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## **LC Group Holdings Limited**

**良斯集團控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1683)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2016**

The board (the “Board”) of directors (the “Directors”) of LC Group Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred hereafter as the “Group”) for the year ended 30 September 2016 (“FY2016”), together with the comparative audited figures for the year ended 30 September 2015 (“FY2015”) as follows:

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

*For the year ended 30 September 2016*

	<i>Notes</i>	<b>2016</b> <b>HK\$'000</b>	2015 <i>HK\$'000</i>
Revenue	5	<b>116,021</b>	159,527
Cost of sales		<b>(68,376)</b>	(99,289)
Gross profit		<b>47,645</b>	60,238
Other revenue and other gains	6	<b>1,779</b>	1,017
Other operating expenses		<b>(1,049)</b>	(687)
Administrative expenses		<b>(20,096)</b>	(35,515)
Profit before taxation	7	<b>28,279</b>	25,053
Taxation	8	<b>(4,098)</b>	(4,103)
Profit and total comprehensive income for the year		<b><u>24,181</u></b>	<u>20,950</u>
Attributable to:			
Owners of the Company		<b>24,181</b>	21,255
Non-controlling interests		–	(305)
Profit and total comprehensive income for the year		<b><u>24,181</u></b>	<u>20,950</u>
Earnings per share:			
Basic and diluted (HK cents)	9	<b><u>4.8</u></b>	<u>5.6</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 September 2016*

	<i>Notes</i>	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
<b>Non-current asset</b>			
Property, plant and equipment		<u>3,878</u>	<u>1,775</u>
<b>Current assets</b>			
Trade receivables	11	10,276	29,399
Amounts due from customers for contract work	12	919	448
Deposits, prepayments and other receivables		3,765	2,022
Cash and bank balances		<u>154,235</u>	<u>130,565</u>
		<u>169,195</u>	<u>162,434</u>
<b>Current liabilities</b>			
Trade payables	13	6,629	15,067
Amounts due to customers for contract work	12	726	2,210
Accrued expenses and other payables		1,448	4,534
Income tax payable		<u>7,657</u>	<u>9,966</u>
		<u>16,460</u>	<u>31,777</u>
<b>Net current assets</b>		<u>152,735</u>	<u>130,657</u>
<b>Total assets less current liabilities</b>		<u>156,613</u>	<u>132,432</u>
<b>Net assets</b>		<u><u>156,613</u></u>	<u><u>132,432</u></u>
<b>Capital and reserves</b>			
Share capital		5,000	5,000
Reserves		<u>151,613</u>	<u>127,432</u>
<b>Total equity attributable to owners of the Company</b>		<u><u>156,613</u></u>	<u><u>132,432</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 September 2016*

## 1. GENERAL INFORMATION

LC Group Holdings Limited (the “Company”) was incorporated in Cayman Islands on 19 January 2015 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at 21st Floor, Wyndham Place, No. 44 Wyndham Street, Central, Hong Kong.

The Company had its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 8 September 2015 (the “Listing”). Starcross Group Limited (“SGL”), a company incorporated in the British Virgin Islands (“BVI”) and holding 75% of the shares, is considered to be the parent of the Company. The ultimate controlling party of the Company is Mr. LEONG Hing Loong Rudoff (“Mr. LEONG”), who is also the chairman of the Company.

The Company is an investment company. The Company and its subsidiaries (collectively referred hereafter as the “Group”) are principally engaged in one-stop integrated interior design solutions including design, fit out and decoration as well as overall project management.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise stated.

## 2. REORGANISATION

In the preparation for the Listing, the Group underwent series of corporate reorganisation (the “Reorganisation”), as a result of which the Company became a holding company of the subsidiaries comprising the Group. The Reorganisation included the following principal steps:

- (i) On 10 November 2014, SGL was incorporated in the BVI with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On the same day, 75 shares and 25 shares were allotted and issued to Mr. LEONG and Ms. CHEW Christina Mooi Chong (“Ms. CHEW”) at par;
- (ii) On 19 January 2015, Mr. LEONG and Ms. CHEW transferred their entire shareholding interest in Crystal Sky Group Limited (“Crystal Sky”) to Smart Builder Holdings Limited (“SBHL”) (as directed by the Company) in consideration of the allotment and issue of one share and one share by the Company to SGL (as directed by Mr. LEONG and Ms. CHEW), respectively, credited as fully-paid;
- (iii) On 3 August 2015, Mr. LEONG and Ms. CHEW transferred their entire shareholding interest in LCL Architects Limited (“LCL Architects”) to SBHL (as directed by the Company) in consideration of the allotment and issue of one share and one share by the Company to SGL (as directed by Mr. LEONG and Ms. CHEW), respectively, credited as fully-paid;

- (iv) On 3 August 2015, Mr. LEONG and Ms. CHEW transferred their entire shareholding interest in LCL China Limited (“LCL China”) to SBHL (as directed by the Company) in consideration of the allotment and issue of one share and one share by the Company to SGL (as directed by Mr. LEONG and Ms. CHEW), respectively, credited as fully-paid;
- (v) On 3 August 2015, Mr. LEONG and Ms. CHEW transferred their entire shareholding interest in LCL Construction Limited (“LCL Construction”) to SBHL (as directed by the Company) in consideration of the allotment and issue of nine shares and one share by the Company to SGL (as directed by Mr. LEONG and Ms. CHEW), respectively, credited as fully-paid and the crediting as fully paid at par the one nil-paid share in issue and registered in the name of SGL;
- (vi) On 3 August 2015, Mr. LEONG transferred his entire shareholding interest in LCL Deco Limited (“LCL Deco”) to SBHL (as directed by the Company) in consideration of the allotment and issue of one share by the Company to SGL (as directed by Mr. LEONG) credited as fully-paid;
- (vii) On 3 August 2015, Mr. LEONG and Ms. CHEW transferred their entire shareholding interest in LCL Decoration Limited (“LCL Decoration”) to SBHL (as directed by the Company) in consideration of the allotment and issue of one share and one share by the Company to SGL (as directed by Mr. LEONG and Ms. CHEW), respectively, credited as fully-paid;
- (viii) On 3 August 2015, Mr. LEONG and Ms. CHEW transferred their entire shareholding interest in LCL Design Limited (“LCL Design”) to SBHL (as directed by the Company) in consideration of the allotment and issue of one share and one share by the Company to SGL (as directed by Mr. LEONG and Ms. CHEW), respectively, credited as fully-paid;
- (ix) On 3 August 2015, Mr. LEONG and Ms. CHEW transferred their entire shareholding interest in LCL Interior Limited (“LCL Interior”) to SBHL (as directed by the Company) in consideration of the allotment and issue of one share and one share by the Company to SGL (as directed by Mr. LEONG and Ms. CHEW), respectively, credited as fully-paid; and
- (x) On 3 August 2015, Mr. LEONG and Ms. CHEW transferred their entire shareholding interest in LCL Limited (“LCL Ltd.”) to SBHL (as directed by the Company) in consideration of the allotment and issue of one share and one share by the Company to SGL (as directed by Mr. LEONG and Ms. CHEW), respectively, credited as fully-paid.
- (xi) On 4 August 2015, SBHL and Mr. LEONG entered into a sale and purchase agreement, pursuant to which SBHL agreed to transfer the entire issued share capital of Crystal Sky at the consideration of approximately HK\$974,000 to Mr. LEONG. The consideration for the transfer was determined based on the net assets value of Crystal Sky according to the management accounts of Crystal Sky as at 31 July 2015. As the consideration for the disposal of Crystal Sky was based on its net asset value, the disposal of Crystal Sky did not result in any gain or loss on the Group.
- (xii) Upon completion of the Reorganisation on 4 August 2015, the Company became the holding company of the Group.

The consolidated financial statements of the Group have been prepared as if the Group had always been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company pursuant to the Reorganisation.

### 3. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of financial statements and directors’ reports and audits became effective for the Company for the financial year ended 30 September 2016. Further, the disclosure requirements set out in the Listing Rules regarding annual consolidated financial statements have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly, the presentation and disclosure of information in the consolidated financial statements for the financial year ended 30 September 2016 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 30 September 2015 are presented or disclosed in these consolidated financial statements based on the new requirements. Information previously required to being discloses under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

### 4. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

There is no new and revised standards, amendments and interpretations (the “new and revised HKFRSs”) issued by the HKICPA applied by the Group for the first time in the current year.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvement to HKFRS 2012-2014 Cycle <sup>1</sup>
HKAS 1 (Amendments)	Disclosure Initiative <sup>1</sup>
HKAS 7 (Amendments)	Disclosure Initiative <sup>5</sup>
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses <sup>5</sup>
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>1</sup>
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plant <sup>1</sup>
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements <sup>1</sup>
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions <sup>2</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception <sup>1</sup>
HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
HKFRS 15 (Amendments)	Clarification to HKFRS 15 Revenue from Contracts with Customers <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2019, earlier application is permitted if only in conjunction with HKFRS 15.
- <sup>4</sup> Effective for annual periods beginning on or after a date to be determined.
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2017.

The Group is in the process of assessing the other potential impact of the above new and revised HKFRSs upon initial application but is not yet in a position to state whether the above new and revised HKFRSs, will have a significant impact on the Group's results of operations and financial position.

## 5. REVENUE AND SEGMENT INFORMATION

The executive directors of the Company, being the chief operating decision-makers, review the Group's internal reporting in order to assess performance and allocate resources. The Group focuses on provision of design, fit out and decoration services during the year. Information reported to the chief operating decision marker, 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.

A brief description of each of our services is as follows:

Design service	conceptual design of the interior space
Fit out service	coordinate, manage and arrange for fit out works to be subcontracted
Decoration service	accessorising of the interior space

### Revenue from major services

The Group's revenue from its major services during the year is as follows:

	For the year ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Design and/or decoration service income	27,732	25,220
Design, fit out and decoration service income	88,289	134,307
	<u>116,021</u>	<u>159,527</u>

### Geographical information

The Group's operations are located in Hong Kong, People's Republic of China (the "PRC") and Singapore.

The Group's geographical segments are classified according to the location of customers. There are three customer-based geographical segments. Segment revenue from external customers by the location of customer during the year is as follows:

#### Revenue from external customers

	For the year ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Hong Kong	92,149	133,759
PRC	22,662	25,768
Singapore	1,210	–
	<u>116,021</u>	<u>159,527</u>

The Group's geographical segments are also classified by the location of assets, information about its non-current assets by geographical location are detailed below:

#### Non-current assets

	As at 30 September	
	2016	2015
	HK\$'000	HK\$'000
Hong Kong	<u>3,878</u>	<u>1,775</u>

#### Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	For the year ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Customer A	36,340	–
Customer B	25,382	32,668
Customer C (*)	–	34,966
Customer D	23,015	25,275
Customer E (*)	–	23,958
Customer F (*)	–	18,207
	<u>–</u>	<u>–</u>

\* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the respective year.

## 6. OTHER REVENUE AND OTHER GAINS

	For the year ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
<b>Other revenue</b>		
Bank interest income	833	61
Other operating income	795	626
Sundry income	130	80
	<u>1,758</u>	<u>767</u>
<b>Other gains</b>		
Gain on disposal of property, plant and equipment	–	250
Net exchange gain	21	–
	<u>21</u>	<u>250</u>
<b>Total</b>	<u><u>1,779</u></u>	<u><u>1,017</u></u>

## 7. PROFIT BEFORE TAXATION

	For the year ended	
	30 September	
	2016	2015
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments	6,043	5,319
Salaries, wages and other benefits (excluding directors' emoluments)	8,150	7,571
Pension scheme contributions (excluding directors' emoluments)	255	237
	<u>8,405</u>	<u>7,808</u>
Auditors' remuneration	800	800
Bad debts written off	162	520
Depreciation of property, plant and equipment	1,291	1,643
Minimum lease payments under operating leases in respect of office premises	2,801	2,692
Net exchange loss	–	1,382
Initial public offering expenses (included in administrative expenses)	–	14,819
	<u><u>–</u></u>	<u><u>14,819</u></u>

## 8. TAXATION

	For the year ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Current tax:		
Hong Kong		
Provision for the year	4,260	6,986
Over-provision in previous year	(162)	(2,883)
	<hr/>	<hr/>
Current tax expense	<b>4,098</b>	4,103
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year.

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI during the year.

## 9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 30 September 2016 is based on the profit for the year attributable to owners of the Company of approximately HK\$24,181,000 (2015: HK\$21,255,000) and the weighted average number of ordinary shares in issue of approximately 500,000,000 (2015: 382,877,000).

Diluted earnings per share for the years ended 30 September 2016 and 2015 were the same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the years.

## 10. DIVIDENDS

The directors of the Company do not propose any payment of final dividend for the year ended 30 September 2016 (2015: Nil).

Prior to the Reorganisation, the Company's subsidiaries had declared the interim dividends in aggregate amounts of HK\$53,850,000 to their shareholders during the year ended 30 September 2015. HK\$37,100,000 out of the HK\$53,850,000 was paid to the shareholders before the Listing and the remaining amount was paid to the shareholders after the Listing.

The subsidiaries had declared dividends to their shareholders as follows:

During the year ended 30 September 2015, LCL Interior, a wholly-owned subsidiary, declared and settled an interim dividend of HK\$35 per share and declared and paid an interim dividend of HK\$14 per share to its shareholders, totalling HK\$7,000,000 and HK\$2,800,000 on 30 January 2015 and 26 May 2015, respectively.

During the year ended 30 September 2015, LCL Construction, a wholly-owned subsidiary, declared and settled an interim dividend of HK\$62.5 per share and declared and paid an interim dividend of HK\$22 per share to its shareholders, totalling HK\$12,500,000 and HK\$4,400,000 on 30 January 2015 and 26 May 2015, respectively.

During the year ended 30 September 2015, LCL Architects, a wholly-owned subsidiary, declared and paid an interim dividend of HK\$450,000 per share to its shareholders, totalling HK\$1,350,000 on 26 May 2015.

During the year ended 30 September 2015, LCL China, a wholly-owned subsidiary, declared and settled an interim dividend of HK\$460 per share and declared and paid an interim dividend of HK\$590 per share to its shareholders, totalling HK\$4,600,000 and HK\$5,900,000 on 30 January 2015 and 26 May 2015, respectively.

During the year ended 30 September 2015, LCL Design, a wholly-owned subsidiary, declared and settled an interim dividend of HK\$25 per share and declared and paid an interim dividend of HK\$8 per share to its shareholders, totalling HK\$5,000,000 and HK\$1,600,000 on 30 January 2015 and 26 May 2015, respectively.

During the year ended 30 September 2015, LCL Decoration, a wholly-owned subsidiary, declared and settled an interim dividend of HK\$80,000 per share to its shareholders, totalling HK\$8,000,000 on 30 January 2015.

During the year ended 30 September 2015, LCL Ltd., a wholly-owned subsidiary, declared and paid an interim dividend of HK\$7,000 per share to its shareholders, totalling HK\$700,000 on 26 May 2015.

## 11. TRADE RECEIVABLES

	<b>As at 30 September</b>	
	<b>2016</b>	2015
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Trade receivables	<b>10,276</b>	29,399

The Group's credit term with its customers is, in general, 7 to 45 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The aging analysis of the trade receivables, based on the invoice date, are as follows:

	<b>As at 30 September</b>	
	<b>2016</b>	2015
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current to 30 days	<b>1,702</b>	23,470
31 – 60 days	<b>2,744</b>	3,019
61 – 90 days	<b>789</b>	47
Over 90 days	<b>5,041</b>	2,863
	<b>10,276</b>	29,399

## 12. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	As at 30 September	
	2016	2015
	HK\$'000	HK\$'000
<b>Amounts due from customers for contract work</b>		
Contract costs incurred plus recognised profits less recognised losses	7,504	38,488
Less: Progress billings received and receivable	(6,585)	(38,040)
	<u>919</u>	<u>448</u>
	As at 30 September	
	2016	2015
	HK\$'000	HK\$'000
<b>Amounts due to customers for contract work</b>		
Progress billings received and receivable	9,434	31,272
Less: Contract costs incurred plus recognised profits less recognised losses	(8,708)	(29,062)
	<u>726</u>	<u>2,210</u>

## 13. TRADE PAYABLES

	As at 30 September	
	2016	2015
	HK\$'000	HK\$'000
Trade payables	<u>6,629</u>	<u>15,067</u>

The aging analysis of trade payables, based on the invoice date are as follows:

	As at 30 September	
	2016	2015
	HK\$'000	HK\$'000
Current to 30 days	1,856	11,602
31 – 60 days	812	336
61 – 90 days	483	1,771
Over 90 days	3,478	1,358
	<u>6,629</u>	<u>15,067</u>

The credit period on purchases of certain goods and services is within 7 to 90 days.

## 14. DISPOSAL

### LCL Deco

The Group disposed of LCL Deco during the year ended 30 September 2016. On 31 August 2016, SBHL and an independent third party entered into a sale and purchase agreement, pursuant to which SBHL agreed to transfer the entire issued share capital of LCL Deco at the consideration of approximately HK\$10,000 to the independent third party. As the consideration for the disposal of LCL Deco was based on its net asset value, the disposal of LCL Deco did not result in a gain or loss on the Group. Moreover, since LCL Deco was inactive, the disposal of it will not affect the Group's financial performance and business.

#### (i) Consideration received

	2016 <i>HK\$'000</i>
Total consideration received in cash and cash equivalents	<u>10</u>

#### (ii) Analysis of asset and liability over which control was lost

	2016 <i>HK\$'000</i>
<b>Current asset</b>	
Cash	<u>19</u>
<b>Current liability</b>	
Accrued expenses	<u>(9)</u>
Net assets disposed of	<u>10</u>

#### (iii) Result on disposal of a subsidiary

	2016 <i>HK\$'000</i>
Consideration received	10
Net assets disposed of	<u>(10)</u>
	<u>—</u>

#### (iv) Net cash outflow from disposal of a subsidiary

	2016 <i>HK\$'000</i>
Total consideration received	10
Less: Cash and cash equivalents balances disposal of	<u>(19)</u>
Net cash outflow from disposal of a subsidiary	<u>(9)</u>

## Crystal Sky

The Group disposed of Crystal Sky which has become inactive during the year ended 30 September 2015. On 4 August 2015, SBHL and Mr. LEONG entered into a sale and purchase agreement, pursuant to which SBHL agreed to transfer the entire issued share capital of Crystal Sky at the consideration of approximately HK\$974,000 to Mr. LEONG. As the consideration for the disposal of Crystal Sky was based on its net asset value, the disposal of Crystal Sky did not result in a gain or loss on the Group. Moreover, since Crystal Sky has become inactive, the disposal of it will not affect the Group's financial performance and business.

### (i) Consideration received

	<b>2015</b> <i>HK\$'000</i>
Total consideration received in cash and cash equivalents/ Net cash inflow on disposal of a subsidiary	974

### (ii) Analysis of asset and liabilities over which control was lost

	<b>2015</b> <i>HK\$'000</i>
<b>Current asset</b>	
Amount due from LCL Interior	18,699
<b>Current liabilities</b>	
Accrued expenses	(4,604)
Income tax payable	(13,121)
	(17,725)
Net assets disposed of	974

### (iii) Result on disposal of a subsidiary

	<b>2015</b> <i>HK\$'000</i>
Consideration received	974
Net assets disposed of	(974)
	—

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

In the early of 2016, the Hong Kong property market sentiment turned downward. As a result, the turnover of the Group decreased by approximately HK\$43.5 million from approximately HK\$159.5 million for the year ended 30 September 2015 to approximately HK\$116.0 million for the year ended 30 September 2016. The overall gross profit decreased by approximately \$12.6 million from approximately HK\$60.2 million for the year ended 30 September 2015 to approximately HK\$47.6 million for the year ended 30 September 2016. Such decrease was mainly in line with the overall downward trend of the total turnover.

However, the Group recorded a consolidated net profit of approximately HK\$24.2 million for the year ended 30 September 2016, representing an increase of approximately HK\$3.2 million as compared with consolidated net profit of approximately HK\$21.0 million for the year ended 30 September 2015. The increase in consolidated net profit during the year end 30 September 2016 was mainly due to the decrease in one-off initial public offering expenses. The listing exercise was completed in the last financial year and there were one-off initial public offering expenses of approximately HK\$14.8 million (charged to consolidated statement of profit and loss and other comprehensive income) during the year ended 30 September 2015. During the year ended 30 September 2016, no initial public offering expenses were incurred.

### **FINANCIAL REVIEW**

#### **Revenue**

The Group is a one-stop integrated interior design solutions provider based in Hong Kong. Our integrated interior design solutions include design, fit out, and decoration. We are also responsible for the overall project management. Our customers can choose from one or a combination of our solutions. The provision of our services to our customers can be broadly classified into two major types of projects, (i) design and/or decoration (“DD”) and (ii) design, fit out and decoration (“DFD”).

During the FY2016, the revenue of the Group decreased by approximately 27.3% to approximately HK\$116.0 million (FY2015: HK\$159.5 million) from provision of one-stop integrated interior design services.

The following table sets forth the breakdown of our Group's revenue by type of projects and by geographical locations:

	<b>FY2016</b>		<b>FY2015</b>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
<b>DD</b>				
PRC	<b>22,662</b>	<b>19.6%</b>	24,088	15.1%
Hong Kong	<b>3,860</b>	<b>3.3%</b>	1,132	0.7%
Singapore	<b>1,210</b>	<b>1.0%</b>	—	—
Subtotal	<b>27,732</b>	<b>23.9%</b>	25,220	15.8%
<b>DFD</b>				
PRC	—	—	1,680	1.1%
Hong Kong	<b>88,289</b>	<b>76.1%</b>	132,627	83.1%
Subtotal	<b>88,289</b>	<b>76.1%</b>	134,307	84.2%
Total	<b>116,021</b>	<b>100.0%</b>	159,527	100.0%

In FY2016, the major customers of the Group were mostly well established listed property developers based in Hong Kong. The revenue derived from the DFD projects in Hong Kong was the key component to the overall revenue, which amounted to approximately HK\$88.3 million for FY2016 (FY2015: HK\$132.6 million) representing 76.1% (FY2015: 83.1%) of the overall revenue of the Group for FY2016. The Hong Kong property market sentiment in 2016 turned amid the volatility in stock markets, the possibility for increase in US interest rates and uncertainties in the economic outlook, resulting in a decline in the number of sizeable DFD projects in Hong Kong. In FY2015, there were sizeable DFD projects in Hong Kong with an aggregate turnover of approximately HK\$91.9 million. While in FY2016, there were less sizeable DFD projects in Hong Kong with an aggregate turnover of approximately HK\$35.8 million.

As a result of the Hong Kong property market sentiment downward turn, the competition in interior design industry became more keen. This phenomenon was more likely to occur in the DFD projects in Hong Kong of which the contract sum was relatively higher and thus had a greater extent for cut off. In order to avoid any negative financial impact from competing with market participants for DFD projects in Hong Kong with too low profit margin, our Group strategically allocated more manpower and resources towards the DD projects in Hong Kong which involved fewer subcontract works and had a stable return to our Group. The revenue derived from the DD projects in Hong Kong amounted to approximately HK\$3.9 million for FY2016 (FY2015: HK\$1.1 million) representing 3.3% (FY2015: 0.7%) of the overall revenue of the Group for FY2016. Such growth was mainly driven by sizeable DD projects in Hong Kong with an aggregate turnover of approximately HK\$3.3 million.

The revenue derived from the DD projects in PRC decreased from approximately HK\$24.1 million in FY2015 to approximately HK\$22.7 million in FY2016. There was a recurring trend for the PRC customers engaging us for our DD services without requiring our fit out services despite a slight decrease in the revenue derived from the DD projects in PRC. The decrease in the revenue derived from the DD projects in PRC was fully off-set by the increase in the revenue derived from the DD projects in Hong Kong.

### Gross profit and gross profit margin

The following table sets forth the breakdown of our Group's gross profit and gross profit margin by type of projects and by geographical locations:

	FY2016		FY2015	
	HK\$'000	Margin (%)	HK\$'000	Margin (%)
<b>DD</b>				
PRC	18,572	82.0%	19,752	82.0%
Hong Kong	3,737	96.8%	1,092	96.5%
Singapore	406	33.6%	—	—
Subtotal	<u>22,715</u>	<u>81.9%</u>	<u>20,844</u>	<u>82.6%</u>
<b>DFD</b>				
PRC	—	—	881	52.4%
Hong Kong	24,930	28.2%	38,513	29.0%
Subtotal	<u>24,930</u>	<u>28.2%</u>	<u>39,394</u>	<u>29.3%</u>
Total	<u><u>47,645</u></u>	<u><u>41.1%</u></u>	<u><u>60,238</u></u>	<u><u>37.8%</u></u>

The overall gross profit decreased by approximately \$12.6 million from approximately HK\$60.2 million for FY2015 to approximately HK\$47.6 million for FY2016. Such decrease was mainly in line with the overall downward trend of the total revenue, where significant decrease of HK\$13.6 million in gross profit derived from the DFD projects in Hong Kong were recorded during the FY2016.

In FY2016, the gross profit margin of the DD projects was at 81.9%, while the gross profit margin of the DFD projects was at 28.2%. The gross profit margin of the DD projects was generally higher than that of the DFD projects which require our fit out service. The DD projects involved fewer subcontractors than the DFD projects allowing rooms for higher mark-up in consideration of the quality of our interior design solution services; and the major cost components of the DD projects were direct staff costs and drafting subcontractors cost, which were common cost components shared among all of our projects, resulting in a relatively higher gross profit margin to the DD projects. The overall gross profit margin increased by 3.3% from 37.8% in FY2015 to 41.1% in FY2016 due to the change in the mix of DD projects and DFD projects. In FY2016, there was a decrease in the portion of DFD projects of which had a relatively lower gross profit margin, resulting in a higher overall gross profit margin.

The gross profit margin of the DD projects remained stable at 81.9% for FY2016 (FY2015: 82.6%). While there was only a slight decrease in the gross profit margin of the DFD projects from 29.3% for FY2015 to 28.2% for FY2016. It was because our Group did not compete with market participants for any DFD projects in Hong Kong with too low profit margin, so as to avoid any negative financial impact to our Group.

### **Administrative expenses**

The administrative expenses decreased by approximately HK\$15.4 million from approximately HK\$35.5 million in FY2015 to approximately HK\$20.1 million in FY2016. This was mainly due to the one-off initial public offering expenses of approximately HK\$14.8 million (charged to consolidated statement of profit or loss and other comprehensive income) in FY2015. The listing exercise was completed in FY2015.

### **Profit for the year**

The profit for the year increased by approximately HK\$3.2 million from approximately HK\$21.0 million in FY2015 to approximately HK\$24.2 million in FY2016. However, carving out the one-off initial public offering expenses of approximately HK\$14.8 million (charged to consolidated statement of profit or loss and other comprehensive income) in FY2015, profit for the year recorded a significant decrease of 32.4% from approximately HK\$35.8 million in FY2015 to approximately HK\$24.2 million in FY2016. The decrease was mainly due to the decrease in gross profit as explained in the section headed “Gross profit and gross profit margin”.

### **PROSPECT**

The principal risks and uncertainties of our business are highly affected by the development and growth in the property development industry as well as the performance of property developers, and the demand for our services from the property developers could be volatile.

It is expected that the uncertainty in Hong Kong property development industry which is detrimental to the demand for our services from the property developers. Nevertheless, for likely future business development, the Group will take initiatives to prudently seize any opportunities to enhance our competitiveness so as to alleviate the possible impact from the uncertainty in Hong Kong property development industry.

## **HUMAN RESOURCES AND REMUNERATION POLICIES**

As at 30 September 2016, the Group had 23 employees (2015: 20) in Hong Kong. The total remuneration paid by the Group to its employees (including directors) for the current financial year was approximately HK\$14.4 million (FY2015: HK\$13.1 million).

The objective of the Group's remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration paid to its employees (including directors and senior management), the following factors are considered:

- workload, responsibility and job complexity;
- business requirements;
- individual performance and contribution to results;
- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;
- market rates and changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

In addition to salaries, provident fund scheme and medical insurance coverage and discretionary bonuses are available to employees. Level of remuneration is reviewed annually. During the review process, no individual director is involved in decisions relating to his own remuneration.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 September 2016, the Group had a total cash and bank balances of approximately HK\$154.2 million (2015: HK\$130.6 million) mainly denominated in Hong Kong dollars. The increase in total cash and bank balances was mainly due to the net cash of HK\$26.4 million generated from operating activities.

The Group continued to maintain a healthy liquidity position. At as 30 September 2016, the Group had net current assets of approximately HK\$152.7 million (2015: HK\$130.7 million). The Group had current ratio of approximately 10.3 times as at 30 September 2016 compared to that of approximately 5.1 times at 30 September 2015. The improvement in the Group's liquidity position was mainly attributable to the better utilisation of working capital.

The gearing ratio of the Group is defined as a percentage of interest-bearing liabilities divided by total equity. As at 30 September 2016, the Group did not have any borrowing (2015: Nil). Hence, as at 30 September 2016, the gearing ratio was Nil (2015: Nil). The Group's working capital requirements were mainly financed by internal resources.

### **FOREIGN EXCHANGE EXPOSURE**

The Group mainly earns revenue in Hong Kong dollars and Renminbi and also incurs cost in Hong Kong dollars and Renminbi. The Group is exposed to foreign exchange risk with respect mainly to Renminbi which may affect the Group's performance. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of Renminbi and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary. The Group currently does not have any foreign currency hedging policy.

### **PLEDGE OF ASSETS**

There was no pledged asset as at 30 September 2016 (2015: Nil).

### **USE OF PROCEEDS FROM THE SHARE OFFER**

The net proceeds from the Company's share offer in September 2015 amounted to approximately HK\$100.0 million (after deducting underwriting commissions and all related expenses). Such net proceeds are intended to be applied in accordance with the proposed application as set out in the section headed "Future Plans and Use of Proceeds" in the Company's prospectus dated 21 August 2015. As at 30 September 2016, the Company did not utilise any of the net proceeds and deposited the entire amount of the net proceeds in bank accounts.

### **CONTINGENT LIABILITIES**

The Group had no significant contingent liabilities as at 30 September 2016 (2015: Nil).

### **CAPITAL COMMITMENTS**

The Group had no significant outstanding capital commitment as at 30 September 2016 (2015: Nil).

### **DIVIDEND**

The Directors of the Company do not recommend any payment of final dividend for the year ended 30 September 2016.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and responsibility. The Board comprises three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (“CG Code”) set out in Appendix 14 to the Listing Rules. During the year ended 30 September 2016 and up to the date of this announcement, the Company has complied with the code provisions under the CG Code, except for the deviation mentioned below:

### **Code Provision A.6.7**

Under Code Provision A.6.7, independent non-executive directors and non-executive directors should attend general meetings. However, Mr. TANG Hamilton Ty was unable to attend the annual general meeting held in Hong Kong on 26 February 2016 as he had another business engagement.

The Company periodically reviews its corporate governance practices to ensure that it continues to meet the requirements under the Code Provisions.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS**

The Directors have adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in dealing in the Company’s securities. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during the year ended 30 September 2016.

## **PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year ended 30 September 2016.

## **SCOPE OF WORK**

The figures in respect of the preliminary announcement of the Group’s results for the year ended 30 September 2016 have been agreed by the Group’s auditors, HLB Hodgson Impey Cheng Limited, to the amounts as set out in the Group’s audited consolidated financial statements for the year. The work performed by HLB Hodgson Impey Cheng 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 HLB Hodgson Impey Cheng Limited on the preliminary announcement.

## **AUDIT COMMITTEE**

As at 30 September 2016 and the date of this announcement, the Audit Committee comprised three members, namely Mr. HO Hin Yip (chairman of the Audit Committee), Mr. TANG Hamilton Ty and Mr. LEE Frank King-ting and all of them are independent non-executive Directors. The Audit Committee reviewed the accounting principles and practices adopted by the Group and reviewed the annual results for the year ended 30 September 2016.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

This announcement is published on the websites of the Company ([www.lchk.hk](http://www.lchk.hk)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The Company's 2016 annual report will be published on the above websites and despatched to the shareholders on or before 31 January 2017.

By Order of the Board  
**LC Group Holdings Limited**  
**Leong Hing Loong Rudoff**  
*Chairman and Executive Director*

Hong Kong, 16 December 2016

*As at the date of this announcement, the Board comprises Mr. LEONG Hing Loong Rudoff, Ms. CHEW Christina Mooi Chong and Mr. SHIH Steven Chun Ning as executive directors; and Mr. TANG Hamilton Ty, Mr. LEE Frank King-ting and Mr. HO Hin Yip as independent non-executive directors.*