 2015 as a result of the increase in bank interest income.

Other gains

Our other gains decreased by 85.6% from HK$306,000 for the year ended June 30, 2014 to HK$44,000 for the year ended June 30, 2015.

Administrative expenses

Our administrative expenses increased by 20.1% from HK$13.0 million for the year ended June 30, 2014 to HK$15.6 million for the year ended June 30, 2015. The increase in administrative expenses was primarily due to the increase in employees' compensation levels and the provision of doubtful debts of HK$1.0 million.

Operating profit

As a result of the foregoing, our operating profit increased by 17.6% from HK$24.4 million for the year ended June 30, 2014 to HK$28.6 million for the year ended June 30, 2015.

Finance costs

Our finance costs decreased by 40.0% from HK$5,000 for the year ended June 30, 2014 to HK$3,000 for the year ended June 30, 2015 as a result of the decrease in interests on finance leases due to the reduction on outstanding principal of office equipment under finance leases.

Income tax expenses

Our income tax expenses increased by 16.5% from HK$4.2 million for the year ended June 30, 2014 to HK$4.8 million for the year ended June 30, 2015. The increase in income tax expenses was primarily due to the increase in our profit before income tax.

Profit for the year

As a result of the foregoing, our profit for the year increased by 17.8% from HK$20.2 million for the year ended June 30, 2014 to HK$23.8 million for the year ended June 30, 2015. Our net profit margin increase from 17.7% for the year ended June 30, 2014 to 18.2% for the year ended June 30, 2015 because of the increase in gross profit and the decrease in administrative expenses.

Comparison of the financial year ended June 30, 2014 to the financial year ended June 30, 2013

Revenue

Our revenue decreased from HK$123.8 million for the year ended June 30, 2013 to HK$113.8 million for the year ended June 30, 2014, representing an year-on-year decrease of 8.1%. The decrease in our revenue was primarily due to the decrease in the revenue generated from interior solutions, which is partially off-set by the increase in revenue generated from our millwork and furniture provision.

Millwork and furniture provision

Our revenue from millwork and furniture provision increased from HK$38.4 million for the year ended June 30, 2013 to HK$64.7 million for the year ended June 30, 2014, representing an year-on-year increase of 68.4%. The increase in our revenue from millwork and furniture provision was primarily due to the global launch of new concept by one of our major clients which increased our revenue generated from millwork and furniture provision for the year ended June 30, 2014.

Facade development and fabrication

Our revenue from facade development and fabrication decreased from HK$16.2 million for the year ended June 30, 2013 to HK$8.3 million for the year ended June 30, 2014, representing a year-on-year decrease of 48.3%. The decrease in our revenue from facade development and fabrication was primarily due to the increase in demand of millwork and furniture provision, leading to our increase in resources allocation to that segment.

Interior solutions

Our revenue from interior solutions decreased from HK$69.1 million for the year ended June 30, 2013 to HK$40.7 million for the year ended June 30, 2014, representing an year-on-year decrease of 41.1%. The decrease in our revenue from interior solutions was primarily due to the completion of a major interior solutions project of one of our major clients in the year ended 30 June 2013 and our strategy to focus more on millwork and furniture provision.

Design and project consultancy

Our revenue from design and project consultancy decreased from HK$35,000 for the year ended June 30, 2013 to HK$5,000 for the year ended June 30, 2014, representing an year-on-year decrease of 85.7%. The decrease in our revenue from design and project consultancy was primarily due to normal business fluctuation.

Direct cost

Our direct cost decreased from HK$90.4 million for the year ended June 30, 2013 to HK$76.8 million for the year ended June 30, 2014, representing a year-on-year decrease of 15.1%. The decrease in our direct cost was primarily due to the decrease in our revenue in for the year ended June 30, 2014 compared to the year ended June 30, 2013.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 11% from HK$33.4 million for the year ended June 30, 2013 to HK$37.0 million for the year ended June 30, 2014. Our gross profit margin increased from 27% for the year ended June 30, 2013 to 32.6% for the year ended June 30, 2014, primarily due to our improvement of production methodology and cost control measures as reflected in drop of direct costs during the same period.

Other income

Our other income remained at HK$3,000 for the year ended June 30, 2013 and 2014.

Other gains

Our other gains increased from nil for the year ended June 30, 2013 to HK$0.3 million for the year ended June 30, 2014 as a result of the increase in exchange gain.

Administrative expenses

Our administrative expenses increased by 3.9% from HK$12.5 million for the year ended June 30, 2013 to HK$13.0 million for the year ended June 30, 2014. The increase in administrative expenses was primarily due to the increase in employees' compensation levels and the increase in depreciation expenses.

Operating profit

As a result of the foregoing, our operating profit increased by 16.8% from HK$20.8 million for the year ended June 30, 2013 to HK$24.4 million for the year ended June 30, 2014.

Finance costs

Our finance costs decreased by 28.6% from HK$7,000 for the year ended June 30, 2013 to HK$5,000 for the year ended June 30, 2014 as a result of the decrease in interests on finance leases due to the reduction on outstanding principal of the equipment under finance leases.

Income tax expenses

Our income tax expenses increased by 18.2% from HK$3.5 million for the year ended June 30, 2013 to HK$4.2 million for the year ended June 30, 2014. The increase in income tax expenses was primarily due to the increase in our profit before income tax.

Profit for the year

As a result of the foregoing, our profit for the year increased by 16.5% from HK$17.3 million for the year ended June 30, 2013 to HK$20.2 million for the year ended June 30, 2014. Our net profit margin increase from 14.0% for the year ended June 30, 2013 to 17.7% for the year ended June 30, 2014 because we gravitated towards projects with higher profitability.

DISCUSSION OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

		As at June 30			As at December 31
		2013	2014	2015	2015
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment	*13*	538	1,068	561	1,065
		538	1,068	561	1,065
Current assets					
Amounts due from customers for contract work	*14*	1,493	542	—	—
Trade and other receivables	*15*	27,093	29,598	18,454	28,506
Amount due from a director	*16*	6,339	750	—	—
Amounts due from related companies	*16*	880	882	25	—
Cash and cash equivalents	*17*	34,843	23,027	30,046	36,686
		70,648	54,799	48,525	65,192
Total assets		71,186	55,867	49,086	66,257
Current liabilities					
Amounts due to customers for contract work	*14*	2,960	289	—	—
Trade and other payables	*18*	54,698	42,146	29,344	43,151
Amount due to a director	*16*	—	—	3,699	15,066
Amount due to a related company	*16*	169	—	—	—
Obligation under finance leases	*19*	31	33	—	—
Current tax liabilities		3,754	7,600	6,535	1,818
		61,612	50,068	39,578	60,035
Net current assets		9,036	4,731	8,947	5,157
Total assets less current liabilities		9,574	5,799	9,508	6,222
Non-current liabilities					
Obligation under finance leases	*19*	92	59	—	—
Deferred tax liabilities	*20*	12	64	49	28
		104	123	49	28
Total liabilities		61,716	50,191	39,627	60,063
NET ASSETS		9,470	5,676	9,459	6,194
Capital and Reserves					
Share capital	*21*	100	125	125	125
Reserves	*22*	9,370	5,551	9,334	6,069
TOTAL EQUITY		9,470	5,676	9,459	6,194

Property, plant and equipment

Our property, plant and equipment primarily consist of furniture and fixtures, office equipment and motor vehicles. We had property, plant and equipment of HK$0.5 million, HK$1.1 million, HK$0.6 million and HK$1.1 million as at June 30, 2013, 2014 and 2015 and December 31, 2015. Our property, plant and equipment increased by 98.5% from HK$0.5 million as at June 30, 2013 to HK$1.1 million as at June 30, 2014 primary due to the purchase of motor vehicles. Our property, plant and equipment decreased by 47.5% from HK$1.1 million as at June 30, 2014 to HK$0.6 million as at June 30, 2015 because the increase in accumulated depreciation is larger than the increase in office equipment. Our property, plant and equipment increased by 89.8% from HK$0.6 million as at June 30, 2015 to HK$1.1 million as at December 31, 2015 primary due to the purchase of furniture and fixtures and office equipment.

Amounts due from/to customers for contract work

Our revenue from interior solutions is recognized based on the stage of completion of the contracts, provided that the stage of contract completion and the contract costs of the contracting work can be measure reliably. Where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is treated as an amount due to contract customers. Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is treated as an amount due from contract customers.

The following table sets forth the details of our amount due from/to customers for contract work:

	As at June 30,			As at December 31
	2013	**2014**	**2015**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contracts in progress at the end of reporting periods:				
Contract costs incurred	16,491	11,886	—	—
Recognised profits less recognised losses	5,195	2,573	—	—
	21,686	14,459	—	—
Less: progress billings	(23,153)	(14,206)	—	—
	(1,467)	253	—	—
Represented by:				
Amounts due from customers for contract work	1,493	542	—	—
Amounts due to customers for contract work	(2,960)	(289)	—	—
	(1,467)	253	—	—

Our amounts due from customers for contract work was HK$[1.5] million, HK$[0.5] million, nil and nil as at June 30, 2013, 2014 and 2015 and December 31, 2015. The continuous decrease in our amounts due from customers for contract work is primarily due to the completion of interior solutions projects before June 30, 2015 and December 31, 2015.

Our amounts due to customers to contract work was HK$3.0 million, HK$0.3 million, nil and nil as at June 30, 2013, 2014 and 2015 and December 31, 2015. Our amounts due to customers to contract work decreased by 90.2% from HK$3.0 million as at June 30, 2013 to HK$0.3 million as at June 30, 2014 primary due to the completion of interior solutions projects before June 30, 2015 and December 31, 2015.

Trade and other receivables

Our trade and other receivables primarily consist of trade receivables, retention receivables, other receivables and prepayments. We had trade and other receivables of HK$27.1 million, HK$29.6 million, HK$18.5 million and HK$28.5 million as at June 30, 2013, 2014 and 2015 and December 31, 2015.

The following table sets forth the details of our trade and other receivables:

	As at June 30,			As at December 31
	2013	**2014**	**2015**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	11,073	14,331	9,956	16,139
Retention receivables	446	—	1,640	671
Other receivables	1,079	3,461	399	713
Prepayments	14,495	11,806	6,459	10,983
	27,093	29,598	18,454	28,506

Trade receivables

Our trade receivables are non-interest bearing and our Group does not hold any collateral or other credit enhancements over these balances. During the Track Record Period, we had trade receivables of HK$11.1 million, HK$14.3 million, HK$10.0 million and HK$16.6 million as at June 30, 2013, 2014 and 2015 and December 31, 2015.

	As at June 30,			As at December 31
	2013	**2014**	**2015**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	11,073	14,331	9,956	16,139
Less: provision for impairment on trade receivables	—	—	—	—
	11,073	14,331	9,956	16,139

Our trade receivables was primarily in line with our revenue during Track Record Period. Our trade receivables increased by 29.4% from HK$11.1 million as at June 30, 2013 to HK$14.3 million as at June 30, 2014 and decreased by 30.5% from HK$14.3 million as at June 30, 2014 to HK$10.0 million as at June 30, 2015. Our Group's business is project-based of which our trade receivable is subject to the progress and number of projects as at the reporting date. Our trade receivables increased by 62.1% from HK$10.0 million as at June 30, 2015 to a normal level of HK$16.1 million as at December 31, 2015 primary due to due to the 60 days credit period granted to our major client in Americas with an outstanding trade receivable of HK$3.6 million as at December 31, 2015 and the completion of a project close to the end of the six months period.

Except for one client with 60 days credit period granted, no credit period is granted by our Group to our customers but application for progress payment of projects is made on a regular basis. The table below sets forth an aging analysis of our trade receivables presented based on the invoice dates:

		As at June 30,		As at December 31
	2013	**2014**	**2015**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Less than 1 month	5,712	3,745	4,646	9,466
1 to 3 months	693	5,222	4,468	5,699
3 months to 6 months	321	915	388	293
More than 6 months but less than one year	2,330	2,490	—	538
More than one year	2,017	1,959	454	143
	11,703	14,331	9,956	16,139

The table below sets forth the movements in provision for impairment of trade receivables:

		As at June 30,		As at December 31
	2013	**2014**	**2015**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of the year/period	300	—	—	—
Impairment losses recognised	67	2	965	—
Bad debts written off	(367)	(2)	(965)	—
At the end of the year/period	—	—	—	—

The aging debt profile of trade debtors is reviewed on a regular basis to ensure that the trade receivables balances are collectable. Our Group would assess the recoverability problem of individual clients with outstanding balance aged over 90 days. Management would consider their actual situation, such as whether they have continuity in projects, the reason of delay in settlement, the length of relationship and the liquidity of the clients. However, from time to time, the Group may experience delays in collection. Where recoverability of trade receivables balance are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aging analysis of the trade receivables balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the consolidated statement of profit or loss and other comprehensive income. Changes in the collectability of trade receivables for which provisions are not made could affect the results of operations of our Group.

The following table sets forth our average trade receivables turnover days for the periods indicated:

	Year ended June 30,			Six months ended December 31,
	2013	**2014**	**2015**	**2015**
Trade receivables turnover days[1]	36	41	34	40

Note:

1. Trade receivables turnover days were calculated based on the averaged of the opening and closing trade receivables divided by revenue for the relevant year multiplied by 365. Trade receivables turnover days for the six months ended December 31, 2015 was calculated based on the averaged of the opening and closing trade receivables divided by revenue for the relevant six months multiplied by 365 and divided by two.

Our average trade receivables turnover days had been stable for the three years ended June 30, 2015. Our average trade receivable turnover days increased to 40 days for the six months ended December 31, 2015 because a 60 days credit period was granted to one of our new client.

Retention receivables

Retention receivables are monies withheld by customers of contract works are released after completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts. During the Track Record Period, we had retention receivables of HK$0.4 million, nil, HK$1.6 million and HK$0.7 million as at June 30, 2013, 2014 and 2015 and December 31, 2015. The retention receivables are related to customers for whom there was no recent history of default.

Other receivables

Our other receivables primarily consist of amount due from an independent third party for the purchase of materials on their behalf, utility deposits and staff advance for travelling expenses. During the Track Record Period, we had other receivables of HK$1.1 million, HK$3.5 million, HK$0.4 million and HK$0.7 million as at June 30, 2013, 2014 and 2015 and December 31, 2015. As of Latest Practicable Date, such amount was fully settled.

Prepayments

Our prepayments mainly represents the advanced payment to suppliers. During the Track Record Period, we had prepayments of HK$14.5 million, HK$11.8 million, HK$6.5 million and HK$11.0 million as at June 30, 2013, 2014 and 2015 and December 31, 2015. For the period ended December 31, 2015, there was prepayment of [REDACTED] of [REDACTED].

Amounts due from/to a Director and related parties

During the Track Record Period, we entered into various transactions with our Director and related parties. The following table sets forth a breakdown of our amounts due from/to related parties as of the dates indicated:

				As at
		As at June 30,		December 31
	2013	2014	2015	2015,
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due from a Director	6,339	750	—	—
Amount due from related companies	880	882	25	—
Amount due to a related company	169	—	—	—

During the Track Record Period, all the above related parties were beneficially owned by Mr. Lee and all the amount due from a Director was from Mr. Lee. The amount due from/to a Director and related parties are unsecured, interest-free and have no fixed terms of repayment. The amount due from a Director during the Track Record Period was the advance to Mr. Lee. For details of these amounts due from/to a Director and related parties, see note 16 to the accountants' report included in Appendix I to this document.

Trade and other payables

Our trade and other payables primarily consist of trade payables, receipts in advance, other payables and accruals and deferred revenue arising from customer incentive programme. We had trade and other payables of HK$54.7 million, HK$42.1 million, HK$29.3 million and HK$43.2 million as at June 30, 2013, 2014 and 2015 and December 31, 2015.

The following table sets forth the details of our trade and other payables:

				As at
		As at June 30,		December 31,
	2013	2014	2015	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	20,089	16,808	13,445	20,274
Receipts in advance	29,862	20,674	11,403	16,140
Other payables and accruals	4,747	4,664	4,496	6,427
Deferred revenue arising from customer incentive programme	—	—	—	310
	54,698	42,146	29,344	43,151

Trade payables

Our trade payables are non-interest bearing and generally have payment terms of 0 to 90 days. During the Track Record Period, we had trade payables of HK$20.1 million, HK$16.8 million, HK$13.4 million and HK$20.3 million as at June 30, 2013, 2014 and 2015 and December 31, 2015.

Our trade payables decreased by 16.3% from HK$20.1 million as at June 30, 2013 to HK$16.8 million as at June 30, 2014, in line with the decrease in our revenue. Our trade payables decreased by 20.0% from HK$16.8 million as at June 30, 2014 to HK$13.4 million as at June 30, 2015 due to early settlement from one of our major clients. Our trade payables increased by 50.8% from HK$13.4 million as at June 30, 2015 to HK$20.3 million as at December 31, 2015. Our Company intended to utilize the credit period granted by our suppliers in order to off-set the 60 days credit period we granted to one of our new clients.

The table below sets forth an aging analysis of our trade payables during the Track Record Period presented based on the invoice dates:

	As at June 30,			As at December 31,
	2013	**2014**	**2015**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current or less than 1 month	4,915	4,640	2,663	6,693
1 to 3 months	7,589	3,183	4,717	7,332
4 to 6 months	2,842	3,127	1,709	4,113
7 to 12 months	2,359	2,955	4,196	1,800
More than 1 year	2,384	2,903	160	336
	20,089	16,808	13,445	20,274

The following table sets forth our average trade payables turnover days for the periods indicated:

	Year ended June 30,			Six months ended December 31,
	2013	**2014**	**2015**	**2015**
Trade payables turnover days[(1)]	82	88	64	79

Note:

1. Trade payables turnover days were calculated based on the averaged of the opening and closing trade payables divided by direct cost for the relevant year multiplied by 365.

Our average trade payables turnover days had been stable and within the credit period granted by our suppliers.

For details of our trade and other payables, see note 18 to the accountants' report included in Appendix I to this document.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Our business operations and expansion plans require a significant amount of capital, including the expansion of our design and creative team, establishment of research and development workshop, setting up a sales and marketing team and overseas offices. Historically, we have financed our capital expenditures and working capital requirements mainly through cash generated from operations.

Cash flows

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended June 30,			Six months ended December 31,	
	2013	**2014**	**2015**	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Net cash from operating activities	34,011	7,613	22,616	10,418	8,506
Net cash generated from/(used in) investing activities	(10,023)	(19,645)	(14,670)	1,716	(1,174)
Net cash used in financing activities	(36)	(11)	(95)	(17)	—
Net increase/(decrease) in cash and cash equivalents	23,952	(12,043)	7,851	12,117	7,332
Effect of exchange rate changes on cash and cash equivalents	(15)	227	(832)	42	(692)
Cash and cash equivalents at beginning of year/period	10,906	34,843	23,027	23,027	30,046
Cash and cash equivalents at end of year/period	34,843	23,027	30,046	35,186	36,686

Operating activities

We derived our cash inflow from operating activities primarily through provision of services including millwork and furniture provision, facade development and fabrication, interior solutions and design and project consultancy. Cash outflow from operating activities primarily comprises direct cost, administrative expenses, employee benefit expenses and other operating expenses. Out net cash from operating activities reflects our profit or loss before income tax, as adjusted for non-cash items, such as depreciation of property, plant and equipment and the effects of changes in working capital items.

For the six months ended December 31, 2015, we had net cash from operating activities of HK$8.5 million. This amount represents profit for the six months before income tax of HK$10.5 million, (i) adjusted for certain non-cash expenses, mainly depreciation of property, plant and equipment of HK$0.2 million, unrealized exchange loss of HK$0.6 million, and for changes in certain working capital items that positively affected operating cash flow, mainly the increase in trade and other payables of HK$13.8 million, and (ii) offset by the increase in trade and other receivables of HK$10.2 million.

For the year ended June 30, 2015, we had net cash from operating activities of HK$22.6 million. This amount represent profit for the year before income tax of HK$28.6 million, (i) adjusted for certain non-cash expenses, mainly depreciation of property, plant and equipment of HK$0.5 million, unrealized exchange loss of HK$0.8 million, impairment on trade receivables of HK$1.0 million, and for changes in certain working capital items that positively affected operating cash flow, mainly the decrease in trade and other receivables of HK$10.2 million and the decrease in amount due from customers for contract work of HK$0.5 million, and (ii) offset by changes in certain working capital items that negatively affected operating cash flow, mainly the decrease in trade and other payables of HK$12.8 million and the decrease in amounts due to customers for contract work of HK$0.3 million.

For the year ended June 30, 2014, we had net cash from operating activities of HK$7.6 million. This amount represent profit for the year before income tax of HK$24.3 million, (i) adjusted for certain non-cash expenses, mainly depreciation of property, plant and equipment of HK$0.5 million, unrealized exchange gain of HK$0.2 million, and for changes in certain working capital items that positively affected operating cash flow, mainly the decrease in amount due from customers for contract work of HK$1.0 million, and (ii) offset by changes in certain working capital items that negatively affected operating cash flow, mainly the increase in trade and other receivables of HK$2.5 million, the decrease in trade and other payables of HK$12.6 million and the decrease in amounts due to customers for contract work of HK$2.7 million.

For the year ended June 30, 2013, we had net cash from operating activities of HK$34.0 million. This amount represent profit for the year before income tax of HK$20.8 million, (i) adjusted for certain non-cash expenses, mainly depreciation of property, plant and equipment of HK$0.2 million, and for changes in certain working capital items that positively affected operating cash flow, mainly the decrease in trade and other receivables of HK$11,000, the increase in trade and other payables of HK$12.0 million and the increase in amounts due to customers for contract work of HK$3.0 million, and (ii) offset by the increase in amounts due from customers for contract work of HK$1.4 million.

Investing activities

Our cash used in investing activities reflects our cash used in payment for purchases of property, plant and equipment, advance to Director and advance to related companies. Cash inflow from investing activities mainly comprises repayment from Director, repayment from related companies and proceeds from disposal of property, plant and equipment.

For the six months ended December 31, 2015, we had net cash outflow from investing activities of HK$1.2 million, primarily attributable to purchases of property, plant and equipment of HK$0.7 million in connection with fixture and fitting and office equipment of a newly leased office premise and advance to Director of HK$0.5 million.

For the year ended June 30 2015, we had net cash outflow from investing activities of HK$14.7 million, primarily attributable to advance to Director of HK$15.6 million and offset by repayment from related companies of HK$0.9 million.

For the year ended June 30, 2014, we had net cash outflow from investing activities of HK$19.6 million, primarily attributable to purchases of motor vehicle of HK$1.0 million, advance to Director of HK$18.4 million and advance to related companies of HK$0.2 million.

For the year ended June 30, 2013, we had net cash outflow from investing activities of HK$10.0 million, primarily attributable to purchases of motor vehicle of HK$0.5 million, advance to Director of HK$8.9 million and advance to related companies of HK$0.6 million.

Financing activities

Our cash used in financing activities reflects our cash used in repayment of finance lease payables and interest paid. Cash inflow from investing activities mainly comprises proceed of issue of new shares on incorporation of a new group company. During the Track Record Period, our cash outflow from financing activities were HK$36,000, HK$11,000, HK$95,000 and nil for the year ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2015.

NET CURRENT ASSETS AND LIABILITIES

The following table sets forth our current assets and liabilities as of the dates indicated:

	As at June 30,			As at December 31,	As at January 31,
	2013	2014	2015	2015	2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)
Current assets					
Amounts due from customers for contract work	1,493	542	—	—	—
Trade and other receivables	27,093	29,598	18,454	28,506	27,400
Amount due from a Director	6,339	750	—	—	—
Amounts due from related companies	880	882	25	—	—
Pledged deposit	—	—	—	—	15,000
Cash and cash equivalents	34,843	23,027	30,046	36,686	14,349
Total current assets	70,648	54,799	48,525	65,192	56,749
Current liabilities					
Amounts due to customers for contract work	2,960	289	—	—	—
Trade and other payables	54,698	42,146	29,344	43,151	37,604
Amount due to a director	—	—	3,699	15,066	14,940
Amounts due to a related company	169	—	—	—	—
Obligation under finance leases	31	33	—	—	—
Current tax liabilities	3,754	7,600	6,535	1,818	1,818
Total current liabilities	61,612	50,068	39,578	60,035	54,362
Net current assets	9,036	4,731	8,947	5,157	2,387

As at January 31, 2016, we had net current assets of HK$2.4 million compared to net current assets of HK$5.2 million as at December 31, 2015, primary due to bonus payment and settlement of trade and other payables.

As at December 31, 2015, we had net current assets of HK$5.2 million compared to net current assets of HK$8.9 million as at June 30, 2015, primarily due to the increase in trade and other receivables of HK$10.1 million and the increase in cash and cash equivalents of HK$6.6 million.

As at June 30, 2015, we had net current assets of HK$8.9 million compared to net current assets of HK$4.7 million as at June 30, 2014, primarily due to the decrease in amount due from a Director of HK$0.8 million, the increase in cash and cash equivalents of HK$7.0 million and the decrease in trade and other payables of HK$12.8 million.

As at June 30, 2014, we had net current assets of HK$4.7 million compared to net current assets of HK$9.0 million as at June 30, 2013, primarily due to the decrease in cash and cash equivalents of HK$11.8 million.

CAPITAL EXPENDITURES AND COMMITMENTS

During the Track Record Period and as at the Latest Practicable Date, we did not have any material capital expenditures and commitments.

OPERATING LEASES

Our Group leased our office premises and office equipment under operating lease arrangement which were negotiated for terms ranging from [one to four] years. The table below sets forth details the total future minimum lease payments under our non-cancellable operating leases by due date as of the dates indicated:

	As at June 30,			As at December 31,
	2013	**2014**	**2015**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Not later than one year	123	832	903	1,627
Later than one year and not later than five years	—	1,038	373	3,192
	123	1,870	1,276	4,819

INDEBTEDNESS

As at January 31, 2016, being the latest practicable date for the purpose of the indebtedness statement, we had outstanding indebtedness of HK$14.9 million consisting of amount due to a director. There were no material covenants relating to the indebtedness of our Group as of January 31, 2016.

As at January 31, 2016, we had a banking facility of HK$20.0 million that had not been utilized and was available for drawdown. The banking facility was secured by the unlimited personal guarantees executed by Mr. Lee and Ms. Leung, our Controlling Shareholders, and a charge over deposits of HK$15,000,000. Approval-in-principle has been obtained that all personal guarantees given by Mr. Lee and Ms. Leung, our Controlling Shareholders, in favor of this banking facility will be fully released and discharged upon [REDACTED].

Saved as disclosed above, we did not have any bank loans or other borrowings, or any other outstanding loan capital issued and outstanding or agreed to be issued, term loans, bank overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities as of January 31, 2016.

Our Directors confirm that, up to the Latest Practicable Date, there has been no material change in our Company's indebtedness, capital commitments and contingent liabilities since January 31, 2016.

WORKING CAPITAL

During the Track Record Period, we have met our working capital needs mainly from our cash and cash equivalents on hand and cash generated from our operation. We manage our cash flow and working capital by closely monitoring and managing our operations and expansion plans. We also diligently review future cash flow requirements and adjust our operation and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans.

Taking into account the financial resources available to us, including our existing cash and cash equivalents, cash flows from operations and net proceed from the [REDACTED], our Directors believe that we have sufficient working capital for at least the next 12 months from the date of this document.

DISCLOSURE ABOUT MARKET RISKS

Our Group is exposed to a variety of financial risks which comprise credit risk, liquidity risk, interest rate risk and currency risk. Our Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our Group's financial performance. Our Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for our Shareholders. As the Directors considers that our Group's exposure to financial risk is kept at a minimum level, the Group does not hold or issue derivative financial instruments either for hedging or trading purposes.

For further details, please refer to Note 25 to the accountants' report included in Appendix I to this document.

MAJOR FINANCIAL RATIOS

	As at June 30,			As at December 31,
	2013	2014	2015	2015
	%	%	%	%
Profitability ratios				
Gross profit margin(1)	27.0	32.6	33.9	34.1
Net profit margin(2)	14.0	17.7	18.2	14.7
Return of equity(3)	182.9	355.5	251.4	284.0
Return of total assets(4)	24.3	36.1	48.5	26.5

	As at June 30,			As at December 31,
	2013	**2014**	**2015**	**2015**
	times	*times*	*times*	*times*
Liquidity ratios				
Current ratio[5]	1.1	1.1	1.2	1.1
Quick ratio[6]	1.1	1.1	1.2	1.1
Capital adequacy ratios				
Gearing ratio[7]	0.01	0.02	—	—

Notes:

1. The calculation of gross profit margin is based on gross profit divided by revenue and multiplied by 100%.

2. The calculation of net profit margin is based on profit for the period divided by revenue and multiplied by 100%.

3. The calculation of return on equity is based on profit for the year attributable to the owners of the company divided by total equity and multiplied by 100%.

4. The calculation of return on total assets is based on profit for the year divided by total assets and multiplied by 100%.

5. The calculation of current ratio is based on current assets divided by current liabilities.

6. The calculation of quick ratio is based on current assets less inventories divided by current liabilities.

7. The calculation of gearing ratio is based on interest-bearing liabilities divided by total capital.

See the section headed "Financial Information — Review of Historical Results of Operation" for a discussion of the factors affecting our gross profit margin and net profit margin during the Track Record Period.

Return on equity

Our return on equity increased from 182.9% for the year ended June 30, 2013 to 355.5% for the year ended June 30, 2014 primarily due to the increase in our net profit. Our return on equity decreased from 355.5% for the year ended June 30, 2014 to 251.4% for the year ended June 30, 2015 primarily due to the increase in our reserves. Our return on equity decreased from 251.4% for the year ended June 30, 2015 to 284.0% for the six months ended December 31, 2015 primarily due to the decrease in our net profit.

Return on total assets

Our return on total assets increased from 24.3% for the year ended June 30, 2013 to 36.1% for the year ended June 30, 2014 primarily due to the decrease in total assets due to the decrease in amount due from Director. Our return on total assets increased from 36.1% for the year ended June 30, 2014 to 48.5% for the year ended June 30, 2015 primarily due to the increase in our net profits. Our return on equity decreased from 48.5% for the year ended June 30, 2015 to 26.5% for the six months ended December 31, 2015 primarily due to the decrease in our net profit.

Current ratio

Our current ratio remained stable during the Track Record Period.

Quick ratio

Our quick ratio is the same as current ratio during the Track Record Period because our Group did not hold any inventories.

Gearing ratio

During the Track Record Period, our Group did not have any interest-bearing bank or other borrowings except for obligation under finance lease of HK$0.1 million for the year ended June 30, 2013 and 2014.

RELATED PARTY TRANSACTIONS

Our Directors confirm that all transactions with related parties described in note 23 of the accountants' report set out in Appendix I to this document were conducted on normal commercial terms and/or on terms not less favorable than terms available from independent third parties, which are considered fair, reasonable and in the interest of the Shareholders of our Company as a whole.

Please also refer to the section headed "Connected Transactions" for further details of the related party transactions.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we did not have any material off-balance sheet arrangements or contingencies.

FINANCIAL INSTRUMENT

As at the Latest Practicable Date, we have not entered into any financial instruments for hedging purposes.

DISCLOSURE UNDER THE [REDACTED]

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure required under Rules 13.13 to 13.19 of the [REDACTED] upon the [REDACTED] of the Shares on the [REDACTED].

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to Appendix II of this document for the unaudited pro forma adjusted net tangible assets.

DIVIDEND POLICY

In future, declaration and payment of any dividends would require the recommendation of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval, but no dividend shall be declared in excess of the amount recommended by the Board. A decision to declare or to pay any dividend in the future, and the amount of any dividends, depends on a number of factors, including our results of operations, financial condition, the payment by our subsidiaries of cash dividends to us, and other factors the Board may deem relevant. There will be no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Board in the future.

Notwithstanding the foregoing, no dividend shall be declared or paid or shall be made otherwise than in accordance with the Companies Law. No distribution or dividend may be paid to members 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.

For the year ended June 30, 2013, 2014 and 2015 and the six months ended December 31, 2015, we declared and distributed dividends of HK$[16.1] million, HK$[24.0] million, HK$20.0 million and HK$12.0 million, respectively, to our then Shareholders.

DISTRIBUTABLE RESERVES

As at December 31, 2015, our Company had no distributable reserves.

RECENT DEVELOPMENT

On January 19, 2016, Hang Seng Bank agreed to grant us a revolving loan facility of HK$20 million, subject to review at any time and in any event by January 31, 2017.

MATERIAL ADVERSE CHANGE SUBSEQUENT TO DECEMBER 31, 2015

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial, operational or trading position since December 31, 2015, being the end of the period reported on in the accountants' report in Appendix I to this document.