# 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 2018

### 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 2018 (the "**Year**"), together with the comparative figures for the year ended 30 June 2017 as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 30 June 2018*

| | Notes | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 4 | **71,541** | 99,094 |
| Direct cost | | **(51,351)** | (75,232) |
| **Gross profit** | | **20,190** | 23,862 |
| Other income | 4 | **310** | 152 |
| Other gain/(loss) | 4 | **323** | (494) |
| Administrative expenses | | **(43,554)** | (39,464) |
| Listing expenses | | **–** | (4,916) |
| **Loss before income tax (expense)/credit** | 5 | **(22,731)** | (20,860) |
| Income tax (expense)/credit | 6 | **(209)** | 141 |
| **Loss for the year and attributable to owners of the Company** | | **(22,940)** | (20,719) |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Exchange differences on translating foreign operations | | **65** | (74) |
| **Other comprehensive income for the year and attributable to owners of the Company, net of tax** | | **65** | (74) |
| **Total comprehensive income for the year and attributable to owners of the Company** | | **(22,875)** | (20,793) |
| **Losses per share** | | | |
| Basic and diluted (HK cents) | 7 | **(0.96)** | (0.91) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2018*

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **5,866** | 4,301 |
| Deposit | 9 | **1,328** | 1,328 |
| | | **7,194** | 5,629 |
| **Current assets** | | | |
| Amounts due from customers for contract work | | **424** | 2,341 |
| Trade and other receivables | 9 | **15,250** | 17,644 |
| Income tax recoverable | | **886** | 1,278 |
| Cash and cash equivalents | | **44,791** | 68,789 |
| | | **61,351** | 90,052 |
| **Total assets** | | **68,545** | 95,681 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **20,683** | 25,768 |
| Amounts due to customers for contract work | | **1,216** | 449 |
| Income tax payable | | **6** | – |
| | | **21,905** | 26,217 |
| **Net current assets** | | **39,446** | 63,835 |
| **Total assets less current liabilities** | | **46,640** | 69,464 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **201** | 55 |
| Other payable | 10 | **609** | 704 |
| | | **810** | 759 |
| **Total liabilities** | | **22,715** | 26,976 |
| **NET ASSETS** | | **45,830** | 68,705 |
| **Capital and reserves** | | | |
| Share capital | 11 | **24,000** | 24,000 |
| Reserves | | **21,830** | 44,705 |
| **TOTAL EQUITY** | | **45,830** | 68,705 |

## 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 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). 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. Since July 2017, the headquarter and principal place of business in Hong Kong is located at 20th Floor, 625 King's Road, North Point, Hong Kong.

The Company is an investment holding company and the Group is principally engaged in the trading of millwork, furniture and facade fabrication and provision of interior design, project consultancy and interior solutions services.

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. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**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 ("**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.

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Annual Improvements to HKFRSs 2014-2016 Cycle | Amendments to HKFRS 12, Disclosure of Interests in Other Entities |

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 facade 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:

***(a) Revenue from external customers***

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong (place of domicile) | **29,678** | 52,005 |
| Asia (excluding Hong Kong and the People's Republic of China ("**PRC**")) | **23,053** | 20,213 |
| PRC | **1,126** | 2,069 |
| Europe | **3,708** | 12,894 |
| United States | **11,798** | 10,876 |
| Middle East | **1,362** | 1,032 |
| Others | **816** | 5 |
| | **41,863** | 47,089 |
| | **71,541** | 99,094 |

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

***(b) Specified non-current assets***

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong (place of domicile) | **5,838** | 4,260 |
| PRC | **1** | 1 |
| Europe | **27** | 40 |
| | **5,866** | 4,301 |

*(c)* ***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:

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Client A | * | 12,253 |
| Client B | **12,102** | * |
| Client C | **8,932** | * |
| Total *(Note)* | **21,034** | 12,253 |

* 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 GAIN/(LOSS)

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:

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Sales of products | | |
| – Millwork and furniture | **36,055** | 37,756 |
| – Facade fabrication | **4,787** | 3,414 |
| Income from interior solutions projects | **27,176** | 51,972 |
| Design and project consultancy service income | **3,523** | 5,952 |
| | **71,541** | 99,094 |

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

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Other income** | | |
| Bank interest income | **134** | 152 |
| Management income | **176** | – |
| | **310** | 152 |
| **Other gain/(loss)** | | |
| Gain/(loss) on disposals of property, plant and equipment | **2** | (494) |
| Exchange gain, net* | **321** | – |
| | **323** | (494) |

* In the prior year, the amount was included in the "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

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

The Group's loss before income tax (expense)/credit is arrived at after charging/(crediting):

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Depreciation of property, plant and equipment | **1,503** | 450 |
| Operating lease rentals in respect of: | | |
| – Land and buildings | **5,739** | 2,740 |
| – Plant and equipment | **128** | 102 |
| Auditor's remuneration | **680** | 650 |
| (Gain)/loss on disposals of property, plant and equipment | **(2)** | 494 |
| Exchange (gain)/loss, net | **(321)** | 34 |
| Employee benefit expenses (including directors' and chief executive's remuneration): | | |
| Wages and salaries | **21,711** | 19,229 |
| Post-employment benefits – contribution to defined contribution retirement plan* | **552** | 455 |
| Other benefits | **2,315** | 1,749 |

* At 30 June 2018, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2017: Nil).

## 6. INCOME TAX (EXPENSE)/CREDIT

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax – Hong Kong profits tax | | |
| – tax for the year | **–** | – |
| – overprovision in respect of prior years | **70** | 179 |
| Current tax – overseas profits tax | | |
| – tax for the year | **(133)** | (174) |
| – overprovision in respect of prior years | **–** | 88 |
| Deferred tax (expense)/credit | **(146)** | 48 |
| Income tax (expense)/credit | **(209)** | 141 |

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 and the prior year.

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

## 7. LOSSES PER SHARE

The calculation of the basic losses per share amount is based on the loss for the year attributable to the ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,400,000,000 (2017: 2,280,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 30 June 2018 and 2017.

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Losses** | | |
| Losses for the purpose of losses per share | **(22,940)** | (20,719) |

| | Number of shares | |
|---|---|---|
| | **2018** | 2017 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic losses per share *(Note)* | **2,400,000** | 2,280,000 |

*Note:*

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 1,800,000,000 ordinary shares for the year ended 30 June 2016.

## 8. DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 30 June 2018 (2017: Nil).

## 9. TRADE AND OTHER RECEIVABLES

| | *Notes* | **2018** ***HK$'000*** | 2017 *HK$'000* |
|---|---|---|---|
| Trade receivables | *i* | **8,374** | 10,113 |
| Retention receivables | *ii* | **1,566** | 2,695 |
| Deposits and other receivables | *iii* | **2,816** | 2,646 |
| Prepayments | *iii* | **3,822** | 3,518 |
| Total | | **16,578** | 18,972 |
| Less: Non-current portion | | | |
| Deposit | *iii* | **(1,328)** | (1,328) |
| Total current portion | | **15,250** | 17,644 |

*Notes:*

(i)

| | **2018** ***HK$'000*** | 2017 *HK$'000* |
|---|---|---|
| Trade receivables | **8,374** | 10,113 |
| Less: provision for impairment on trade receivables | **–** | – |
| | **8,374** | 10,113 |

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:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Less than 1 month | **2,124** | 3,409 |
| 1 to 3 months | **3,748** | 2,585 |
| 3 to 6 months | **103** | 1,427 |
| More than 6 months but less than one year | **2,297** | 54 |
| More than one year | **102** | 2,638 |
| | **8,374** | 10,113 |

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **643** | 2,822 |
| Less than 1 month past due | **4,201** | 1,815 |
| 1 to 3 months past due | **1,028** | 1,606 |
| More than 3 months past due but less than 12 months | **2,400** | 1,232 |
| More than one year past due | **102** | 2,638 |
| | **8,374** | 10,113 |

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 2018 and 2017 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 2018 and 2017 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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables *(note (a))* | **4,170** | 11,326 |
| Receipts in advance *(note (b))* | **6,599** | 7,249 |
| Other payables and accruals *(note (c))* | **10,523** | 7,897 |
| Total | **21,292** | 26,472 |
| Less: Non-current portion | | |
| Other payable *(note (c))* | **(609)** | (704) |
| Total current portion | **20,683** | 25,768 |

*Notes:*

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current or less than 1 month | **1,273** | 4,998 |
| 1 to 3 months | **1,821** | 2,207 |
| 4 to 6 months | **436** | 2,252 |
| 7 to 12 months | **548** | 525 |
| More than 1 year | **92** | 1,344 |
| | **4,170** | 11,326 |

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

**Ordinary shares of HK$0.01 each**

| | *Notes* | Number of shares | *HK$* |
|---|---|---|---|
| Authorised: | | | |
| At 1 July 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, 1 July 2017 and 30 June 2018 | | 10,000,000,000 | 100,000,000 |
| Issued and fully paid: | | | |
| At 1 July 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, 1 July 2017 and 30 June 2018 | | 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.

## 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 of approximately HK$22.9 million as compared to a consolidated net loss of approximately HK$20.7 million for the year ended 30 June 2017. The decline in the financial performance of the Group was primarily due to the decrease in the Group's revenue (2018: approximately HK$71.5 million; 2017: approximately HK$99.1 million) and gross profit (2018: approximately HK$20.2 million; 2017: approximately HK$23.9 million) because of the delay of implementing the business strategies in relation to renovation and new shops roll out of certain major customers of the Group.

The decline of the Group's financial performance was also partially due to the relocation of its headquarter and principal place of business in Hong Kong during the Year with higher rental expenses (2018: approximately HK$4.7 million; 2017: approximately HK$2.4 million).

For the year ended 30 June 2018, the Group's revenue, gross profit and net loss for the year were approximately HK$71.5 million (2017: approximately HK$99.1 million), approximately HK$20.2 million (2017: approximately HK$23.9 million) and approximately HK$22.9 million (2017: approximately HK$20.7 million) respectively, representing a decrease of approximately 27.9%, 15.5% and an increase of approximately 10.6% over the year ended 30 June 2017. The gross profit margin increased from approximately 24.1% in 2017 to approximately 28.2% in 2018 due to the improvement of the project cost control by the Group.

### BUSINESS STRATEGIES AND OUTLOOK

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 to strengthen its revenue base and maximize the returns to the shareholders of the Company (the "**Shareholders**") as well as the value of the Group.

For sales of millwork, furniture and facade fabrication (2018: approximately HK$40.8 million; 2017: approximately HK$41.2 million), due to the global instability because of many factors such as trade tensions, social and geopolitical unrest, more cautious decisions and slowdown of the investments in expansion for luxury brands were noted and therefore resulting in a downside of such business in the past years. However, since the second half of 2018, the expansions of certain luxury brands of our major customers have been gradually resuming after gaining a firm foothold in the industry, which is favorable to the Group's core business in the coming year.

Besides the above, with the competitive edges in the industry gained from the operation of the Group's research and development ("**R&D**") center as well as the international connection built up from our overseas offices over the years, the management believes that the demand of millwork and furniture will increase in the coming year.

For the interior solutions services (2018: approximately HK$27.2 million; 2017: approximately HK$52.0 million), the decrease in income was mainly due to the completion of a major total interior solutions project in the prior year and no similar scale of project was conducted during the Year. Yet, the Group has dedicated to develop the market in Hong Kong and other Asian countries. During the Year, the Group has further strengthened the fit-out business in the luxury residential market in Hong Kong and other Asian countries. With rich experience gained in the previous years, the profitability of the interior solutions services has been improved during the Year and a better performance will be achieved based on the valuable exposures.

For design and project consultancy services (2018: approximately HK$3.5 million; 2017: approximately HK$5.9 million), the decrease in income was mainly due to the completion of the large-scale design project of the atrium dome of the Grand Lisboa Palace in Macau by the Group in the prior year and no similar scale of project was conducted during the Year. Yet, the Group will continue to expand the design and creative team which will bring benefits for the development of the Group's other revenue sources.

To establish a strong recurring income base, the Group has actively search for potential business opportunities to maximize the interests of the Group and the Shareholders. During the Year, taking into account the increase in number of accidents relating to the breakage of the glass facade of buildings in Hong Kong, the Group has been dedicated to developing the business of the buildings' facade management and consultancy through the co-operation with various renowned professionals in this sector. Moreover, upon the cooperation with our customers in the event management industry in recent years, the management found this industry has strong growth opportunities and could potentially attract new clients for the Group's business based on the Group's established experience and resources. The Group will also keep abreast of the latest market development and make pre-emptive moves to seize any potential business opportunities in order to broaden its income sources and support the Group's sustainable development when opportunities arise.

## 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 (2018: approximately HK$40.8 million; 2017: approximately HK$41.2 million), (ii) interior solutions services (2018: approximately HK$27.2 million; 2017: approximately HK$52.0 million), and (iii) design and project consultancy services (2018: approximately HK$3.5 million; 2017: approximately HK$5.9 million).

Revenue of the Group decreased by approximately 27.9% from approximately HK$99.1 million in 2017 to approximately HK$71.5 million in 2018. The decline in revenue was mainly due to the delay of implementing the business strategies in relation to renovation and new shops roll out of certain major customers of the Group.

During the Year, the aggregate revenue derived from the five largest brands was approximately HK$47.7 million (representing approximately 66.7% of total revenue) as compared to that of approximately HK$56.1 million (representing approximately 56.6% of total revenue) in 2017.

### Direct cost

Direct cost of the Group primarily consisted of costs of material and subcontracting charges. Direct cost decreased by approximately 31.7% from approximately HK$75.2 million in 2017 to approximately HK$51.4 million in 2018, representing approximately 75.9% and 71.8% to the revenue of the Group in 2017 and 2018 respectively. The decrease in direct cost was in line with the decrease in revenue during the Year.

### Gross profit and gross profit margin

The Group's gross profit decreased by approximately 15.4% from approximately HK$23.9 million in 2017 to approximately HK$20.2 million in 2018. The gross profit margin increased to approximately 28.2% in 2018 (2017: approximately 24.1%) as a result of the improvement of project cost control by the Group which has been mentioned above.

### Loss for the year

For the year ended 30 June 2018, loss for the Year of approximately HK$22.9 million (2017: approximately HK$20.7 million) was recorded. As mentioned above, the decline in the financial perfomance was mainly due to (i) the decrease in revenue and gross profit, which was primarily due to the delay of implementing the business strategies in relation to renovation and new shops roll out of certain major customers of the Group; and (ii) the relocation of the Group's headquarter and principal place of business in Hong Kong during the Year with higher rental expenses.

**Other gain/(loss)**

During the Year, the Group recorded other gain of approximately HK$323,000 (2017: other loss of approximately HK$494,000). The amount mainly represented foreign exchange gain of approximately HK$321,000. In the prior year, the amount represented loss on disposals of property, plant and equipment mainly due to the re-location of Hong Kong office.

**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$4.1 million from approximately HK$39.5 million in 2017 to approximately HK$43.6 million in 2018 was mainly due to the increase in rental expenses mainly due to the relocation of the headquarter and principal place of business in Hong Kong during the Year and the increase in employee benefits expenses (including Directors' and chief executive's remuneration) as a result of the increase in headcount (2018: 49; 2017: 39) during the Year.

**Listing expenses**

In the prior year, the Group recorded listing expenses of approximately HK$4.9 million in connection with the preparation for the listing of the shares of the Company (the "**Shares**") on the Main Board of the Stock Exchange. No similar expenses was incurred during the Year.

**Income tax (expense)/credit**

Income tax (expense)/credit mainly represented current tax (paid)/refund and/or (payable)/recoverable for Hong Kong profits tax, overseas profits tax and deferred tax (expenses)/credit, if any. Income tax expenses of approximately HK$209,000 (2017: income tax credit of approximately HK$141,000) 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 and in the prior year.

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 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 2018, the cash and bank balances amounted to approximately HK$44.8 million (2017: approximately HK$68.8 million) which were mainly denominated in Hong Kong dollars ("**HK$**"), United States dollars ("**USD**") and Renminbi ("**RMB**"). The Group did not have any bank borrowings in 2018 and 2017.

There was no change in the Group's capital structure during the Year. 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 2018, the Group has a banking facility of HK$20.0 million (2017: 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 healthy financial position and have 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 2018 and 30 June 2017. As at 30 June 2018 and 30 June 2017, the gearing ratios of the Group as determined by interest-bearing borrowings divided by total capital were nil.

### Charge on assets

As at 30 June 2018 and 30 June 2017, no assets of the Group were pledged to secure its loans and banking facility.

## CONTINGENT LIABILITIES

As at 30 June 2018 and 30 June 2017, 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 2018. Save as disclosed above and disclosed in the prospectus of the Company dated 30 August 2016 (the "**Prospectus**"), the Group did not have any plans for material investments and capital assets.

## MATERIAL ACQUISITIONS AND DISPOSALS

During the Year, there was no material acquisition or disposal transactions conducted by the Group.

## SHARE OPTION SCHEME

The Company adopted the share option scheme (the "**Share Option Scheme**") on 22 August 2016. The Company has not granted any share options up to 30 June 2018. 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 in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

## HUMAN RESOURCES AND EMPLOYEES' REMUNERATION

As at 30 June 2018, the Group had 49 employees (2017: 39 employees). Total employee benefits (including Directors' and chief executive's remuneration) were approximately HK$24.6 million (2017: approximately HK$21.4 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 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 commitments as at 30 June 2018 and 30 June 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, Euros ("**EUR**") and Great British Pound ("**GBP**"). The management is aware of the possible exchange rate exposure due to the continuing fluctuation of RMB, EUR and GBP 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 PROCEEDS FROM THE LISTING

On 12 September 2016, the Shares were listed on the Main Board of the Stock Exchange. A total of 600,000,000 ordinary shares with nominal value of HK$0.01 each of the Company were issued at HK$0.15 per Share in relation to the Company's initial public offering of its Shares (the "**IPO**"). The net proceeds from the IPO amounted to approximately HK$64.6 million. Details of the IPO were disclosed in the Prospectus.

On 18 May 2018, the Board has resolved to change the use of proceeds of approximately HK$10.6 million for financing the establishment of R&D center in Hong Kong to apply for financing the establishment of overseas R&D centers. Details of which is set out in the announcement of the Company dated 18 May 2018.

The Company has, and will continue to utilize the net proceed from the IPO for the purpose consistent with the section headed "Future Plans and Use of Proceeds" as set out in the Prospectus and the announcement of the Company dated 18 May 2018.

The below table sets out the planned applications of the net proceeds and actual usage during the Year:

| **Intended application of the net proceeds** | **Percentage of total proceed** | **Planned applications** | **Actual usage up to 30 June 2018** | **Unutilised net proceeds as at 30 June 2018** |
|---|---|---|---|---|
| | | *HK$ in million* | *HK$ in million* | *HK$ in million* |
| Pursuing suitable acquisition and partnership opportunities | 30% | 19.3 | – | 19.3 |
| Incorporation of overseas subsidiaries | 23% | 14.9 | 4.8 | 10.1 |
| Establishment of R&D center in Hong Kong | 1% | 0.4 | 0.4 | – |
| Establishment of overseas R&D centers | 16% | 10.6 | – | 10.6 |
| Recruiting high caliber talents | 11% | 7.1 | 6.6 | 0.5 |
| Utilised as additional working capital and other general corporate purposes | 10% | 6.5 | 6.5 | – |
| Brand promotion | 9% | 5.8 | 5.8 | – |
| Total | | 64.6 | 24.1 | 40.5 |

The unutilized net proceeds have been placed as interest deposits with licensed banks in Hong Kong. In the event that the Directors decide to use such net proceeds in a manner different from that stated in the Prospectus, the Company will issue further announcement in compliance with the Listing Rules.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 fully complied, to the extent applicable and permissible, with the code provisions as set out in the CG Code during the Year.

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 Wai Sang 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 to all Directors, all of them have confirmed that they have complied with the required standards set out in the Model Code during the Year.

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 during the Year.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the Year.

## SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the Year 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. 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 (the "**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 annual results for the Year 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 Friday, 23 November 2018 (the "**2018 AGM**"), the register of members of the Company will be closed from Monday, 19 November 2018 to Friday, 23 November 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2018 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 Friday, 16 November 2018.

## DIVIDEND

The Board does not recommend the payment of any dividend for the Year (2017: Nil).

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is 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 containing all the information required by the Listing Rules will be dispatched to the Shareholders 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 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, 28 September 2018

*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.*