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 2019

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 Gorup for the six months ended 31 December 2019 (the "**Period**"), together with the comparative figures for the corresponding period in 2018. 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 2019

	Notes	**Six months ended 31 December 2019 (unaudited) *HK$'000***	Six months ended 31 December 2018 (unaudited) *HK$'000*
Revenue	*4*	**38,785**	70,579
Direct cost		**(27,059)**	(50,696)
Gross profit		**11,726**	19,883
Other income	*4*	**310**	332
Administrative expenses		**(19,232)**	(21,060)
Finance cost	*5*	**(408)**	–
Loss before income tax expense	*6*	**(7,604)**	(845)
Income tax expense	*7*	**(24)**	(85)
Loss for the period attributable to owners of the Company		**(7,628)**	(930)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**1**	(89)
Other comprehensive income for the period and attributable to owners of the Company, net of tax		**1**	(89)
Total comprehensive income for the period and attributable to owners of the Company		**(7,627)**	(1,019)
Loss per share			
Basic and diluted (HK cent)	*9*	**(0.32)**	(0.04)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	**As at 31 December 2019 (unaudited) *HK$'000***	As at 30 June 2019 (audited) *HK$'000*
Non-current assets			
Property, plant and equipment		**12,948**	4,589
Deposits		**1,328**	2,816
Right-of-use assets		**13,975**	–
		28,251	7,405
Current assets			
Trade and other receivables	*10*	**7,553**	14,044
Income tax recoverable		**221**	221
Cash and cash equivalents		**31,495**	40,009
		39,269	54,274
Total assets		**67,520**	61,679
Current liabilities			
Trade and other payables	*11*	**21,199**	20,280
Contract liabilities		**2,609**	4,274
Income tax payable		**11**	38
Lease liabilities		**4,282**	–
		28,101	24,592
Net current assets		**11,168**	29,682
Total assets less current liabilities		**39,419**	37,087
Non-current liabilities			
Deferred tax liabilities		**194**	194
Other payable		**–**	450
Lease liabilities		**10,409**	–
		10,603	644
Total liabilities		**38,704**	25,236
NET ASSETS		**28,816**	36,443
Capital and reserves			
Share capital	*12*	**24,000**	24,000
Reserves		**4,816**	12,443
TOTAL EQUITY		**28,816**	36,443

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 facade fabrication and provision of interior design, project consultancy, maintenance 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 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 2019.

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 2019, 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.

Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

The impact of the adoption of HKFRS 16 "Leases" is disclosed below.

Apart from aforementioned HKFRS 16, there are no other new standards, amendments to standards and interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

HKFRS 16 – Leases

HKFRS 16 replaces HKAS 17 Leases ("**HKAS 17**"), HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease, HK(SIC) – Int 15 Operating Leases – Incentives and HK(SIC) – Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged under HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application on 1 July 2019. Under this method, the comparative information for the year ended 30 June 2019 was not restated as permitted under the simplified transition approach in the standard and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) – Int 4 were not reassessed.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease-by-lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low value assets (e.g., office equipment); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 July 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 July 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 July 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the condensed consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 July 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.

- Used a single discount rate to a portfolio of leases with reasonably similar characteristic.

- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application.

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

On adoption of HKFRS 16, the Group recognized right-of-use assets and lease liabilities in leases which had previously been classified as operating leases under HKAS 17.

The lease liabilities of approximately HK$16.7 million was measured at the present value of the remaining minimum lease payments, discounted using the Group's incremental borrowing rates as of 1 July 2019, with the relevant imputed interest charged to profit or loss over the lease period.

The right-of-use assets of approximately HK$16.1 million were recognized at cost, representing the amount of initial measurement of the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 July 2019 and are to be depreciated over the lease period on a straight-line basis.

The imputed interest on payables for leases liabilities and depreciation of right-of-use assets charged to profit or loss during the Period was approximately HK$0.4 million and HK$2.2 million respectively.

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, maintenance 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 2019 (unaudited) ***HK$'000***	Six months ended 31 December 2018 (unaudited) *HK$'000*
Hong Kong (place of domicile)	**19,550**	25,714
Asia (excluding Hong Kong and the People's Republic of China ("**PRC**" or "**China**"))	**1,736**	4,083
PRC	**1,454**	1,561
Europe	**12,965**	18,024
United States ("**U.S.**")	**881**	9,937
Middle East	**–**	11,260
Others	**2,199**	–
	19,235	44,865
	38,785	70,579

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

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

	As at 31 December 2019 (unaudited)	As at 30 June 2019 (audited)
	HK$'000	*HK$'000*
Hong Kong (place of domicile)	**26,239**	4,567
PRC	**298**	–
Europe	**386**	22
	26,923	4,589

4. REVENUE AND OTHER INCOME

Revenue includes the net invoiced value of goods sold, design, project consultancy and maintenance 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 2019 (unaudited)	Six months ended 31 December 2018 (unaudited)
	HK$'000	*HK$'000*
Time of revenue recognition (within the scope of HKFRS 15)		
Revenue – at a point in time		
Sales of products		
– Millwork and furniture	**18,027**	34,345
– Facade fabrication	**860**	24,982
Revenue – over time		
Income from interior solutions projects	**16,946**	10,395
Maintenance service income	**583**	–
Design and project consultancy service income	**2,369**	857
	38,785	70,579

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

	Six months ended 31 December 2019 (unaudited) *HK$'000*	Six months ended 31 December 2018 (unaudited) *HK$'000*
Other income		
Bank interest income	**114**	140
Management income	**192**	192
Sundry income	**4**	–
	310	332

5. FINANCE COST

	Six months ended 31 December 2019 (unaudited) *HK$'000*	Six months ended 31 December 2018 (unaudited) *HK$'000*
Imputed interest on payables for lease liabilities	**408**	–

6. LOSS BEFORE INCOME TAX EXPENSE

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

	Six months ended 31 December 2019 (unaudited) *HK$'000*	Six months ended 31 December 2018 (unaudited) *HK$'000*
Depreciation of property, plant and equipment	**893**	775
Rental expenses of short-term leases in respect of:		
– Land and buildings	**260**	2,839
– Plant and equipment	**61**	65
Depreciation of right-of-use assets	**2,162**	–
Exchange (gain)/loss, net	**(4)**	52
Employee benefit expenses (including directors' and chief executive's remuneration)	**11,918**	12,665

7. 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 2019 (unaudited)	Six months ended 31 December 2018 (unaudited)
	HK$'000	*HK$'000*
Current tax – overseas profits tax		
– tax for the period	**24**	85

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 2018.

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

8. DIVIDENDS

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

9. 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 period ended 31 December 2018: 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 2019 (unaudited)	Six months ended 31 December 2018 (unaudited)
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic loss per share	**(7,628)**	(930)

	Number of shares	
	As at 31 December 2019	As at 31 December 2018
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic losses per share	**2,400,000**	2,400,000

10. TRADE AND OTHER RECEIVABLES

	Notes	**As at 31 December 2019 (unaudited)**	As at 30 June 2019 (audited)
		HK$'000	*HK$'000*
Trade receivables	*i*	**4,944**	10,696
Retention receivables	*ii*	**917**	1,068
Deposits and other receivables	*iii*	**1,589**	3,364
Prepayments	*iii*	**1,431**	1,732
Total		**8,881**	16,860
Less: Non-current portion			
Deposit	*iii*	**(1,328)**	(2,816)
Total current portion		**7,553**	14,044

Notes:

(i)

	As at 31 December 2019 (unaudited)	As at 30 June 2019 (audited)
	HK$'000	*HK$'000*
Trade receivables	**4,944**	10,696
Less: provision for impairment on trade receivables	**–**	–
	4,944	10,696

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 2019 (unaudited) *HK$'000*	As at 30 June 2019 (audited) *HK$'000*
Less than 1 month	**402**	204
1 to 3 months	**3,080**	8,094
3 to 6 months	**1,092**	1,837
More than 6 months but less than one year	**15**	9
More than one year	**355**	552
	4,944	10,696

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 2019 and 30 June 2019 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 2019 and 30 June 2019 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 2019 (unaudited) *HK$'000*	As at 30 June 2019 (audited) *HK$'000*
Trade payables *(note (a))*	**8,368**	10,458
Other payables and accruals *(note (b))*	**12,831**	10,272
Total	**21,199**	20,730
Less: Non-current portion		
Other payable *(note (b))*	**–**	(450)
Total current portion	**21,199**	20,280

Notes:

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

	As at 31 December 2019 (unaudited) *HK$'000*	As at 30 June 2019 (audited) *HK$'000*
Current or less than 1 month	**1,091**	2,561
1 to 3 months	**1,641**	6,472
4 to 6 months	**4,686**	568
7 to 12 months	**303**	839
More than 1 year	**647**	18
	8,368	10,458

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

(b) 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 2019 *HK$*	As at 30 June 2019 *HK$*
Authorised:		
10,000,000,000 (As at 30 June 2019: 10,000,000,000) ordinary shares of HK$0.01 (As at 30 June 2019: HK$0.01) each	**100,000,000**	100,000,000
Issued and fully paid:		
2,400,000,000 (As at 30 June 2019: 2,400,000,000) ordinary shares of HK$0.01 (As at 30 June 2019: 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, facade development and fabrication, interior solutions and design, maintenance and project consultancy. The Group has been conducting its business since 1999 and has been expanding its business to China, U.S., Europe, Middle East and other Asian countries.

For the Period, the Group's revenue, gross profit and loss for the Period were approximately HK$38.8 million (for the six months ended 31 December 2018: approximately HK$70.6 million), approximately HK$11.7 million (for the six months ended 31 December 2018: approximately HK$19.9 million) and approximately HK$7.6 million (for the six months ended 31 December 2018: approximately HK$0.9 million), respectively. Accordingly, the unaudited consolidated loss attributable to owners of the Company for the Period increased by approximately HK$6.7 million as compared with that for the six months ended 31 December 2018.

The decline in the financial performance of the Group during the Period was primarily due to the decrease in the Group's revenue (for the Period: approximately HK$38.8 million; for the six months ended 31 December 2018: approximately HK$70.6 million) and gross profit (for the Period: approximately HK$11.7 million; for the six months ended 31 December 2018: approximately HK$19.9 million) as a result of the slowdown in implementing the business expansion of certain major clients of the Group. Besides, the social unrest in Hong Kong during the Period also adversely affected the Group's business in Hong Kong.

The gross profit margin slightly increased from approximately 28.2% for the six months ended 31 December 2018 to approximately 30.2% for the Period.

BUSINESS STRATEGIES AND OUTLOOK

During the Period, Hong Kong has gone through a hard time due to the social unrest. Since late January 2020, there has been outbreak of the Coronavirus disease (COVID-19). If the current situation cannot be improved shortly, the economic environment of Hong Kong will be worsened that may further affect the Group's business adversely. As certain PRC suppliers were not able to perform the orders timely due to blockade of cities in China by the government and closings of businesses, some projects originally scheduled to be performed in February and March 2020 have been surrendered. The Group also expects certain projects might be suspended or postponed as a result of the mitigation of the propagation of the COVID-19 by the society as a whole. The management will monitor closely the development of the outbreak of COVID-19 and assess the actual impact on the Group's business and the Company will keep its shareholders (the "**Shareholders**") informed by way of announcement(s) as and when appropriate.

In response to the above, the Group has been actively searching for potential business opportunities in Europe and PRC from the provision of millwork and furniture and total interior design solutions project services to international recognized luxury fashion, hotel and beauty brands. In the meantime, the Group has also exercised reduction and stringent control over costs. During the Period, through the co-operation with an international recognized highly security glass supplier established in Germany, the Group has been dedicated to promoting the use of supreme security glass to the international brands, hotels as well as the high-end residential units for our millwork and fit-outs business.

To maximize the interests of the Group and the Shareholders, the Group will keep abreast of the latest market development and actively diversify its business, establishing new business lines in order to broaden its earning base and support the Group's sustainable development when opportunities arise.

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 diversify the business risks geographically through exploring potential business opportunities all over the world, the Group is trying the best to strengthen its revenue base.

FINANCIAL REVIEW

Revenue

The Group generated revenue principally from providing four major categories of sales and services, including: (i) sales of millwork, furniture and facade fabrication, (ii) interior solutions services, (iii) design and project consultancy services and (iv) maintenance services. Revenue of the Group decreased by approximately 45.0% from approximately HK$70.6 million for the six months ended 31 December 2018 to approximately HK$38.8 million for the Period. The decrease in revenue was mainly due the slowdown in implementing the business expansion of certain major clients of the Group. Besides, the social unrest in Hong Kong during the Period also adversely affected the Group's business in Hong Kong.

Direct cost

Direct cost of the Group primarily consisted of costs of material and subcontracting charges. Direct cost decreased by approximately 46.5% from approximately HK$50.7 million for the six months ended 31 December 2018 to approximately HK$27.1 million for the Period, representing approximately 71.8% and 69.8% to the revenue of the Group for the corresponding periods, respectively. The decrease in direct cost was in line with the decrease in revenue during the Period.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately 41.2% from approximately HK$19.9 million for the six months ended 31 December 2018 to approximately HK$11.7 million for the Period. The gross profit margin increased to approximately 30.2% for the Period (for the six months ended 31 December 2018: approximately 28.2%) as a result of the continuous improvement of the working process.

Administrative expenses

Administrative expenses of approximately HK$19.2 million for the Period (for the six months ended 31 December 2018: approximately HK$21.1 million) mainly consisted of employee benefits, rental and utilities, marketing and advertisement, entertainment, legal and professional fees, depreciation, transportation and travelling expenses. The decrease in administrative expenses was mainly due to the management's effort on the cost saving policy.

LIQUIDITY AND FINANCIAL RESOURCES

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, maintenance 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 31 December 2019, the cash and bank balances amounted to approximately HK$31.5 million (as at 30 June 2019: approximately HK$40.0 million) which were mainly denominated in HK$, United Stated dollars ("**USD**"), Renminbi ("**RMB**") and Euros ("**EUR**"). The Group did not have any bank borrowings for the Period.

There was no change in the Group's capital structure during the Period. 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 2019, the Group has a bank facility of HK$20.0 million (as at 30 June 2019: 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.

CAPITAL STRUCTURE

The Company's capital structure has not been changed during the Period. As at 31 December 2019, 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 (the "**Shares**").

Borrowings and gearing ratio

No bank borrowing was recorded as of 31 December 2019 and 30 June 2019. As at 31 December 2019 and 30 June 2019, 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 2019, no assets of the Group were pledged to secure its loans and banking facilities (as at 30 June 2019: Nil).

Contingent liabilities

As at 31 December 2019, the Group had no significant contingent liabilities (as at 30 June 2019: 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 2019. 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 of subsidiaries, associated companies or joint ventures 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 2019. 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 2019, the Group had 42 employees (30 June 2019: 41 employees). Total employee benefits (including Directors' and chief executive's remuneration) were approximately HK$11.9 million for the Period (for the six months ended 31 December 2018: approximately HK$12.7 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 2019 (as at 30 June 2019: approximately HK$7.7 million).

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, EUR and Great Britain Pound. 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 SHARE OFFER

The Shares were listed on the Main Board of the Stock Exchange on 12 September 2016 with a total of 600,000,000 Shares issued at HK$0.15 each by way of public offer and placing (the "**Share Offer**"), raising net proceeds of approximately HK$64.6 million (after deducting underwriting commissions and all related expenses) (the "**Net Proceeds**").

According to the Prospectus, approximately 30% of the Net Proceeds (i.e. HK$19.3 million out of the total Net Proceeds) was originally planned to be used for pursuing suitable acquisition and partnership opportunities. As disclosed in the announcement of the Company dated 26 February 2019 and the interim report of the Company for the six months ended 31 December 2018, having considered the difficulties on identifying the potential acquisition and partnership, the Board has resolved to re-allocate 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, as general working capital and other general corporate purposes.

The Company has announced on 18 May 2018 that the Board has 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 research and development ("**R&D**") center in Hong Kong, for financing the establishment of overseas R&D centers. However, due to failure to agree and/or conclude on commercial terms in respect of the acquisition or lease of oversea properties for the establishment of the overseas R&D center, the Board has resolved on 18 April 2019 to re-allocate the aforesaid unutilized Net Proceeds amounting to approximately HK$10.6 million to build a new R&D center in Hong Kong which will serve as a centralized hub for product and material application testing, developing new technologies and design prototypes, as well as building special lighting and security systems, including the payment of consideration of HK$8.5 million for the acquisition of a property located at workshop 1 on 13th Floor of Technology Plaza, No. 651 King's Road, Hong Kong. For details, please refer to announcement of the Company dated 18 April 2019.

The Company has, and will continue to utilize the net proceed from the Share Offer for the purpose consistent with the section headed "Future Plans and Use of Proceeds" as set out in the Prospectus and the announcements of the Company dated 26 February 2019 and 18 April 2019. Nevertheless, the Directors will constantly evaluate the Group business objectives and may change or modify the plan against changing market conditions to ascertain the business growth of the Group.

The below table sets out the planned applications of the Net Proceeds and actual usage during Period:

Intended application of the Net Proceeds	**Planned allocation**	**Revised allocation**	**Actual utilization up to 31 December 2019**	**Unutilized Net Proceeds as at 31 December 2019**	**Expected timeline for the unutilized Net Proceeds**
	HK$ in million	*HK$ in million*	*HK$ in million*	*HK$ in million*	
Pursuing suitable acquisition and partnership opportunities	19.3	9.8	–	9.8	Subject to any potential target identified
Incorporation of overseas subsidiaries	14.9	14.9	9.8	5.1	Note 1
Establishment of R&D centers in Hong Kong	11.0	11.0	9.8	1.2	Note 2
Recruiting high caliber talents	7.1	7.1	7.1	–	N/A
Utilised as additional working capital and other general corporate purposes	6.5	9.9	9.9	–	N/A
Brand promotion	5.8	5.8	5.8	–	N/A
Expansion of the interior solutions services to mid to high end residential market	–	6.1	2.2	3.9	Note 3
Total	64.6	64.6	44.6	20.0	

Notes:

1. The Company had planned to use the unutilized Net Proceeds as at 31 December 2019 of approximately HK$5.1 million for the settlement of operating expenses incurred of the overseas subsidiaries. Considered the business plan and human resource structure of the overseas subsidiaries, it is expected that the unutilized Net Proceeds of approximately HK$5.1 million allocated for the incorporation of overseas subsidiaries will be utilized by 30 June 2021.

2. The Company had planned to use the unutilized Net Proceeds as at 31 December 2019 of approximately HK$1.2 million for financing the development of the R&D centers in Hong Kong, which will be utilized gradually for the R&D works of new designs and new products in relation to the major projects with potential customers and it is subject to negotiation progress.

3. The Company has reprofiled and resumed the expansion plan of the interior solutions services to mid to high end residential market and had planned to use the unutilized Net Proceeds as at 31 December 2019 of approximately HK$3.9 million for strengthening the sales and market efforts as well as financing the general operating costs of the expansion plan. As such, it is expected that the unutilized Net Proceeds of approximately HK$3.9 million allocated for the expansion of the interior solutions services to mid to high end residential market will be utilized by 30 June 2021.

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.

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 Board committees (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 and the Group's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

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. In addition, the Board is not aware of any non-compliance of the Model Code by the senior management of the Group 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, 28 February 2020

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.