CROSSTEC Group Holdings Limited
易緯集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3893)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2017

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**", each a "**Director**") of CROSSTEC Group Holdings Limited (the "**Company**") announces the consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 30 June 2017, together with the comparative figures for the year ended 30 June 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Revenue	*4*	**99,094**	132,719
Direct cost		**(75,232)**	(85,425)
Gross profit		**23,862**	47,294
Other income	*4*	**152**	6
Other (loss)/gain	*4*	**(494)**	125
Administrative expenses		**(39,464)**	(19,949)
Listing expenses		**(4,916)**	(11,183)
(Loss)/profit before income tax credit/(expense)	*5*	**(20,860)**	16,293
Income tax credit/(expense)	*6*	**141**	(4,785)
(Loss)/profit for the year and attributable to owners of the Company		**(20,719)**	11,508
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**(74)**	(59)
Other comprehensive income for the year and attributable to owners of the Company, net of tax		**(74)**	(59)
Total comprehensive income for the year and attributable to owners of the Company		**(20,793)**	11,449
(Losses)/earnings per share			
Basic and diluted (HK cents)	*7*	**(0.91)**	0.64

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**4,301**	1,151
Deposit	*9*	**1,328**	–
		5,629	1,151
Current assets			
Amounts due from customers for contract work		**2,341**	1,694
Trade and other receivables	*9*	**17,644**	34,363
Income tax recoverable		**1,278**	–
Cash and cash equivalents		**68,789**	11,235
		90,052	47,292
Total assets		**95,681**	48,443
Current liabilities			
Trade and other payables	*10*	**25,768**	34,621
Amounts due to customers for contract work		**449**	–
Income tax payable		**–**	4,836
		26,217	39,457
Net current assets		**63,835**	7,835
Total assets less current liabilities		**69,464**	8,986
Non-current liabilities			
Deferred tax liabilities		**55**	103
Other payable	*10*	**704**	–
		759	103
Total liabilities		**26,976**	39,560
NET ASSETS		**68,705**	8,883
Capital and reserves			
Share capital	*11*	**24,000**	–*
Reserves		**44,705**	8,883
TOTAL EQUITY		**68,705**	8,883

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 18 March 2016, as an exempted company with limited liability under the Companies Law (2004 revision) Chapter 22 of the Cayman Islands. The registered office of the Company is located at the offices of P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. In July 2017, the headquarter and principal place of business in Hong Kong has been changed from Room 1505, 625 King's Road, North Point, Hong Kong to 20th Floor, 625 King's Road, North Point, Hong Kong.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 September 2016 (the "**Listing**").

The Company is an investment holding company and the Group is principally engaged in the trading of millwork, furniture and façade fabrication and provision of interior design, project consultancy and interior solutions services (the "**Listing Business**").

In the opinion of the Directors, the Company's immediate and ultimate holding company is CGH (BVI) Limited, a company incorporated in British Virgin Islands.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION AND PREPARATION

(a) Group reorganisation

Pursuant to the group reorganisation (the "**Reorganisation**") carried out by the Group in preparation for the Listing and for the purpose of rationalising the Group's structure, the Company became the holding company of the subsidiaries now comprising the Group on 22 March 2016. Details of the Reorganisation are as set out in the section headed "History and Reorganisation – Reorganisation" to the prospectus issued by the Company dated 30 August 2016.

(b) Basis of presentation

The Reorganisation involved the combination of a number of entities engaged in the Listing Business that were under common control before and after the Reorganisation. The Group is therefore regarded as a continuing entity resulting from the Reorganisation, as there has been a continuation of the risks and benefits to the ultimate controlling parties that existed prior to the Reorganisation.

Accordingly, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year ended 30 June 2016 has been prepared using the principles of merger accounting as if the current group structure had been in existence throughout those years, or since their respective dates of incorporation or establishment of the combining companies, or since the date when the combining companies first came under the common control, whichever was shorter. The assets and liabilities of the Group were combined using their carrying values. All significant intra-group transactions and balances have been eliminated on consolidation.

(c) Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations (hereinafter collectively referred to as the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**").

The consolidated financial statements have been prepared under the historical cost basis.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company, and all values are rounded to the nearest thousands, except when otherwise indicated. Each entity in the Group maintains its books and records in its own functional currency.

The Group has adopted the following new or revised HKFRSs for the first time for the current year's financial statements.

HKFRSs (Amendments)	*Annual Improvements 2012 – 2014 Cycle*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 27	*Equity Method in Separate Financial Statements*

The adoption of the revised standards has no material impact on the Group's financial statements.

3. SEGMENT INFORMATION

Operating segments

The Group was principally engaged in the trading of millwork, furniture and façade fabrication and provision of interior design, project consultancy and interior solutions services. Information reported to the Group's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole, as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The following table sets out the information about the geographical location of the Group's revenue from external customers and non-current assets other than financial instruments ("**Specified non-current assets**").

The Group comprises the following main geographical segments:

	Revenue from external customers	
	2017	2016
	HK$'000	*HK$'000*
Hong Kong (place of domicile)	**52,005**	26,329
Asia (excluding Hong Kong and the People's Republic of China ("**PRC**"))	**20,213**	29,434
PRC	**2,069**	6,007
Europe	**12,894**	60,852
United States	**10,876**	10,097
Middle East	**1,032**	–
Others	**5**	–
	47,089	106,390
	99,094	132,719

The revenue information above is based on the locations of the customers.

	Specified non-current assets	
	2017	2016
	HK$'000	*HK$'000*
Hong Kong (place of domicile)	**4,260**	1,150
PRC	**1**	1
Europe	**40**	–
	4,301	1,151

Information about major customers

Revenue attributed from customers that accounted for 10% or more of the Group's total revenue during the year is as follows:

	2017	2016
	HK$'000	*HK$'000*
Client A	*	16,491
Client B	*	14,854
Client C	*	14,035
Client D	**12,253**	*
Total *(Note)*	**12,253**	45,380

* *Less than 10% of the Group's revenue*

Note: The total amount represents the sum of revenue attributed from the customers that accounted for 10% or more of the Group's total revenue during the year and therefore this sum excluded the amount hidden in "*" disclosed in table above.

4. REVENUE, OTHER INCOME AND OTHER (LOSS)/GAIN

Revenue includes the net invoiced value of goods sold, design and project consultancy service rendered and contract revenue earned from the interior solutions projects by the Group. The amounts of each significant category of revenue recognised during the year are as follows:

	2017	2016
	HK$'000	*HK$'000*
Sales of products		
– Millwork and furniture	**37,756**	88,636
– Facade fabrication	**3,414**	22,869
Income from interior solutions projects	**51,972**	19,426
Design and project consultancy service income	**5,952**	1,788
	99,094	132,719

An analysis of the Group's other income and other (loss)/gain recognised during the year is as follows:

	2017	2016
	HK$'000	*HK$'000*
Other income		
Bank interest income	**152**	6
Other (loss)/gain		
(Loss)/gain on disposals of property, plant and equipment	**(494)**	125

5. (LOSS)/PROFIT BEFORE INCOME TAX CREDIT/(EXPENSE)

	2017	2016
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**450**	510
Operating lease rentals in respect of:		
– Land and buildings	**2,740**	1,299
– Plant and equipment	**102**	37
Auditor's remuneration	**650**	300
Loss/(gain) on disposals of property, plant and equipment	**494**	(125)
Exchange loss, net	**34**	1,077
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**19,229**	12,002
Post-employment benefits – contribution to defined contribution retirement plan*	**455**	323
Other benefits	**1,749**	1,141

* At 30 June 2017, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2016: Nil).

6. INCOME TAX CREDIT/(EXPENSE)

The amount of income tax credit/(expense) in the consolidated statement of profit or loss and other comprehensive income represents:

	2017	2016
	HK$'000	*HK$'000*
Current tax – Hong Kong profits tax		
– tax for the year	**–**	(4,577)
– overprovision in respect of prior years	**179**	15
Current tax – overseas profits tax		
– tax for the year	**(174)**	(169)
– overprovision in respect of prior years	**88**	–
Deferred tax credit/(expense)	**48**	(54)
Income tax credit/(expense)	**141**	(4,785)

The Company was incorporated in the Cayman Islands and is exempted from income tax. It is not subject to tax in other jurisdictions.

No provision for Hong Kong profits tax has been made as the Company did not generate any assessable profits arising in Hong Kong during the year. In the prior year, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.

Taxes on assessable profits of overseas subsidiaries are calculated at the rates applicable in the respective jurisdictions.

7. (LOSSES)/EARNINGS PER SHARE

The calculation of the basic (losses)/earnings per share amount is based on the (loss)/profit for the year attributable to the ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,280,000,000 (2016: 1,800,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 30 June 2017 and 2016.

The calculation of the basic (losses)/earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2017	2016
	HK$'000	*HK$'000*
(Losses)/earnings		
(Losses)/earnings for the purpose of basic earnings per share	**(20,719)**	11,508

	Number of shares	
	2017	2016
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share *(Note)*	**2,280,000**	1,800,000

Note:

Weighted average of 1,800,000,000 ordinary shares for the year ended 30 June 2016, being the number of shares in issue immediately after the completion of capitalisation issue of shares as detailed in Note 11(b), are deemed to have been issued throughout the year ended 30 June 2016 and up to 11 September 2016, immediately before the completion of public offer and placing of shares during the year ended 30 June 2017.

Weighted average of approximately 2,280,000,000 ordinary shares for the year ended 30 June 2017, is calculated based on the weighted average of approximately 480,000,000 ordinary shares issued immediately after the completion of public offer and placing of shares during the year ended 30 June 2017 in addition to the aforementioned 1,800,000,000 ordinary shares for the year ended 30 June 2016.

8. DIVIDENDS

For the year ended 30 June 2016, an interim dividend of HK$110 per ordinary share, or in aggregation of HK$11,000,000 represented interim dividends declared and paid by a subsidiary of the Company, CROSSTEC Group Limited to its then shareholders prior to the completion of the Reorganisation.

For the year ended 30 June 2016, an interim dividend of approximately HK$40 per ordinary share, or in aggregation of approximately HK$1,000,000 represented interim dividends declared and paid by a subsidiary of the Company, CX (Macau) Limited, to its then shareholders prior to the completion of Reorganisation.

No dividend has been paid or declared by the Company since its date of incorporation.

9. TRADE AND OTHER RECEIVABLES

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Trade receivables	*i*	**10,113**	27,276
Retention receivables	*ii*	**2,695**	786
Deposits and other receivables	*iii*	**2,646**	623
Prepayments	*iii*	**3,518**	5,678
Total		**18,972**	34,363
Less: Non-current portion			
Deposit	*iii*	**(1,328)**	–
Total current portion		**17,644**	34,363

Notes:

(i)

	2017 *HK$'000*	2016 *HK$'000*
Trade receivables	**10,113**	27,276
Less: provision for impairment on trade receivables	**–**	–
	10,113	27,276

Trade receivables are non-interest bearing. The Group does not hold any collateral or other credit enhancements over these balances. Except for one customer with 60 days credit granted, no credit period is granted by the Group to its trade customers. Application for progress payments of projects is made on a regular basis.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

The following is an analysis of trade receivables by age, presented based on the invoice dates:

	2017	2016
	HK$'000	*HK$'000*
Less than 1 month	**3,409**	15,738
1 to 3 months	**2,585**	2,483
3 to 6 months	**1,427**	6,533
More than 6 months but less than one year	**54**	2,522
More than one year	**2,638**	–
	10,113	27,276

The ageing of trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2017	2016
	HK$'000	*HK$'000*
Neither past due nor impaired	**2,822**	561
Less than 1 month past due	**1,815**	15,200
1 to 3 months past due	**1,606**	2,483
More than 3 months past due but less than 12 months	**1,232**	9,032
More than one year past due	**2,638**	–
	10,113	27,276

Trade receivables that were neither past due nor impaired relate to customers for whom there is no recent history of default.

Trade receivables that were past due but not impaired relate to customers that have a good track record with the Group. Based on past experience, management is of the opinion that no provision for impairment is necessary in respect of these receivables as there has not been a significant change in credit quality and the credit risk is minimal.

(ii) Retention monies withheld by customers of contract works are released after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts.

Retention receivables as at 30 June 2017 and 2016 were neither past due nor impaired and expected to be recovered within 1 year after the reporting period. These related to customers for whom there was no recent history of default.

(iii) The above balances of other receivables, prepayments and deposits as at 30 June 2017 and 2016 were neither past due nor impaired. Financial assets included in these balances are non-interest bearing and relate to receivables for which there was no recent history of default.

10. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables *(note (a))*	**11,326**	17,712
Receipts in advance *(note (b))*	**7,249**	1,995
Other payables and accruals *(note (c))*	**7,897**	14,914
Total	**26,472**	34,621
Less: Non-current portion		
Other payable *(note (c))*	**(704)**	–
Total current portion	**25,768**	34,621

Notes:

(a) An ageing analysis of trade payables, based on the invoice date, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Current or less than 1 month	**4,998**	8,561
1 to 3 months	**2,207**	5,959
4 to 6 months	**2,252**	2,340
7 to 12 months	**525**	368
More than 1 year	**1,344**	484
	11,326	17,712

The Group's trade payables are non-interest bearing and generally have payment terms of 0 to 90 days.

(b) Receipts in advance represented advance payment from the customers in connection with the contract works and sales. Receipts in advance are expected to be recognised as revenue of the Group within one year from the reporting date.

(c) Other payables under current portion are non-interest bearing and have average payment terms of 31 to 90 days.

Other payable under non-current portion is non-interest bearing and expected to be settled more than twelve months after the reporting period.

11. SHARE CAPITAL

	2017	2016
	HK$	*HK$*
Authorised: 10,000,000,000 (2016: 35,000,000) ordinary shares of HK$0.01 (2016: HK$0.01) each	**100,000,000**	350,000
Issued and fully paid: 2,400,000,000 (2016: 100) ordinary shares of HK$0.01 (2016: HK$0.01) each	**24,000,000**	1

A summary of the transactions during the year with reference to the movements in the Company's ordinary share capital is as follows:

	Notes	Number	*HK$*
Authorised:			
Ordinary shares of HK$0.01 each			
At the date of incorporation, 18 March 2016 and 30 June 2016		35,000,000	350,000
Increase in authorised share capital during the year	*(a)*	9,965,000,000	99,650,000
At 30 June 2017		10,000,000,000	100,000,000
Issued and fully paid:			
Ordinary shares of HK$0.01 each			
At the date of incorporation, 18 March 2016, and 30 June 2016		100	1
Capitalisation issue	*(b)*	1,799,999,900	17,999,999
Issue of shares by way of public offer and placing	*(c)*	600,000,000	6,000,000
At 30 June 2017		2,400,000,000	24,000,000

Notes:

(a) On 22 August 2016, the authorised share capital of the Company was increased from HK$350,000 to HK$100,000,000 by the creation of additional 9,965,000,000 ordinary shares.

(b) On 12 September 2016, the capitalisation issue was completed. The Company capitalised an amount of HK$17,999,999 standing to the credit of the share premium account of the Company and to appropriate such amount as to capital to pay up in full at par of 1,799,999,900 ordinary shares of the Company.

(c) On 12 September 2016, the Company's shares were listed on the Main Board of the Stock Exchange by way of public offer and placing of shares. In connection with the Listing, 600,000,000 new ordinary shares of the Company were issued at HK$0.15.

12. EVENT AFTER REPORTING DATE

On 11 August 2017, CROSSTEC International Limited, an indirect wholly-owned subsidiary of the Company (contracting for itself and all other members of the Group) as service provider and Mr. Lee Wai Sang ("**Mr. Lee**") (contracting for all companies owned or controlled by Mr. Lee from time to time including all companies which become associates of Mr. Lee after the date of and during the subsistence of the master services agreement (the "**Lee Group**")) as service recipient entered into the master services agreement ("**Master Services Agreement**") in respect of the provision of interior design proposal and interior design solutions by the Group for the restaurants of Lee Group in Hong Kong, which shall be for a term commencing from the date of the Company's obtaining the independent shareholders' approval on the aforesaid Master Services Agreement and the continuing connected transactions contemplated thereunder (including proposed annual cap) and ending on 30 June 2020.

Given that Mr. Lee is an executive Director and a controlling shareholder of the Company, Mr. Lee and his associates are connected persons of the Company under Rules 14A.07(1) and (4) of the Listing Rules. The transactions between the members of the Group and members of Lee Group under the Master Services Agreement will therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For details, please refer to the announcement of the Company dated 11 August 2017 and the circular of the Company dated 29 September 2017.

Save as disclosed above, there are no other significant events which have taken place subsequent to 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the provision of bespoke and total interior design solutions to the retail stores of global luxury jewelry and fashion brands, which covers a wide range of services including millwork and furniture provision, facade development and fabrication, interior solutions and design and project consultancy. The Group has been conducting its business since 1999 and has been expanding its business to China, the United States, Europe, Middle East and other Asian countries.

During the year, the Group recorded a consolidated net loss for the year ended 30 June 2017 of approximately HK$20.7 million as compared to a consolidated net profit of approximately HK$11.5 million for the year ended 30 June 2016. The decline in the financial performance of the Group was primarily due to the decrease in the Group's revenue (2017: approximately HK$99.1 million; 2016: approximately HK$132.7 million) and gross profit (2017: approximately HK$23.9 million; 2016: approximately HK$47.3 million) because of the change of the Group's revenue mix upon the slowdown in implementing the business expansion strategies of certain major clients of the Group. As such, the Group's revenue mix was temporarily adjusted to a higher proportion of interior solutions projects over the total revenue as compared to the prior year (2017: approximately 52.5%; 2016: approximately 14.6%). However, in the long run, the Group's long-term strategy is still focus on increasing our market share in millwork and furniture provision business.

The decline of the Group's financial performance was also partially due to (i) the incurrence of non-recurring expenses, which mainly comprised of expenses related to the Listing; (ii) the increase in employee benefits (2017: approximately HK$21.4 million; 2016: approximately HK$13.5 million) because of the increase in headcount and remuneration restructuring; and (iii) the increase in legal and consultancy fees and sales and marketing expenses (2017: approximately HK$10.2 million; 2016: approximately HK$1.4 million) mainly due to the formation of overseas subsidiaries.

For the year ended 30 June 2017, the Group's revenue, gross profit and loss for the year were approximately HK$99.1 million (2016: approximately HK$132.7 million), approximately HK$23.9 million (2016: approximately HK$47.3 million) and approximately HK$20.7 million (2016: profit for the year of approximately HK$11.5 million) respectively, representing a decrease of approximately 25.3%, approximately 49.5% and 280.0% over the year ended 30 June 2016. The gross profit margin decreased from approximately 35.6% in 2016 to approximately 24.1% in 2017 due to the change in the revenue mix as explained above.

BUSINESS STRATEGIES AND OUTLOOK

The listing of the shares of the Company on the Main Board of the Stock Exchange on 12 September 2016 (the "**Listing Date**") enabled us to step into the international platform which enhanced the Group's profile and image and strengthen our financial position. Leveraging the years of experience in the high-end markets under the belt of our management team and our long-standing working relations with international brands, the Group is confident in the prospects.

Going forward, the Group will utilize the available resources continue to focus on its core business and will also explore business opportunities which is associated with its core business such as selective acquisition and partnership to strengthen its revenue base and maximize the returns to the shareholders of the Company as well as the value of the Group.

For sales of millwork, furniture and facade fabrication (2017: approximately HK$41.2 million; 2016: approximately HK$111.5 million), the Group has been committing to enhance its innovation as well as research and development capabilities. During the year, the Group's research and development center ("**R&D center**") has come into operation in Hong Kong for product and material application testing, developing new technologies and design prototypes, as well as building special lighting and security systems. The management believes that the operation of the R&D center will enhance the Group's competitive edges in the industry and compliment the Group's future development. It is expected that the demand of the Group's millwork and furniture will increase in the coming year due to the resume of business expansion strategies or new expansion plan to open new stores of certain major clients in China, United States and other Asian countries.

For the interior solutions services (2017: approximately HK$52.0 million; 2016: approximately HK$19.4 million), the Group has dedicated to develop the market in Hong Kong and other Asian countries. During the year, the Group has well established the fit-out business in the luxury housing market and high-end restaurants in Hong Kong which was the milestone for the Group's development. The Group will develop its fit-out business in the luxury housing market and high-end restaurants in markets not only in Hong Kong but also in other regions such as China and other Asian countries.

For design and project consultancy services (2017: approximately HK$5.9 million; 2016: approximately HK$1.8 million), the Group has been continuing to expand its design and creative team through recruiting elite and experienced designers which enables the Group to take on projects with larger scale. The award of the large-scale design project of the atrium dome of the Grand Lisboa Palace in Macau by the Group during the year served a good example for the success of this move. In the coming year, the Group will continue to expand the design and creative team and is going to set up a design office in Shenzhen by the end of 2017. It is believed that such expansion will further strengthen the Group's competitive edge for pursuing other large-scale design projects in the future.

To search for additional business opportunities, overseas offices have been set up in the United States, Germany, Italy and Netherland and the Group is planning to establish more overseas offices so as to explore business opportunities in the international markets. Over the years, the Group has been actively diversifying and expanding its client base, while it is expected that the current key clients of the Group will continue contributing to large percentage of the Group's revenue.

FINANCIAL REVIEW

Revenue

The Group generated revenue principally from providing three major categories of sales and services, including: (i) sales of millwork, furniture and facade fabrication (2017: approximately HK$41.2 million; 2016: approximately HK$111.5 million), (ii) interior solutions services (2017: approximately HK$52.0 million; 2016: approximately HK$19.4 million), and (iii) design and project consultancy services (2017: approximately HK$5.9 million; 2016: approximately HK$1.8 million).

Revenue of the Group decreased by approximately 25.3% from approximately HK$132.7 million in 2016 to approximately HK$99.1 million in 2017. The decline in revenue was mainly due to the change of the Group's revenue mix as mentioned above upon the slowdown in implementing the business expansion strategies of certain major clients of the Group.

During the year, the aggregate revenue derived from the five largest brands was approximately HK$56.1 million (representing approximately 56.6% of total revenue) as compared to that of approximately HK$107.2 million (representing approximately 80.8% of total revenue) in 2016.

Direct cost

Direct cost of the Group primarily consisted of costs of material and subcontracting charges. Direct cost decreased by approximately 11.9% from approximately HK$85.4 million in 2016 to approximately HK$75.2 million in 2017, representing approximately 64.4% and 75.9% to the revenue of the Group in 2016 and 2017 respectively. The decrease in direct cost was in line with the decrease in revenue during the year. The increase in percentage of direct cost to revenue was mainly due to the change of the Group's revenue mix as mentioned above upon the slowdown in implementing the business expansion strategies of certain major clients of the Group. As such, the Group's revenue mix was temporarily adjusted to a higher proportion of interior solutions projects over total revenue (2017: approximately 52.5%; 2016: approximately 14.6%) as compared to the prior year by which the gross profit margin for interior solutions projects are relatively lower as compare to other business of the Group such as millwork and furniture business.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately 49.5% from approximately HK$47.3 million in 2016 to approximately HK$23.9 million in 2017. The gross profit margin decreased to approximately 24.1% in 2017 (2016: approximately 35.6%) as a result of the change in the Group's revenue mix during the year which has been mentioned above.

(Loss)/profit for the year

For the financial year ended 30 June 2017, loss for the year of approximately HK$20.7 million (2016: profit for the year of approximately HK$11.5 million) was recorded. The decrease in profit for the year was mainly due to (i) the decrease in the Group's revenue and gross profit as mentioned above; (ii) the incurrence of non-recurring expenses, which mainly comprised of expenses related to the Listing; (iii) the increase in employee benefits (2017: approximately HK$21.4 million; 2016: approximately HK$13.5 million) because of the increase in headcount and remuneration restructuring; and (iv) the increase in legal and consultancy fees and sales and marketing expenses (2017: approximately HK$10.2 million; 2016: approximately HK$1.4 million) due to the formation of overseas subsidiaries.

Other Income

The Group recorded other income of approximately HK$152,000 for the financial year ended 30 June 2017 (2016: approximately HK$6,000) which mainly consisted of bank interest income. The increase in bank interest income was due to the increase in average cash balance during the year upon the receipt of the net proceeds from the share offer which was amounted to approximately HK$64.6 million, which unutilized portion have been placed as interest deposits with licensed bank in Hong Kong.

Other (loss)/gain

During the year, balance represented a loss on disposals of property, plant and equipment mainly due to the re-location of Hong Kong office. In the prior year, balance represented a gain on disposals of property, plant and equipment.

Administrative expenses

Administrative expenses mainly consisted of employee benefits, rental and utilities, marketing and advertisement, entertainment, legal and professional fees, depreciation, transportation and travelling expenses. The increase in administrative expenses by approximately HK$19.6 million from approximately HK$19.9 million in 2016 to approximately HK$39.5 million in 2017 mainly due to the (i) increase in employee benefits (including directors' and chief executive's remuneration) by approximately HK$7.9 million (2017: approximately HK$21.4 million; 2016: approximately HK$13.5 million); (ii) increase in legal and consultancy fees by approximately HK$5.5 million (2017: approximately HK$5.9 million; 2016: approximately HK$0.4 million); (iii) increase in sales and marketing expenses by approximately HK$3.3 million (2017: approximately HK$4.3 million; 2016: approximately HK$1.0 million); and (iv) increase in rental and utilities by approximately HK$1.6 million (2017: approximately HK$3.1 million; 2016: approximately HK$1.5 million).

Listing expenses

For the financial year ended 30 June 2017, the Group recorded listing expenses of approximately HK$4.9 million (2016: approximately HK$11.2 million) in connection with the preparation for the Listing.

Income tax credit/(expense)

Income tax credit/(expense) mainly represented current tax refund/(paid) and/or recoverable/(payable) for Hong Kong profits tax, overseas profits tax and deferred tax credit/(expenses), if any. Income tax credit of approximately HK$141,000 (2016: income tax expenses of approximately HK$4,785,000) was recorded during the year.

No provision for Hong Kong profits tax has been made as the Company did not generate any assessable profits arising in Hong Kong during the year. In the prior year, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong.

Taxes on assessable profits of overseas subsidiaries are calculated at the rates applicable in the respective jurisdictions.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group derived cash inflow from operating activities primarily through provision of services including millwork and furniture provision, facade development and fabrication, interior solutions services and design and project consultancy services. Cash outflow from operating activities primarily comprises direct cost, administrative expenses, employee benefit expenses and other operating expenses. Our net cash used in 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.

As at 30 June 2017, the cash and bank balances amounted to approximately HK$68.8 million (2016: approximately HK$11.2 million) which were mainly denominated in HK$, United State dollars ("**USD**") and Renminbi ("**RMB**"). The Group did not have any bank borrowings in 2017 and 2016.

There was no change to the Group's capital structure since the Listing and up to 30 June 2017. Considering the current financial position of the Group and provided there is no unforeseeable circumstance, the management does not anticipate the need to change the capital structure. As at 30 June 2017, the Group has a bank facility of HK$20.0 million (2016: HK$20.0 million) with Hang Seng Bank that has not been utilized and is available for drawdown. The Board believes the Group is in a strong and healthy financial position and has sufficient resources to support its operations and meet its foreseeable capital expenditures.

Borrowings and gearing ratio

No bank borrowing was recorded as of 30 June 2017 and 30 June 2016. As at 30 June 2017 and 30 June 2016, the gearing ratio of the Group as determined by interest-bearing borrowings divided by total capital was nil.

Charge on Assets

As at 30 June 2017 and 30 June 2016, no assets of the Group were pledged to secure its loans and banking facility.

Contingent Liabilities

As at 30 June 2017 and 30 June 2016, the Group had no significant contingent liabilities.

SIGNIFICANT INVESTMENT HELD AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have any significant investment held as at 30 June 2017. Save as disclosed above and disclosed in the interim report of the Company for the six months ended 31 December 2016 and the prospectus of the Company dated 30 August 2016, the Group did not have any plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 30 June 2017, there was no material acquisition or disposal transactions conducted by the Group.

SHARE OPTION SCHEME

The Company adopted the share option scheme on 22 August 2016. The Company has not granted any share options up to 30 June 2017. The Company does not have any present intention to issue any of the authorized but unissued share capital of the Company and, without prior approval of the shareholders of the Company in general meeting, no issue of shares of the Company will be made which would effectively alter the control of the Company.

HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2017, the Group had 39 employees (2016: 28 employees). Total employee benefits (including Directors' and chief executive's remuneration) were approximately HK$21.4 million (2016: approximately HK$13.5 million). The Group remunerates its employees based on their qualifications, performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees, including salaries, medical insurance, discretionary bonuses as well as mandatory provident fund schemes for employees in Hong Kong. Apart from basic remuneration, share options may be granted under the share option scheme of the Company, which was adopted on 22 August 2016 to eligible employees on the basis of their individual performance to attract and retain talents to contribute the Group.

CAPITAL COMMITMENTS

Other than operating lease commitments, the Group has no capital commitment as at 30 June 2017 and 30 June 2016.

SUBSEQUENT EVENT

On 11 August 2017, CROSSTEC International Limited, an indirect wholly-owned subsidiary of the Company (contracting for itself and all other members of the Group) as service provider and Mr. Lee (contracting for Lee Group) as service recipient entered into the Master Services Agreement in respect of the provision of interior design proposal and interior design solutions by the Group for the restaurants of Lee Group in Hong Kong, which shall be for a term commencing from the date of the Company's obtaining the independent shareholders' approval on the aforesaid Master Services Agreement and the continuing connected transactions contemplated thereunder (including proposed annual cap) and ending on 30 June 2020.

Given that Mr. Lee is an executive Director and a controlling shareholder of the Company, Mr. Lee and his associates are connected persons of the Company under Rules 14A.07(1) and (4) of the Listing Rules. The transactions between the members of the Group and members of Lee Group under the Master Services Agreement will therefore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

For details, please refer to the announcement of the Company dated 11 August 2017 and the circular of the Company dated 29 September 2017.

FOREIGN EXCHANGE RISK

The Group adheres to prudent financial management principle to control and minimise financial and operational risks. The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in USD, RMB and Euros ("**EUR**"). The management is aware of the possible exchange rate exposure due to the continuing fluctuation of RMB and EUR and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary.

Presently, there is no hedging policy with respect to the foreign exchange exposure.

USE OF NET PROCEEDS FROM THE LISTING

The net proceeds from the share offer amounted to approximately HK$64.6 million. As of 30 June 2017, the net proceeds received were utilised as follows:

Intended application of the net proceeds	Amount to be utilised	Amount utilised as at 30 June 2017	Unutilised as at 30 June 2017
	HK$ million	*HK$ million*	*HK$ million*
Pursuing suitable acquisition and partnership opportunities	19.3	–	19.3
Incorporation of overseas subsidiaries	14.9	1.3	13.6
Establishment of research and development center in Hong Kong	11.0	0.2	10.8
Recruiting high caliber talents	7.1	1.6	5.5
Utilised as additional working capital and other general corporate purposes	6.5	6.5	–
Brand promotion	5.8	4.2	1.6
Total	64.6	13.8	50.8

The unutilised net proceeds have been placed as interest deposits with licensed bank in Hong Kong.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance in management and internal control procedures so as to achieve accountability. The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

Save as the deviation from code provision A.2.1 of the CG Code as described below, the Board considers that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the CG Code from the Listing Date and up to 30 June 2017.

Code provision A.2.1 of the CG Code requires the roles between the chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Lee assumes the roles of both the chairman of the Board and the chief executive officer of the Company. The Board believes that vesting both the roles of chairman and chief executive officer in the same person has the benefit of providing a strong and consistent leadership to the Group and allows for more effective planning and management of the Group. In addition, the Board is of the view that the balanced composition of executive and the independent non-executive Directors on the Board and the various committees of the Board (primarily comprising independent non-executive Directors) in overseeing different aspects of the Company's affairs would provide adequate safeguards to ensure a balance of power and authority. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Directors. Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the required standard sets out in the Model Code from the Listing Date and up to 30 June 2017.

The Group's senior management who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company since the Listing Date and up to 30 June 2017.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities from the Listing Date and up to 30 June 2017.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 30 June 2017 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's consolidated financial statements for the year ended 30 June 2017. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong

Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

AUDIT COMMITTEE

The Company has established an audit committee ("**Audit Committee**") with written terms of reference in compliance with the CG Code. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting process, risk management and internal control systems, and review of the Group's financial information. The Audit Committee comprises all three independent non-executive Directors, namely Mr. So Chi Hang (as committee chairman), Mr. Lau Lap Yan John and Mr. Heng Ching Kuen Franklin. The Group's audited consolidated annual results for the year ended 30 June 2017 have been reviewed by the Audit Committee.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on Thursday, 23 November, 2017 (the "**2017 AGM**"), the register of members of the Company will be closed from Friday, 17 November, 2017 to Thursday, 23 November, 2017, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2017 AGM, all transfers of shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 16 November, 2017.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 30 June 2017 (2016: Nil).

PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

This announcement will be published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.crosstec.com.hk) respectively. The annual report of the Company for the year ended 30 June 2017 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Company would like to take this opportunity to thank all our valued shareholders of the Company and various stakeholders for their continuous support. Also, the Company would like to express its appreciation to all the staff for their efforts and commitments to the Group.

On behalf of the Board
CROSSTEC Group Holdings Limited
Lee Wai Sang
Chairman and Chief Executive Officer

Hong Kong, 29 September 2017

As at the date of this announcement, the Board comprises Mr. Lee Wai Sang, Mr. Lau King Lok, Mr. Leung Pak Yin and Mr. Lai Hon Lam Carman as executive Directors; and Mr. So Chi Hang, Mr. Lau Lap Yan John and Mr. Heng Ching Kuen Franklin as independent non-executive Directors.