REASONS FOR THE [REDACTED]

The following are our main purposes for seeking the [REDACTED]:

- broadening our shareholder base and enhancing our access to capital for future growth with opportunities to raise fund not only at [REDACTED] but also at a later stage. This is of particular importance to us in view of our plans to expand into the overseas markets, enhance the geographical coverage of our business, and to achieve economy of scale through suitable acquisition and partnership opportunities. In addition, our Directors have considered to use debt financing from banks to fund our future business growth, however, given our Group does not have chargeable assets as security, it may take longer to obtain banking facilities. And also, the interest rate on bank loans is expected to be on the up trend in the future and our Group will be subject to high interest cost. Therefore, our Directors are of the view that, fund-raising through [REDACTED] will reduce our financing costs and increase our financial leverage;

- enhancing our profile, visibility and our market presence to generate reassurance among our clients and suppliers. We believe that our clients, being world-renowned luxury brands, prefer to work with business partners who are listed companies given their reputation and listing status. By way of [REDACTED], we can elevate our corporate image and status and provide reassurance and confidence to our clients and suppliers, which in turn provides a more level playing field when exploring new business opportunities with our clients and suppliers. Furthermore, with better financial resources, it will enable us to take on projects of greater size, improve our capacity to take on new projects and ensure their timely completion. This can fuel our business growth in a much faster pace and improve our market competitiveness;

- enhancing our operational efficiency and corporate governance through compliance with rigorous disclosure standards which we believe would enhance our internal control, operating systems and risk management; and

- enhancing employee incentive and commitment. Human resources and talents are vital to our business, being a [REDACTED] company can help to attract, recruit and retain our valued management personnel, employees and skilled professionals to provide additional incentive. To this end, we have also put in place the Share Option Scheme for our employees in order to attract and retain talents. Please see the section headed "Statutory and General Information — Share Option Scheme" for a summary of principal terms of the scheme.

In light of the foregoing, the [REDACTED] will further complement our strong liquidity position as reflected during our Track Record Period.

FUTURE PLANS

Please refer to the section headed "Business — Business Strategies" in this document for a detailed description of our future plans. We currently do not have any specific acquisition plans or targets and have not entered into any definitive agreements with any potential targets.

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the [REDACTED] (after deducting [REDACTED] commissions and estimated total expenses paid and payable by us in connection with the [REDACTED]) will be approximately [REDACTED], assuming an [REDACTED] of [REDACTED] per Share, being the mid-point of the [REDACTED] range stated in this document.

We plan to apply these net proceeds in the following purposes:

(1) approximately [REDACTED], representing approximately [REDACTED] of the net proceeds will be used for pursuing suitable acquisition and partnership opportunities;

We intend to selectively acquire, invest in or partner with companies which we consider to have potential for complementing our existing business in the luxury retail market. Our acquisition approach is to acquire majority of the shares in the target company with minority interest maintained by the existing management or owner. We will then be able to benefit from their existing expertise in the industry while maintaining majority control of the acquisition target. This way, we can ensure that the new business to be acquired will align with and complement our Group's business focus and development goals as a whole. Before making a decision, we will carefully consider by taking into account, amongst others, the following factors:

- investment return, payback period and other benefits that we expect to result from the acquisition(s) or partnership(s);
- acquisition consideration, valuation methodologies and accounting impact of the acquisition(s) or partnership(s);
- profitability of the acquisition target(s) or partner(s);
- findings of due diligence to be conducted on the acquisition target(s) or partner(s);
- synergic effect with our business, in terms of geographical coverage, scope of services, or otherwise. Such acquisition target(s) or partner(s) can be, for instance, overseas design firm with well-established clientele and proven track record working with clients from the luxury goods and high-end fashion brands industry. This can benefit our Group by acquiring additional skills, technical know-how and experience in the luxury industry to further fuel our innovative and technical capability to meet the increasingly sophisticated demand from our clients. This will also provide an entry point for us to tap into new markets, enlarge our client base and further increase our penetration into the existing markets. In addition, we also intend to acquire parts and accessories supplier(s) in the PRC. This will enable us to improve our profitability through reducing costs by way of vertical integration, which will allow us to offer more competitive prices for our services to our clients; and
- challenges and expenses that could arise from integrating with the acquisition target(s) or partnership(s).

Our Directors are of the view that by applying 30% of our net proceeds for our selective acquisition or partnership, our Group's business will grow at a faster rate compared to solely relying on our organic growth. As at the Latest Practicable Date, we have not identified any specific target or commenced any negotiation for any acquisition or partnership.

(2) approximately [REDACTED], representing approximately 23% of the net proceeds will be used for financing the incorporation of overseas subsidiaries in Milan, Beijing, New York and Tokyo;

The proceeds will be utilized for setting up our overseas subsidiaries and the initial operation costs for the first year:

- approximately [REDACTED] or [REDACTED] will be used for the one-off costs for the setting-up of overseas subsidiaries, including but not limited to the incorporation costs, office renovation and purchase of office equipment;
- approximately [REDACTED] or [REDACTED] will be used for the general operating costs, including but not limited to the office rental and insurance expenses; and
- approximately [REDACTED] or [REDACTED] will be used for recruiting designated staff in our overseas offices, which will mainly comprise of marketing manager, project and design manager and secretarial and supporting staff.

(3) approximately [REDACTED], representing approximately [REDACTED] of the net proceeds will be used for financing the establishment of research and development center in Hong Kong;

Our research and development center will primarily focus on:

- explore the application of new materials with lower cost and higher quality to improve gross profit margin;
- develop new designs and products which can enhance energy conservation and environmental sustainability; and
- strengthen our re-engineering capability in our millwork and furniture provision and facade development to fit our clients' changing requirements.

Our Directors are of the view that our Company's research and development capabilities and efforts in the past have enabled our Company to (i) stay ahead of our competitors when securing new projects from our clients; and (ii) reduce material and subcontracting costs.

For further information about our research and development initiatives, please see the section headed "Business — Research and Development".

(4) approximately HK$5.6 million, representing approximately 11% of the net proceeds will be used for recruiting high caliber talents in management, design, sales and marketing and enhance internal training to support future growth; It is our Group's strategy to attract and retain talents in order to remain competitive. This can be shown by our increasing number of employees. The total number of employees of our Group as at July 1, 2012, June 30, 2015 and the Latest Practicable Date were 18, 19 and 28, respectively. For details of the changes in total number of employees during the Track Record Period, please see the section headed "Business — Employees".

The number of staff to be hired, their expected roles and area of expertise are detailed as follows:

Position	**Number of staff**	**Expected roles**	**Area of expertise**
Chief financial officer (Mr. Lau King Lok)	1	Responsible for the overall management of financial, human resources, corporate governance and merger and acquisition of the Company	Qualified accountant with at least 15 years post qualification experience; solid experience in business expansion and establishment of overseas office
General manager	1	Responsible for the overall management and business development of the Company's oversea offices	At least 15 years of experience in business development in luxury retail brands with good networking with luxury retail brands; fluent in French
Senior designer	1	Assist the design director for day-to-day management of the design team	With at least 12 years of experience in international design firm and specialized in international retail branding and commercial experience
Designer	1	Assist the Company's design team for 3D drawing	With at least 8 years of experience in international design firm and specialized in 3D drawing
Senior marketing manager	1	Assist the business development director to perform business development and sales and marketing activities	At least 10 years of experience in oversea business development in the same industry of the Company

(5) approximately HK$5.1 million, representing approximately 10% of the net proceeds will be used for additional working capital and other general corporate purposes;

(6) approximately [REDACTED], representing approximately [REDACTED] of the net proceeds will be used for promoting our brand by strengthening our marketing efforts to further increase our market share.

The above allocation of the net proceeds will be adjusted on a pro-rata basis in the event that the [REDACTED] is fixed at a higher or lower level compared to the mid-point of the estimated [REDACTED] range stated in this document.

To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments as permitted by the relevant laws and regulations.

In the event of any material change in our use of net proceeds from the purposes described above or in our allocation of the net proceeds among the purposes described above, a formal announcement will be made.

Overseas Expansion

We intend to set up subsidiaries in Milan, Beijing, New York and Tokyo. At an initial stage, the new subsidiaries would provide marketing and client liaison services which would serve as a supporting role to our Group. Such offices will be on small scale operation with only two to four employees for each office.

For setting up the overseas subsidiaries, we estimate the initial set-up and operation costs for the first year will be as follow:

- approximately [REDACTED] will be used for the one-off costs for the setting-up of overseas subsidiaries, including but not limited to the incorporation costs, office renovation and purchase of office equipment;

- approximately [REDACTED] will be used for the general operating costs, including but not limited to the office rental and insurance expenses; and

- approximately [REDACTED] will be used for recruiting designated staff in our overseas offices, which will mainly comprise of marketing manager, project and design manager and secretarial and supporting staff.

The above mentioned costs will be fully funded by the net proceeds from the [REDACTED]. Our Directors are of the view that by setting-up such overseas subsidiaries will not (i) change our core business model and scope of services; (ii) have material impact on our profitability, cash flow, liquidity, cost structure and risk profile.

Potential Tax Impact of our Group's Overseas Expansion

The overseas subsidiaries, which will be set up as mentioned above, would be subject to local income taxes if they derive taxable profits in their resident jurisdictions.

According to the Group's tax advisor, BDO Tax Limited, the income tax rates in Italy, Japan, the PRC and the US are as follows:

1. *Italy*

— Generally, Italian tax residents are subject to corporate income tax on their worldwide income at a rate of 27.5% and a regional tax on productive activities at a rate of around 3.9% subject to the regional authorities. Resident companies are those which for the greater part of the tax year have had their registered office (or legal seat), place of effective management or main business purpose in Italy.

— Dividends distributed to non-residents are subject to a withholding tax of 26%. The tax rate could be reduced to 10% pursuant to the Double Taxation Arrangement ("DTA") between Hong Kong and Italy provided that certain conditions are satisfied.

2. *Japan*

— Japanese tax residents are generally subject to corporate income tax on their worldwide income at a rate of 23.9%. Reduced corporate tax rate could be available for small and medium-sized companies. Resident companies are those which have their head offices or main offices in Japan. Apart from corporate income tax, there are other taxes such as enterprise tax and inhabitant tax imposed by prefectures and municipalities.

— Dividends distributed to non-residents are subject to a withholding tax of 20%. The tax rate could be reduced to 5% or 10% pursuant to the DTA between Hong Kong and Japan provided that certain conditions are satisfied.

3. *PRC*

— Generally, PRC tax residents are subject to corporation income tax on their worldwide income at a rate of 25%. Resident companies are those incorporated under Chinese law and with an effective management in China.

— Dividends distributed to non-residents are subject to a withholding tax of 10%. The tax rate could be reduced to 5% pursuant to the DTA between Hong Kong and China provided certain conditions are satisfied.

4. *U.S.*

— U.S. tax residents are generally subject to corporate income tax on their worldwide income at a progressive rate up to 35% or an alternative minimum tax to the extent that it exceeds the amount of the regular tax liability. State corporate income tax for New York City is 7.1%.

— There is no DTA entered into between Hong Kong and the US. Dividends distributed by a US corporation to its Hong Kong parent are subject to a withholding tax of 30%.

Barring any unforeseen circumstances, our Directors consider our Group's overseas expansion will not have a significant tax impact on our Group with the following basis:

i. *Existing business and contracting arrangement between our Group and its future clients remain unchanged*

Currently, Crosstec International is the core contracting party with its overseas clients. In addition, Crosstec International are only engaged in millwork and furniture provision and facade development and fabrication work in overseas project locations and are not involved in any on-site fit-out services and construction work.

There will not be any changes in the business and contracting arrangements between our Group and its future overseas clients and should our Group's overseas subsidiaries established, such revenue generated from overseas clients will all remain in Crosstec International instead of our Group's overseas subsidiaries. The purpose of the establishment of our Group's overseas subsidiaries is to assist Crosstec International to provide the better marketing and client liaison service support in these overseas locations to strengthen our Group's client relationship.

ii. *Relative small scale of support operations in our Group's overseas subsidiaries*

In view of the supporting role of our Group's overseas subsidiaries, the size, transaction and operation of the overseas subsidiaries would be maintained in a small and limited scale; and we estimate the operating cost would be below HK$3 million on an annualised basis for each overseas subsidiary.

iii. *Inter-company office service charging arrangement*

We intend to adopt the cost-plus charging arrangement between the Crosstec International and our Group's overseas subsidiaries. In a hypothetical scenario, under the cost-plus arrangement, our Group's overseas subsidiaries will charge the inter-company service fees to Crosstec international which is based on the annual operating cost of our Group's overseas subsidiaries (i.e. below HK$3 million for each overseas subsidiaries) with the cost-plus rate up to 10%, which our Directors consider to be reasonable in accordance with the functionality of our Group's overseas subsidiaries. Therefore, profits generated from our Group's overseas subsidiaries would only be approximately HK$1.2 million (i.e. HK$3 million x 10% x 4 locations).

In another hypothetical scenario, profits generated from our Group's overseas subsidiaries would be approximately HK$2.2 million (i.e. HK$3 million x 18.2% x 4 locations), assuming a cost-plus mark-up rate of 18.2%, (i.e. the highest net profit margin of our Group during the Track Record Period) and maximum annual operating cost of HK$3 million to be incurred for each oversea subsidiaries are adopted.

iv. *Tax deductibility of the inter-company office service charges*

For adopting the aforementioned cost-plus model under the above hypothetical scenario, Crosstec International would be entitled to claim deduction on these inter-company office service charges for Hong Kong profits tax purposes if the service charges paid to overseas subsidiaries are incurred in the production of Crosstec International's assessable profits. For illustration purposes only, assuming a 10% cost-plus mark-up rate is adopted for our Group's overseas subsidiaries and they are subject to the highest corporate income tax up to 42.1%, the Hong Kong profits tax saving from the deduction on the service charges paid by Crosstec International at 16.5% of the Hong Kong profits tax rate will be approximately HK$2.2 million (i.e. HK$3.0 million x 110% x 4 locations x 16.5%) which will outweigh the impact of the additional overseas income tax of approximately HK$0.5 million (i.e. HK$1.2 million x 42.1%) as a result of the setting-up of our Group's overseas subsidiaries.

If a 18.2% cost-plus mark-up rate is adopted, the Hong Kong profit tax saving from the deduction will be approximately HK$2.3 million (i.e. HK$3.0 million x 118.2% x 4 locations x 16.5%) and still outweigh the impact of the additional overseas income tax of approximately HK$0.9 million (i.e. HK$2.2 million x 42.1%) as a result of the setting-up of our Group's overseas subsidiaries.

v. Preferential withholding tax rates on dividend distribution

Pursuant to the double taxation agreements/arrangement between Hong Kong and Italy, Hong Kong and Japan, and Hong Kong and the PRC, the withholding tax rates imposed on the dividends distributed from the overseas subsidiaries to a Hong Kong tax resident would be reduced to 5% or 10% provided that certain conditions are satisfied. Given the expected size, transaction and operation of the overseas subsidiaries would be small and limited, dividend, if any, to be distributed from overseas subsidiaries and hence the withholding tax is considered as insignificant.

Based on the above hypothetical scenario analysis, our Directors are of the view that the overseas income tax exposure of our Group as a result of the overseas expansion may not have significant tax impact to the overall tax provisions on our Group. Our Group will seek independent tax advice to ensure tax compliance and efficiency.

In respect of the calculation set out in the hypothetical scenario analysis, the Reporting Accountant concurred with our Directors' view that the Hong Kong profits tax saving from deduction of the inter-company cost-plus charging arrangement would outweigh the overseas income tax effect under the above hypothetical scenario.

Note: the above estimations are derived based on various assumptions which may or may not happen and the time it may happen would be different from our hypothetical analysis.