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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018 AND CHANGE IN USE OF PROCEEDS

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**", each a "**Director**") of CROSSTEC Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") announces the unaudited condensed consolidated results of the Group for the six months ended 31 December 2018 (the "**Period**"), together with the comparative figures for the corresponding period in 2017. The condensed consolidated interim financial information has not been audited, but has been reviewed by the audit committee of the Company (the "**Audit Committee**").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2018

	Notes	**Six months ended 31 December 2018 (unaudited)** *HK$'000*	Six months ended 31 December 2017 (unaudited) *HK$'000*
Revenue	4	**70,579**	48,161
Direct cost		**(50,696)**	(35,075)
Gross profit		**19,883**	13,086
Other income	4	**332**	103
Administrative expenses		**(21,060)**	(21,307)
Loss before income tax expense	5	**(845)**	(8,118)
Income tax expense	6	**(85)**	(152)
Loss for the period attributable to owners of the Company		**(930)**	(8,270)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**(89)**	(34)
Other comprehensive income for the period and attributable to owners of the Company, net of tax		**(89)**	(34)
Total comprehensive income for the period and attributable to owners of the Company		**(1,019)**	(8,304)
Loss per share			
Basic and diluted (HK cent)	8	**(0.04)**	(0.34)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	As at 31 December 2018 (unaudited) HK$'000	As at 30 June 2018 (audited) HK$'000
Non-current assets			
Property, plant and equipment		**5,119**	5,866
Deposit		**1,328**	1,328
		6,447	7,194
Current assets			
Amounts due from customers for contract work	9	**292**	424
Trade and other receivables	10	**9,475**	15,250
Income tax recoverable		**167**	886
Cash and cash equivalents		**52,476**	44,791
		62,410	61,351
Total assets		**68,857**	68,545
Current liabilities			
Trade and other payables	11	**23,274**	20,683
Amounts due to customers for contract work	9	**–**	1,216
Income tax payable		**42**	6
		23,316	21,905
Net current assets		**39,094**	39,446
Total assets less current liabilities		**45,541**	46,640
Non-current liabilities			
Deferred tax liabilities		**201**	201
Other payable		**529**	609
		730	810
Total liabilities		**24,046**	22,715
NET ASSETS		**44,811**	45,830
Capital and reserves			
Share capital	12	**24,000**	24,000
Reserves		**20,811**	21,830
TOTAL EQUITY		**44,811**	45,830

NOTES TO THE CONDENSED 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. 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 façade 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 AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed consolidated interim financial statements are presented in Hong Kong Dollar ("**HK$**"), which is the same as the functional currency of the Company.

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2018.

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial information are consistent with those of the Group as set out in the Group's annual financial statements for the year ended 30 June 2018, except for the following new and revised Hong Kong Financial Reporting Standards (the "**HKFRSs**") that have been adopted by the Group for the first time for the current Period's unaudited interim financial information.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
Amendments to HKAS 40	Transfers of Investment Property
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures

The adoption of the new HKFRSs has had no material financial effect on the unaudited interim financial information.

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:

(a) *Revenue from external customers*

	Six months ended 31 December 2018 (unaudited) ***HK$'000***	Six months ended 31 December 2017 (unaudited) *HK$'000*
Hong Kong (place of domicile)	**25,714**	18,232
Asia (excluding Hong Kong and the People's Republic of China ("**PRC**" or "**China**"))	**4,083**	13,921
PRC	**1,561**	398
Europe	**18,024**	2,699
United States	**9,937**	10,750
Middle East	**11,260**	1,354
Others	**–**	807
	44,865	29,929
	70,579	48,161

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

(b) *Specified non-current assets*

	As at 31 December 2018 (unaudited) ***HK$'000***	As at 30 June 2018 (audited) *HK$'000*
Hong Kong (place of domicile)	**5,097**	5,838
PRC	**1**	1
Europe	**21**	27
	5,119	5,866

4. REVENUE AND OTHER INCOME

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 Period are as follows:

An analysis of the Group's revenue is as follows:

	Six months ended 31 December 2018 (unaudited) ***HK$'000***	Six months ended 31 December 2017 (unaudited) *HK$'000*
Sales of products		
– Millwork and furniture	**34,345**	29,843
– Façade fabrication	**24,982**	2,295
Income from interior solutions projects	**10,395**	13,810
Design and project consultancy service income	**857**	2,213
	70,579	48,161

An analysis of the Group's other income recognised during the Period is as follows:

	Six months ended 31 December 2018 (unaudited) ***HK$'000***	Six months ended 31 December 2017 (unaudited) *HK$'000*
Other income		
Bank interest income	**140**	103
Management income	**192**	–
	332	103

5. LOSS BEFORE INCOME TAX EXPENSE

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

	Six months ended 31 December 2018 (unaudited)	Six months ended 31 December 2017 (unaudited)
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**775**	731
Operating lease rentals in respect of:		
– Land and buildings	**2,839**	2,755
– Plant and equipment	**65**	48
Exchange loss/(gain), net	**52**	(119)
Employee benefit expenses (including directors' and chief executive's remuneration)	**12,665**	11,872

6. INCOME TAX EXPENSE

The amount of income tax expense in the condensed consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended 31 December 2018 (unaudited)	Six months ended 31 December 2017 (unaudited)
	HK$'000	*HK$'000*
Current tax – overseas profits tax		
– tax for the period	**85**	152

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 Period and the six months ended 31 December 2017.

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

7. DIVIDENDS

For the Period, no dividend has been declared by the Company.

8. LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the period attributable to the ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,400,000,000 (for the six months ended 31 December 2017: 2,400,000,000) in issue during the Period.

The Group had no potentially dilutive ordinary shares in issue during the Period.

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

	Six months ended 31 December 2018 (unaudited)	Six months ended 31 December 2017 (unaudited)
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic loss per share	**(930)**	(8,270)

	Number of Shares	
	As at 31 December 2018	As at 31 December 2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**2,400,000**	2,400,000

9. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	As at 31 December 2018 (unaudited) HK$'000	As at 30 June 2018 (audited) HK$'000
Contracts in progress at the end of each reporting period:		
Contract costs incurred	**16,089**	2,275
Recognised profits less recognised losses	**7,271**	358
	23,360	2,633
Less: progress billings	**(23,068)**	(3,425)
	292	(792)
Represented by:		
Amounts due from customers for contract work	**292**	424
Amounts due to customers for contract work	**–**	(1,216)
	292	(792)

As at 31 December 2018, retentions held by customers for contract work included in trade and other receivables (Note 10) amounted to HK$1,649,000 (as at 30 June 2018: HK$1,566,000).

10. TRADE AND OTHER RECEIVABLES

	Notes	As at 31 December 2018 (unaudited) HK$'000	As at 30 June 2018 (audited) HK$'000
Trade receivables	*i*	**6,068**	8,374
Retention receivables *(Note 9)*	*ii*	**1,649**	1,566
Deposits and other receivables	*iii*	**1,788**	2,816
Prepayments	*iii*	**1,298**	3,822
Total		**10,803**	16,578
Less: Non-current portion			
Deposit	*iii*	**(1,328)**	(1,328)
Total current portion		**9,475**	15,250

Notes:

(i)

	As at 31 December 2018 (unaudited) *HK$'000*	As at 30 June 2018 (audited) *HK$'000*
Trade receivables	**6,068**	8,374
Less: provision for impairment on trade receivables	**–**	–
	6,068	8,374

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:

	As at 31 December 2018 (unaudited) *HK$'000*	As at 30 June 2018 (audited) *HK$'000*
Less than 1 month	**1,376**	2,124
1 to 3 months	**2,398**	3,748
3 to 6 months	**189**	103
More than 6 months but less than one year	**486**	2,297
More than one year	**1,619**	102
	6,068	8,374

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

	As at 31 December 2018 (unaudited) *HK$'000*	As at 30 June 2018 (audited) *HK$'000*
Neither past due nor impaired	**839**	643
Less than 1 month past due	**660**	4,201
1 to 3 months past due	**2,464**	1,028
More than 3 months past due but less than 12 months	**1,333**	2,400
More than one year past due	**772**	102
	6,068	8,374

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 31 December 2018 and 30 June 2018 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 31 December 2018 and 30 June 2018 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.

11. TRADE AND OTHER PAYABLES

	As at 31 December 2018 (unaudited) *HK$'000*	As at 30 June 2018 (audited) *HK$'000*
Trade payables *(note (a))*	**8,287**	4,170
Receipts in advance *(note (b))*	**576**	6,599
Other payables and accruals *(note (c))*	**14,940**	10,523
Total	**23,803**	21,292
Less: Non-current portion		
Other payable *(note (c))*	**(529)**	(609)
Total current portion	**23,274**	20,683

Notes:

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

	As at 31 December 2018 (unaudited) *HK$'000*	As at 30 June 2018 (audited) *HK$'000*
Current or less than 1 month	**3,066**	1,273
1 to 3 months	**4,007**	1,821
4 to 6 months	**1,137**	436
7 to 12 months	**–**	548
More than 1 year	**77**	92
	8,287	4,170

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.

12. SHARE CAPITAL

	As at 31 December 2018	As at 30 June 2018
	HK$	*HK$*
Authorised:		
10,000,000,000 (As at 30 June 2018: 10,000,000,000) ordinary shares of HK$0.01 (As at 30 June 2018: HK$0.01) each	**100,000,000**	100,000,000
Issued and fully paid:		
2,400,000,000 (As at 30 June 2018: 2,400,000,000) ordinary shares of HK$0.01 (As at 30 June 2018: HK$0.01) each	**24,000,000**	24,000,000

During the Period, no movement in the Company's issued ordinary shares was noted.

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, façade 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, United States, Europe, Middle East and other Asian countries.

For the Period, the Group's revenue, gross profit and loss for the Period were approximately HK$70.6 million (for the six months ended 31 December 2017: approximately HK$48.2 million), approximately HK$19.9 million (for the six months ended 31 December 2017: approximately HK$13.1 million) and approximately HK$0.9 million (for the six months ended 31 December 2017: approximately HK$8.3 million), respectively. Accordingly, the unaudited consolidated loss attributable to owners of the Company for the Period decreased by approximately HK$7.4 million as compared to the six months ended 31 December 2017.

The improvement in the financial performance of the Group during the Period was primarily due to the increase in the Group's revenue (for the Period: approximately HK$70.6 million; for the six months ended 31 December 2017: approximately HK$48.2 million) and gross profit (for the Period: approximately HK$19.9 million; for the six months ended 31 December 2017: approximately HK$13.1 million) as a result of the implementation of previously delayed business strategies in relation to renovation and new shops roll out of certain major customers of the Group during the Period.

The gross profit margin slightly increased from approximately 27.2% for the six months ended 31 December 2017 to approximately 28.2% for the Period.

Business Strategies and Outlook

Leveraging the years of experience in the high-end markets under the belt of our management team, our long-standing working relations with international brands and the effort made to explore potential business opportunities all over the world, the Group is confident in the prospects and is dedicated 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 as always.

Attributed to the resume of the expansion of certain luxury brands of our major customers after gaining a firm foothold in the industry, significant increase in sales of the Group's millwork, furniture and façade fabrication (for the Period: approximately HK$59.3 million; for the six months ended 31 December 2017: approximately HK$32.1 million) was noted. Going forward, the Group has been committed to actively searching for potential business opportunities in Europe from the provision of millwork and furniture to international recognized luxury fashion, hotel and beauty brands and the negotiation progress is satisfactory.

To maximize the interests of the Group and the Shareholders, the Group will 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. Taking into account the Group's rich experience in the market of residential fit-out business, the Group has been dedicated to expanding the interior solutions services to mid to high end residential market and the Group is confident that such a move will create strong values to the stakeholder of the Group.

Financial Review

Revenue

The Group generated revenue principally from providing three major categories of sales and services, including: (i) sales of millwork, furniture and façade fabrication, (ii) interior solutions services and (iii) design and project consultancy services. Revenue of the Group increased by approximately 46.5% from approximately HK$48.2 million for the six months ended 31 December 2017 to approximately HK$70.6 million for the Period. The increase in revenue was mainly due to the increase in sales of millwork, furniture and façade fabrication as a result of the implementation of previously delayed business strategies in relation to renovation and new shops roll out of certain major customers of the Group during the Period.

Direct cost

Direct cost of the Group primarily consisted of costs of material and subcontracting charges. Direct cost increased by approximately 29.7% from approximately HK$35.1 million for the six months ended 31 December 2017 to approximately HK$50.7 million for the Period, representing approximately 72.8% and 71.8% to the revenue of the Group for the corresponding periods, respectively. The increase in direct cost was in line with the increase in revenue during the Period.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 51.9% from approximately HK$13.1 million for the six months ended 31 December 2017 to approximately HK$19.9 million for the Period. The gross profit margin increased to approximately 28.2% for the Period (for the six months ended 31 December 2017: approximately 27.2%) as a result of the continuous improvement of the working process.

Administrative expenses

Administrative expenses of approximately HK$21.1 million for the Period (for the six months ended 31 December 2017: approximately HK$21.3 million) mainly consisted of employee benefits, rental and utilities, marketing and advertisement, entertainment, legal and professional fees, depreciation, transportation and travelling expenses. No material fluctuation was noted during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group derived cash inflow from operating activities primarily through provision of services including millwork and furniture provision, façade 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 31 December 2018, the cash and bank balances amounted to approximately HK$52.5 million (as at 30 June 2018: approximately HK$44.8 million) which were mainly denominated in HK$, United Stated dollars ("**USD**"), Renminbi ("**RMB**") and Euros ("**EUR**"). The Group did not have any bank borrowings for the Period.

During the Period, there was no change in the Company's capital structure. 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 31 December 2018, the Group has a bank facility of HK$20.0 million (30 June 2018: 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 has sufficient resources to support its operations and meet its foreseeable capital expenditures.

CAPITAL STRUCTURE

The Company's capital structure has not changed during the Period. As at 31 December 2018, the Company's issued share capital amounted to HK$24,000,000 and the number of issued ordinary shares was 2,400,000,000 with nominal value of HK$0.01 each (the "**Shares**").

Borrowings and gearing ratio

No bank borrowing was recorded as of 31 December 2018 and 30 June 2018. As at 31 December 2018 and 30 June 2018, the gearing ratio of the Group as determined by interest-bearing borrowings divided by total capital was nil.

Charge on assets

As at 31 December 2018, no assets of the Group were pledged to secure its loans and banking facilities (30 June 2018: Nil).

Contingent liabilities

As at 31 December 2018, the Group had no significant contingent liabilities (30 June 2018: Nil).

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Period.

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

The Group did not have any significant investment held as at 31 December 2018. Save as disclosed in this announcement and 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

The Group did not have any material acquisition and disposal during the Period.

SHARE OPTION SCHEME

The Company adopted the share option scheme on 22 August 2016 (the "**Share Option Scheme**"). The Company has not granted any share options up to 31 December 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 31 December 2018, the Group had 47 employees (30 June 2018: 49 employees). Total employee benefits (including Directors' and chief executive's remuneration) were approximately HK$12.7 million for the Period (for the six months ended 31 December 2017: approximately HK$11.9 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 commitment as at 31 December 2018 (30 June 2018: Nil).

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 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.

SUBSEQUENT EVENT

On 26 February 2019, the Board decided to change the use of part of the unutilized net proceeds from the share offer of the Company (the "**Share Offer**") originally allocated for pursuing suitable acquisition and partnership opportunities in the amount of approximately HK$6.1 million to expanding the interior solutions services to mid to high end residential market and approximately HK$3.4 to be used for additional general working capital and other general corporate purposes. Please refer to section headed "Use of Net Proceeds from the Share Offer and Change in Use of Proceeds" below for more details.

USE OF NET PROCEEDS FROM THE SHARE OFFER AND CHANGE IN USE OF PROCEEDS

The Shares were listed on the Main Board of the Stock Exchange on 12 September 2016 with net proceeds received by the Company from the Share Offer amounted to approximately HK$64.6 million (after deducting underwriting commissions and all related expenses) (the "**Net Proceeds**").

As disclosed in the announcement of the Company dated 18 May 2018, having considered the limitations on the development of the research and development ("**R&D**") center in Hong Kong that may hinder the enhancement of the Group's innovation and R&D capabilities and with a view to better deploy the resources of the Group, the Board resolved to re-allocate the Net Proceeds of approximately HK$10.6 million, which was originally planned to be used for financing the establishment of R&D center in Hong Kong, for financing the establishment of overseas R&D centers.

During the Period, the Net Proceeds have been used 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 planned applications of the Net Proceeds, and details of the original allocation of the Net Proceeds, the revised allocation of the Net Proceeds, and the utilisation of the Net Proceeds as at 31 December 2018 are set out below:

Intended application of the Net Proceeds	**Planned allocation** *HK$'million*	**Revised allocation** *HK$'million*	**Actual utilisation up to 31 December 2018** *HK$'million*	**Unutilised Net Proceeds as at 31 December 2018** *HK$'million*
Pursuing suitable acquisition and partnership opportunities	19.3	19.3	–	19.3
Incorporation of overseas subsidiaries	14.9	14.9	6.5	8.4
Establishment of R&D center in Hong Kong	11.0	0.4	0.4	–
Establishment of overseas R&D centers	–	10.6	–	10.6
Recruiting high caliber talents	7.1	7.1	7.1	–
Utilised as additional working capital and other general corporate purposes	6.5	6.5	6.5	–
Brand promotion	5.8	5.8	5.8	–
Total	64.6	64.6	26.3	38.3

The unutilised Net Proceeds have been placed as interest deposits with licensed bank in Hong Kong.

CHANGE IN USE OF PROCEEDS

The Company originally planned to use approximately 30% of the Net Proceeds, which amounted to approximately HK$19.3 million, for pursuing growth through selective acquisition and partnership. As at the date of this announcement, no acquisition or partnership can be materialized and therefore the Company has not utilized any of the Net Proceeds for this purpose. Taking account of the reasons set out in the paragraph headed "Reason for the Change in Use of Proceeds" below, on 26 February 2019, the Board has resolved to reallocate part of the unutilized Net Proceeds originally planned for such purpose amounting to approximately HK$6.1 million, representing approximately 9.4% of the Net Proceeds, to expanding the interior solutions services to mid to high end residential market and approximately HK$3.4 million representing approximately 5.2% of the Net Proceeds, to be used for additional general working capital and other general corporate purposes.

Reason for the Change in Use of Proceeds

As disclosed in the Prospectus, the Group plan to expand its business through both organic growth and strategic acquisitions and partnership. The Group has made efforts to solicit potential acquisition targets (which have solid financial performance, sound business model and are in the field of business that has synergy with the existing business of the Group) since the listing on the Stock Exchange for its ongoing strategic growth. The Company has attempted to identify potential acquisition targets through discussions with external advisers and other business acquaintances within the industry. As at the date of this announcement, the Group has not yet entered into any binding commitment or agreement in respect of any acquisition or partnership opportunity (mainly due to the potential acquisition or partnership targets failing to meet the Group's assessment criteria, or due to failure to agree and/or conclude on commercial terms), and therefore the Net Proceeds allocated to such purpose amounted to approximately HK$19.3 million remained unutilized as at the date of this announcement. While the Group remains committed to continue to pursuing growth through selective acquisition and partnership, the Board has recognized that (i) identification of potential acquisition target(s) or partnership(s) and negotiation for any potential acquisition or partnership takes time; and (ii) cash flow requirement of the expansion of interior solutions services to mid to high end residential market has become more imminent. The Board therefore considers it is appropriate to reallocate part of the unutilized Net Proceeds for such purpose accordingly. In case there is any funding needs for potential acquisition and partnership in future, it will be financed by internally generated resources of the Group.

The Group plans to utilize the Net Proceeds amounting to approximately HK$6.1 million for setting up the new subsidiary specifically for interior solutions services for mid to high end residential projects include, among others, (i) the initial set-up and operation costs for the infant stage including the one-off costs for the setting-up of the office show flat, including but not limited to the show flat renovation costs and purchases of the show flat furniture item; (ii) for strengthening the sales and market efforts, including but not limited to increase the advertising activities on both traditional and online media; (iii) the general operating costs, including but not limited to the office rental and insurance expenses; and (iv) for recruiting designated staff who are high caliber talents experienced in the interior solutions business, which will mainly comprise of project manager, sales and marketing manager and supporting staff.

On the other hand, corporate expenses such as annual listing fees, audit fees and professional fees are inevitable expenses to maintain the normal daily operations of the Company. Such expenses are currently financed by the internal resources generated from the Group's business operations. The Board has considered other options to finance the general working capital and other general corporate purposes, such as bank loans. The Board is of the view that bank loans will lead to additional finance costs. As such, the Board considers it more appropriate to reallocate existing cash from the Net Proceeds to finance general working capital and other general corporate expenses.

The Board considers that the above change in the use of proceeds from the Share Offer will facilitate more efficient use of the financial resources of the Company and strengthen the future development of the Company. The Board confirms that the above reallocation does not affect the Group's business strategies as set out in the Prospectus and there are no material changes in the business nature of the Group as set out in the Prospectus. In view of the above, the Directors consider that the above reallocation is in the interests of the Company and the Shareholders as a whole.

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

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

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 ("**CG Code**") as 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 Period.

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 its code of conduct regarding dealings in the securities of the Company by the Directors. Having made specific enquiry, all the Directors confirmed that they have complied with the required standards set out in the Model Code during the Period.

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 Period.

AUDIT COMMITTEE

The Company has established 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 currently comprises three independent non-executive Directors, namely Mr. So Chi Hang (as committee chairman), Mr. Heng Ching Kuen Franklin and Mr. Shing Wai Yip. The Group's unaudited condensed consolidated interim financial statements for the Period have been reviewed by the Audit Committee.

PUBLICATION OF INTERIM RESULTS AND INTERIM 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 interim report of the Company for the Period 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, 26 February 2019

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