
THIS COMPOSITE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Share Offer, this Composite Document and/or the accompanying Form of Acceptance or the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in LC Group Holdings Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser(s) or transferee(s).

This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms of the Share Offer contained herein.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and Form of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the Form of Acceptance.

**STATE ENERGY HK LIMITED****國能香港有限公司***(Incorporated in Hong Kong with limited liability)***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)**

**COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO
MANDATORY UNCONDITIONAL CASH OFFER FOR SHARES BY
HUARONG INTERNATIONAL SECURITIES LIMITED
FOR AND ON BEHALF OF STATE ENERGY HK LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
LC GROUP HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
STATE ENERGY HK LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

Joint financial advisers to State Energy HK Limited

**華融金控**
HUARONG FINANCIAL**GOLDIN FINANCIAL LIMITED**
高銀融資有限公司

Financial adviser to LC Group Holdings Limited

**Lego Corporate
Finance Limited**
力高企業融資有限公司

Independent Financial Adviser to the Independent Board Committee

VMS 鼎珮

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from Huarong International Securities containing, among other things, details of the terms of the Share Offer is set out on pages 6 to 13 of this Composite Document.

A letter from the Board is set out on pages 14 to 18 of this Composite Document. A letter from the Independent Board Committee is set out on pages 19 to 20 of this Composite Document. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee, is set out on pages 21 to 38 of this Composite Document.

The procedures for acceptance and settlement of the Share Offer and other related information are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptance of the Share Offer should be received by the Registrar as soon as possible and in any event no later than 4:00 p.m. on Friday, 10 February 2017 or such later time and/or date as the Offeror may decide and announce with the consent of the Executive, in accordance with the requirements under the Takeovers Code.

This Composite Document is issued jointly by the Offeror and the Company. This Composite Document will remain on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://lchk.hk/> as long as the Share Offer remains open.

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EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to changes. Further announcement(s) will be made in the event of any changes to the timetable as and when appropriate.

All time and date references contained in this Composite Document refer to Hong Kong time and dates.

| Event | Time and Date |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| Despatch date of this Composite Document and the Form of Acceptance (<i>Note 1</i>) | Friday, 20 January 2017 |
| Share Offer opens for acceptance (<i>Note 1</i>) | Friday, 20 January 2017 |
| Latest time and date for acceptance of the Share Offer on the Closing Date (<i>Note 2</i>) | 4:00 p.m. on Friday, 10 February 2017 |
| Announcement of the results of the Share Offer as at the Closing Date on the website of the Stock Exchange and website of the Company (<i>Note 2</i>) | not later than 7:00 p.m. on Friday, 10 February 2017 |
| Latest date for posting of remittances in respect of valid acceptances received under the Share Offer (<i>Note 2&3</i>) | Tuesday, 21 February 2017 |

Notes:

1. The Share Offer, which is unconditional, is made on the date of posting of this Composite Document, and is capable of acceptance on and from that date until 4:00 p.m. on the Closing Date, unless the Offeror revises or extends the Share Offer in accordance with the Takeovers Code.
2. In accordance with the Takeovers Code, the Share Offer must initially be open for acceptance for at least 21 days following the date on which this Composite Document is posted. The latest time and date for acceptance of the Share Offer is 4:00 p.m. on Friday, 10 February 2017 unless the Offeror revises or extends the Share Offer in accordance with the Takeovers Code. An announcement will be issued on the website of the Stock Exchange by 7:00 p.m. on the Closing Date, stating whether the Share Offer has been extended, revised or expired. In the event that the Offeror decides to extend the Share Offer and the announcement does not specify the next closing date, at least 14 days' notice by way of an announcement will be given before the Share Offer is closed to those Qualifying Shareholders who have not accepted the Share Offer.

If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force on the Closing Date or the date for posting of remittances and it has (i) not been cancelled in time for trading on the Stock Exchange to resume in the afternoon, the time and date of the close of the Share Offer or the posting of remittances will be postponed to 4:00 p.m. on the next Business Day which does not have either of those warnings in force in Hong Kong or such other day as the Executive may approve; or (ii) been cancelled in time for trading on the Stock Exchange to resume in the afternoon, the time and date of the close of the Share Offer or the posting of remittances will remain at 4:00 p.m. on the same Business Day.

EXPECTED TIMETABLE

3. Remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty) payable for the Offer Shares tendered under the Share Offer will be despatched to the Qualifying Shareholders accepting the Share Offer by ordinary post at their own risk as soon as possible, but in any event within seven (7) Business Days following the date of receipt of all relevant documents (receipt of which renders such acceptance complete and valid) in accordance with the Takeovers Code. Acceptances of the Share Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances set out in the section headed "5. Right of withdrawal" in Appendix I to this Composite Document.

Save as mentioned above, if the latest time for the acceptance of the Share Offer and the posting of remittances do not take effect on the date and time as stated above, the other dates mentioned above may be affected. The Offeror and the Company will notify the Shareholders by way of announcement(s) on any change to the expected timetable as soon as practicable.

NOTICE TO SHAREHOLDERS OUTSIDE HONG KONG

The making of the Share Offer to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. Overseas Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Share Offer to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities or legal requirements and the payment of any transferor other taxes or other required payments due in respect of such jurisdiction. The Offeror and parties acting in concert with it, the Company, Huarong International Securities, Huarong International Capital, Goldin Financial, Lego Corporate Finance, the Registrar, their respective ultimate beneficial owners, directors, officers, professional advisers, agents and associates and any other person involved in the Share Offer shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay. Please see the section headed "7. Overseas Shareholders" in Appendix I to this Composite Document for further details.

DEFINITIONS

In this Composite Document, unless otherwise defined or the context otherwise requires, the following expressions shall have the following meanings. Also, where terms are defined and used in only one section of this Composite Document, those defined terms are not included in the table below:

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| “acting in concert” | has the same meaning given to it under the Takeovers Code |
| “associate(s)” | has the same meaning given to it under the Takeovers Code |
| “Board” | the board of Directors |
| “Business Day(s)” | has the same meaning given to it under the Takeovers Code |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “Closing Date” | Friday, 10 February 2017, being the closing date of the Share Offer which is 21 days following the date on which this Composite Document is posted or any subsequent closing date(s) as may be determined and announced with the consent of the Executive |
| “Company” | LC Group Holdings Limited (良斯集團控股有限公司), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1683) |
| “Completion” | completion of the sale and purchase of the Sale Shares pursuant to the Sale and Purchase Agreement |
| “Composite Document” | this composite offer and response document in respect of the Share Offer jointly issued by the Offeror and the Company in accordance with the Takeovers Code |
| “Director(s)” | the director(s) of the Company |
| “Encumbrance(s)” | any option, right to acquire, right of pre-emption, mortgage, charge, pledge, lien, hypothecation, title retention, right of set off, claim, counterclaim, trust arrangement or other security, any equity or restriction (including any restriction imposed under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)), leasing, sale and purchase or sale and lease back arrangement over or in any property, assets or rights of whatsoever nature and includes any agreement for any of them or other adverse rights and interests of all kinds and descriptions |

DEFINITIONS

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| “Executive” | the Executive Director of the Corporate Finance Division of the SFC from time to time or any delegate of such Executive Director |
| “Form of Acceptance” | the form of acceptance and transfer of Shares in respect of the Share Offer |
| “Goldin Financial” | Goldin Financial Limited, one of the joint financial advisers to the Offeror in respect of the Share Offer and is a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities for the purposes of the SFO |
| “Group” | the Company and its subsidiaries |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Huarong International Capital” | Huarong International Capital Limited, one of the joint financial advisers to the Offeror in respect of the Share Offer, and is a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities for the purposes of the SFO |
| “Huarong International Securities” | Huarong International Securities Limited, a fellow subsidiary of Huarong International Capital, and is a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities for the purposes of the SFO |
| “Independent Board Committee” | the independent board committee, comprising all the independent non-executive Directors, namely Mr. Tang Hamilton Ty, Mr. Lee Frank King-ting and Mr. Ho Hin Yip, established by the Company to make recommendation to the Qualifying Shareholders in relation to the Share Offer |
| “Independent Financial Adviser” or “VMS Securities” | VMS Securities Limited, the independent financial adviser to the Independent Board Committee in respect of the Share Offer and is a corporation licensed under the SFO to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities for the purposes of the SFO |
| “Joint Announcement” | the announcement jointly issued by the Company and the Offeror dated 23 December 2016 in respect of the Share Offer |

DEFINITIONS

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| “Last Trading Day” | 19 December 2016, being the last full trading day for the Shares immediately prior to suspension of trading in the Shares pending the publication of the Joint Announcement |
| “Latest Practicable Date” | 17 January 2017, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information contained in this Composite Document |
| “Lego Corporate Finance” | Lego Corporate Finance Limited, the financial adviser to the Company in respect of the Share Offer and is a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities for the purposes of the SFO |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Loan Facility” | a loan facility granted by Huarong International Securities in favour of the Offeror, which is secured by, among other things, the charge of Shares owned by or to be owned by the Offeror |
| “Mr. Leong” | Mr. Leong Hing Loong Rudoff, the chairman of the Company and an executive Director |
| “Mr. Liu Quanhui” | Mr. Liu Quanhui* (劉全輝) |
| “Ms. Chew” | Ms. Chew Christina Mooi Chong, the chief executive officer of the Company and an executive Director |
| “Ms. Niu Fang” | Ms. Niu Fang* (牛芳) |
| “National Business” | National Business Holdings Group Co. Limited* (國能商業集團有限公司), a company established under the laws of the PRC on 8 March 2011 with limited liability and is owned as to approximately 66.67% by Shanghai Guoming and as to approximately 33.33% by Shanghai Zhongshe |
| “Offer Period” | the period commenced since 23 December 2016, being the date of the Joint Announcement and up to and including the Closing Date |
| “Offer Price” | the price at which each of the Offer Share will be made, being HK\$1.728 per Offer Share |
| “Offer Share(s)” | all the issued Share(s) other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it |

DEFINITIONS

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| “Offeror” | State Energy HK Limited (國能香港有限公司), a company incorporated in Hong Kong with limited liability which is wholly owned by National Business |
| “Overseas Shareholder(s)” | Shareholder(s) whose addresses, as shown on the register of members of the Company, is/are outside Hong Kong |
| “PRC” | the People’s Republic of China which, for the purpose of this Composite Document, shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan |
| “Qualifying Shareholder(s)” | Shareholder(s) other than the Offeror and parties acting in concert with it |
| “Registrar” | the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong |
| “Relevant Period” | the period from 23 June 2016, being six months prior to 23 December 2016 (the date of commencement of the Offer Period) and ending on and including the Latest Practicable Date |
| “Sale and Purchase Agreement” | the sale and purchase agreement dated 20 December 2016 entered into among the Vendor, Mr. Leong and the Offeror in respect of the sale and purchase of the Sale Shares |
| “Sale Shares” | 375,000,000 Shares acquired by the Offeror pursuant to the Sale and Purchase Agreement, representing 75.00% of the total issued share capital of the Company as at the Latest Practicable Date |
| “SFC” | Securities and Futures Commission of Hong Kong |
| “SFO” | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Shanghai Guoming” | Shanghai Guoming Equity Investment Fund Management Co. Limited* (上海國明股權投資基金管理有限公司), a company established under the laws of the PRC on 27 November 2012 with limited liability and is owned as to 70% by Mr. Liu Quanhui and as to 30% by Ms. Niu Fang |

DEFINITIONS

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| “Shanghai Zhongshe” | Shanghai Zhongshe Equity Investment Fund Co. Limited* (上海中社股權投資基金有限公司), a company established under the laws of the PRC on 12 June 2015 with limited liability and is owned as to 20% by Mr. Liu Quanhui and as to 80% by Ms. Niu Fang |
| “Share(s)” | ordinary share(s) of HK\$0.01 each in the capital of the Company |
| “Share Offer” | the mandatory unconditional cash offer to be made by Huarong International Securities for and on behalf of the Offeror to acquire all of the Offer Shares in accordance with the Takeovers Code |
| “Shareholder(s)” | registered holder(s) of Share(s) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Takeovers Code” | the Code on Takeovers and Mergers published by the SFC, as amended, supplemented or otherwise modified from time to time, and administered by the Executive |
| “Vendor” | the vendor of the Sale Shares under the Sale and Purchase Agreement, namely Starcross Group Limited, a company incorporated in the British Virgin Islands with limited liability, which is owned as to 75% by Mr. Leong and as to 25% by Ms. Chew |
| “HK\$” | Hong Kong Dollars, the lawful currency of Hong Kong |
| “%” | per cent |

* For identification purpose only



20 January 2017

To the Qualifying Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER FOR SHARES BY
HUARONG INTERNATIONAL SECURITIES LIMITED
FOR AND ON BEHALF OF STATE ENERGY HK LIMITED
TO ACQUIRE ALL THE ISSUED SHARES
OF LC GROUP HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE
ACQUIRED BY STATE ENERGY HK LIMITED AND PARTIES ACTING IN
CONCERT WITH IT)**

1. INTRODUCTION

Reference is made to the Joint Announcement made jointly by the Company and the Offeror in relation to, among other matters, the Sale and Purchase Agreement and the Share Offer. Terms used in this letter shall have the same meanings as defined in this Composite Document unless the context otherwise requires.

As disclosed in the Joint Announcement, the Vendor, the Offeror and Mr. Leong entered into the Sale and Purchase Agreement on 20 December 2016, pursuant to which the Vendor agreed to sell and the Offeror agreed to purchase the Sale Shares, being 375,000,000 Shares, representing 75.00% of the entire issued share capital of the Company as at the Latest Practicable Date, for a consideration of HK\$648,000,000, equivalent to HK\$1.728 per Sale Share. Completion took place on 20 December 2016 immediately after the signing of the Sale and Purchase Agreement.

Immediately after Completion, the Offeror and parties acting in concert with it own in aggregate 375,000,000 Shares, representing 75.00% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all Offer Shares.

This letter forms part of this Composite Document and sets out, among other things, details of the terms of the Share Offer, information on the Offeror and the intention of the Offeror regarding the Group. The terms and procedures of acceptance of the Share Offer are set out in this letter, Appendix I to this Composite Document, and the accompanying Form of Acceptance.

LETTER FROM HUARONG INTERNATIONAL SECURITIES

Qualifying Shareholders are strongly advised to consider carefully the information contained in the “Letter from the Board”, the “Letter from the Independent Board Committee” and the “Letter from VMS Securities” as set out in this Composite Document and to consult their professional advisers if in doubt before reaching a decision as to whether or not to accept the Share Offer.

THE SHARE OFFER

Huarong International Securities, for and on behalf of the Offeror, is making the Share Offer to acquire all of the Offer Shares pursuant to Rule 26.1 of the Takeovers Code on the following basis:

For each Offer Share HK\$1.728 in cash

The Offer Price of HK\$1.728 per Offer Share is the same as the purchase price of HK\$1.728 per Sale Share under the Sale and Purchase Agreement, which was arrived after arm’s length negotiations between the Offeror and the Vendor.

The Share Offer will be unconditional in all respects.

Comparison of value

The Offer Price of HK\$1.728 per Offer Share represents:

- (i) a premium of approximately 2.25% over the closing price of HK\$1.69 per Share as quoted on the Stock Exchange on 19 December 2016, being the Last Trading Day;
- (ii) a premium of approximately 2.98% over the average closing price of HK\$1.678 per Share for the last 5 consecutive trading days immediately up to and including the Last Trading Day;
- (iii) a premium of approximately 2.86% over the average closing price of HK\$1.68 per Share for the last 10 consecutive trading days immediately up to and including the Last Trading Day;
- (iv) a premium of approximately 3.41% over the average closing price of approximately HK\$1.671 per Share for the last 30 consecutive trading days immediately up to and including the Last Trading Day;
- (v) a discount of approximately 0.12% to the closing price of HK\$1.73 per Share on the Stock Exchange on the Latest Practicable Date; and
- (vi) a premium of approximately 452.08% over the net asset value per Share of approximately HK\$0.313, calculated based on the audited consolidated net asset value attributable to the Shareholders as at 30 September 2016, divided by the number of issued Shares as at the Latest Practicable Date.

LETTER FROM HUARONG INTERNATIONAL SECURITIES

Highest and lowest Share prices

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange were HK\$1.73 on 3 January 2017, 5 January 2017, 6 January 2017, 9 January 2017, 10 January 2017, 11 January 2017, 12 January 2017, 13 January 2017, 16 January 2017 and 17 January 2017, and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.96 on 3 August 2016.

Dealings in securities in the Company

Save for the acquisition of the Sale Shares, the Offeror and parties acting in concert with it have not dealt in the Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

Value of the Share Offer

As at the Latest Practicable Date, the Company has 500,000,000 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares, as at the Latest Practicable Date.

Excluding 375,000,000 Shares held by the Offeror and parties acting in concert with it, the number of Offer Shares is 125,000,000. Assuming that there is no change in the issued share capital of the Company and on the basis of the Offer Price of HK\$1.728 per Offer Share for 125,000,000 Offer Shares, the Share Offer would be valued at approximately HK\$216,000,000.

CONFIRMATION OF FINANCIAL RESOURCES

The Offeror intends to finance and satisfy the consideration payable by the Offeror under the Share Offer by the Loan Facility. The Offeror does not intend that the payment of interest on, repayment of or security for any liability (contingent or otherwise) will depend to any significant extent on the business of the Company.

Huarong International Capital and Goldin Financial, the joint financial advisers to the Offeror in respect of the Share Offer, are satisfied that sufficient financial resources are, and will remain, available to the Offeror to satisfy the amount of funds required for full acceptance of the Share Offer.

LETTER FROM HUARONG INTERNATIONAL SECURITIES

FURTHER TERMS OF THE SHARE OFFER

Acceptance of the Share Offer

By validly accepting the Share Offer, the Qualifying Shareholders will sell their tendered Shares to the Offeror free from all Encumbrances and together with all rights accruing or attaching to them, including the rights to receive in full all dividends and other distributions, if any, declared, made or paid by reference to a record date on or after the date on which the Share Offer is made, being the date of this Composite Document. Acceptance of the Share Offer shall be irrevocable and shall not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

Payment

Settlement of the consideration in respect of acceptance of the Share Offer will be made as soon as possible but in any event within seven (7) Business Days of the date of receipt of duly completed and valid acceptance of the Share Offer. Relevant documents evidencing title in respect of such acceptance must be received by or on behalf of the Offeror to render such acceptance of the Share Offer complete and valid.

No fractions of a cent will be payable and the amount of cash consideration payable to a Shareholder who accepts the Share Offer will be rounded up to the nearest cent.

Stamp duty in Hong Kong

The seller's Hong Kong ad valorem stamp duty arising in connection with acceptance of the Share Offer will be payable by the relevant Qualifying Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptance of the Share Offer, whichever is higher, and the amount of such duty will be deducted from the cash amount payable by the Offeror to the relevant Qualifying Shareholders who accept the Share Offer. The Offeror will arrange for payment of the seller's Hong Kong ad valorem stamp duty on behalf of the relevant Qualifying Shareholders accepting the Share Offer and pay the buyer's Hong Kong ad valorem stamp duty at a rate of 0.1% of the amount payable in respect of the relevant acceptances of the Share Offer or if higher, the market value of the Shares and will be responsible to account to stamp duty payable for the sale and purchase of the Shares which are validly tendered Shares for acceptance under the Share Offer in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

LETTER FROM HUARONG INTERNATIONAL SECURITIES

INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in Hong Kong on 16 November 2011 with limited liability and is principally engaged in trading of bulk commodities including non-ferrous metal, chemicals and electronic products. The Offeror is wholly owned by National Business. Ms. Niu Fang is the sole director of the Offeror.

National Business is a company established under the laws of the PRC on 8 March 2011 with limited liability and its group of companies is principally engaged in trading of bulk energy and resource commodities and related investment. It has cooperated with a number of oil and gas companies in the PRC to establish its energy and petrochemical business. National Business is owned as to approximately 66.67% by Shanghai Guoming and as to approximately 33.33% by Shanghai Zhongshe. Ms. Niu Fang is the sole director of National Business.

Shanghai Guoming is an investment holding company established under the laws of the PRC on 27 November 2012 with limited liability. Shanghai Guoming is owned as to 70% by Mr. Liu Quanhui and 30% by Ms. Niu Fang. Ms. Niu Fang is the sole director of Shanghai Guoming.

Shanghai Zhongshe is an investment holding company established under the laws of the PRC on 12 June 2015 with limited liability. Shanghai Zhongshe is owned as to 20% by Mr. Liu Quanhui and 80% by Ms. Niu Fang. Ms. Niu Fang is the sole director of Shanghai Zhongshe.

Brief background of each of Ms. Niu Fang and Mr. Liu Quanhui is set out below:

Ms. Niu Fang, aged 42, has more than 10 years of experience in corporate management and business investment. She took part in the establishment of National Business, and has been National Business's general manager since 2011, and is principally responsible for its strategic planning and business development. She obtained a bachelor's degree in economics from Hebei University in the PRC in 1997, and qualified as a mid-level accountant in the PRC in 2004.

Mr. Liu Quanhui, aged 57, has more than 30 years of experience in the bulk energy and resource commodities industry. He has held managerial roles in a number of oil and gas companies in the PRC since 1983 and has been principally responsible for their business development and investment strategies. He obtained a master's degree in economics and finance management from Beijing Jiaotong University in the PRC.

Save and except their respective shareholding in Shanghai Guoming and Shanghai Zhongshe, there are no other business or financial relationships between Ms. Niu Fang and Mr. Liu Quanhui.

LETTER FROM HUARONG INTERNATIONAL SECURITIES

INTENTIONS OF THE OFFEROR IN RELATION TO THE GROUP

Following the close of the Share Offer, it is the intention of the Offeror that the Group will continue to focus on the development of its existing business, namely, one-stop integrated interior design solutions including design, fit out and decoration as well as overall project management, and the Offeror does not intend to introduce any major changes to the existing operations and business of the Company immediately after the Share Offer. The Offeror will regularly review the operations and business activities of the Group to formulate a suitable business strategy for the Group and will explore other business opportunities and consider whether any assets and/or business acquisitions or disposals by the Group will be appropriate in order to enhance its growth. The Offeror, Ms. Niu Fang and Mr. Liu Quanhui and their respective concert parties have no intention, arrangement or negotiation on any injection of new business/assets to the Company or any disposal/downsize of the existing business of the Company. The Offeror, Ms. Niu Fang and Mr. Liu Quanhui and their respective concert parties have no intention to discontinue the employment of the employees (save for changes in the composition of the board of directors of the Group) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business. The Offeror, Ms. Niu Fang, Mr. Liu Quanhui and their respective concert parties have no plan, discussion nor negotiation on any injection of any assets or businesses into the Group as at the Latest Practicable Date.

REASONS FOR THE SHARE OFFER

Upon the Completion, the Offeror became the controlling Shareholder of the Company.

In view of the well-established business history of the Company which was first established in 1996, with main focus in Hong Kong, as evidenced by the revenue generated from Hong Kong contributing over 70% of the Group's total revenue as disclosed in the financial statements of the Company, the Offeror considers that it could leverage on the presence of the Company in Hong Kong to strengthen its business coverage and network. On the other hand, the extensive network of the Offeror in the PRC may bring suitable business opportunities to the Group, thereby expanding the Group's operation and client base.

PROPOSED CHANGE OF BOARD COMPOSITION

It is intended that save for Mr. Leong and Ms. Chew, all the remaining four members of the existing Board, including (i) one executive Director, namely Mr. Shih Steven Chun Ning; and (ii) three independent non-executive Directors, namely Mr. Tang Hamilton Ty, Mr. Lee Frank King-ting and Mr. Ho Hin Yip, will resign as Directors with effect from the earliest time permitted under the Listing Rules, Takeovers Code and the applicable laws and regulations (the "Earliest Permitted Time"). The Offeror is of the view that considering the extensive experience of Mr. Leong and Ms. Chew in architectural design, interior design and fit out and their respective years of service at the Group, it would be beneficial for the Company and the Shareholders as a whole for both Mr. Leong and Ms. Chew to remain as executive Directors to ensure the smooth transition of management of the business of the Group following the Completion. In place of the above resigning Directors, the Offeror intends to nominate two to four executive Directors and/or non-executive Directors and three independent non-executive Directors to the Board and such appointment will not take effect earlier than the Earliest Permitted Time.

LETTER FROM HUARONG INTERNATIONAL SECURITIES

Any change to the Board will be made in compliance with the Takeovers Code and the Listing Rules. Further announcement(s) will be made upon the appointment of new Directors.

MAINTAINING THE LISTING STATUS OF THE COMPANY

The Offeror will use reasonable endeavours to maintain the listing status of the Shares on the Stock Exchange and procure that not less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares be held by the public in compliance with the Listing Rules. The sole director of the Offeror has undertaken and the proposed Director(s) to be nominated by the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Share Offer to ensure that such number of Shares as may be required by the Stock Exchange are held by the public within the prescribed time frame.

The Offeror does not intend to privatise the Company by availing itself of any powers of compulsory acquisition of the Shares after the close of the Share Offer.

According to the Listing Rules, if, upon the close of the Share Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange may exercise its discretion to suspend trading in the Shares.

GENERAL

To ensure equality of treatment of all Qualifying Shareholders, those registered Qualifying Shareholders who hold Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. It is essential for the beneficial owners of the Offer Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Share Offer.

The attention of the Overseas Shareholders is drawn to Appendix I to this Composite Document.

No acknowledgment of receipt of any Form of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Shares will be given.

All documents and remittances will be sent to the Qualifying Shareholders by ordinary post at their own risk. Such documents and remittances will be sent to the Qualifying Shareholders at their respective addresses as appeared in the register of members of the Company or in the case of joint Qualifying Shareholders, to the Qualifying Shareholder whose name appears first in the said register of members of the Company. None of the Offeror, the Company, Huarong International Securities, Huarong International Capital, Goldin Financial, Lego Corporate Finance, the Registrar, or any of their respective directors or professional advisers or any other parties involved in the Share Offer will be responsible for any loss or delay in transmission or any other liabilities that may arise as a result thereof.

LETTER FROM HUARONG INTERNATIONAL SECURITIES

ADDITIONAL INFORMATION

You are reminded to consider carefully the information contained in the “Letter from the Board”, the “Letter from the Independent Board Committee” and the “Letter from VMS Securities” set out in this Composite Document and to consult your professional advisers as you see fit. Your attention is drawn to the additional information set out in the appendices to this Composite Document, which form part of this Composite Document.

Yours faithfully,
For and on behalf of
Huarong International Securities Limited
Steve WONG
Director

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. LEONG Hing Loong Rudoff (*Chairman*)

Ms. CHEW Christina Mooi Chong

(*Chief Executive Officer*)

Mr. SHIH Steven Chun Ning

Registered office:

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

Independent non-executive Directors:

Mr. TANG Hamilton Ty

Mr. LEE Frank King-ting

Mr. HO Hin Yip

Principal place of business in Hong Kong:

21st Floor, Wyndham Place

No. 44 Wyndham Street

Central

Hong Kong

20 January 2017

To the Qualifying Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER FOR SHARES BY
HUARONG INTERNATIONAL SECURITIES LIMITED
FOR AND ON BEHALF OF STATE ENERGY HK LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
LC GROUP HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
STATE ENERGY HK LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Joint Announcement in which it was announced that the Vendor, the Offeror and Mr. Leong entered into the Sale and Purchase Agreement, pursuant to which the Vendor has agreed to sell and the Offeror has agreed to purchase the Sale Shares, being 375,000,000 Shares in aggregate, representing 75.00% of the entire issued share capital of the Company as at the Latest Practicable Date, for an aggregate consideration of HK\$648,000,000, equivalent to HK\$1.728 per Sale Share. Completion took place on 20 December 2016 immediately after the execution of the Sale and Purchase Agreement. Immediately upon Completion, the Vendor ceased to be a Shareholder.

LETTER FROM THE BOARD

Immediately before Completion, none of the Offeror and parties acting in concert with it owned any Shares, options, derivatives, warrants, convertible securities or voting rights of the Company. Immediately following Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it own in aggregate 375,000,000 Shares, representing 75.00% of the entire issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all Offer Shares.

As at the Latest Practicable Date, the Company has 500,000,000 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares.

The purpose of this Composite Document is to provide you with, among other things, (i) information relating to the Group, the Offeror and the Share Offer; (ii) the recommendation of the Independent Board Committee to the Qualifying Shareholders in respect of the terms of the Share Offer and as to acceptance of the Share Offer; and (iii) the letter from VMS Securities containing its advice and recommendation to the Independent Board Committee in relation to the Share Offer.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, which comprises all the independent non-executive Directors, namely Mr. Tang Hamilton Ty, Mr. Lee Frank King-ting and Mr. Ho Hin Yip, has been established by the Company pursuant to Rule 2.1 of the Takeovers Code to make a recommendation to the Qualifying Shareholders in relation to the Share Offer as to whether the terms of the Share Offer are fair and reasonable and as to the acceptance of the Share Offer.

VMS Securities has been appointed, with the approval of the Independent Board Committee, as the Independent Financial Adviser pursuant to Rule 2.1 of the Takeovers Code to advise the Independent Board Committee in connection with the Share Offer.

You are advised to read the “Letter from the Independent Board Committee” addressed to the Qualifying Shareholders, the “Letter from VMS Securities” and the additional information contained in the appendices to this Composite Document before taking any action in respect of the Share Offer.

THE SHARE OFFER

Principal terms of the Share Offer

The terms of the Share Offer as set out in the “Letter from Huarong International Securities” are extracted below. You are recommended to refer to the “Letter from Huarong International Securities” and the accompanying Form of Acceptance for further details.

LETTER FROM THE BOARD

Huarong International Securities, for and on behalf of the Offeror, is making the Share Offer to acquire all of the Offer Shares pursuant to Rule 26.1 of the Takeovers Code on the following basis:

For each Offer Share HK\$1.728 in cash

The Offer Price of HK\$1.728 per Offer Share is the same as the purchase price of HK\$1.728 per Sale Share under the Sale and Purchase Agreement, which was arrived after arm's length negotiations between the Offeror and the Vendor.

The Share Offer will be unconditional in all respects.

INFORMATION ON THE GROUP

The Company is incorporated in the Cayman Islands and is an investment holding company. The Group is principally engaged in one-stop integrated interior design solutions including design, fit out and decoration as well as overall project management. The Company was listed on the Stock Exchange on 8 September 2015.

Set out below is a summary of the audited consolidated results of the Group for each of the two financial years ended 30 September 2015 and 2016, as extracted from the Company's annual report for the financial year ended 30 September 2016:

| | Year ended 30 September | |
|---------------------------------------|-------------------------|----------------|
| | 2015 | 2016 |
| | HK\$'000 | HK\$'000 |
| | (audited) | (audited) |
| Revenue | 159,527 | 116,021 |
| Gross profit | 60,238 | 47,645 |
| Profit before taxation | 25,053 | 28,279 |
| Profit and total comprehensive income | <u>20,950</u> | <u>24,181</u> |
| | | |
| | As at 30 September | |
| | 2015 | 2016 |
| | HK\$'000 | HK\$'000 |
| | (audited) | (audited) |
| Total assets | 164,209 | 173,073 |
| Total liabilities | 31,777 | 16,460 |
| Net assets | <u>132,432</u> | <u>156,613</u> |

Your attention is drawn to the further details of the information of the Group as set out in Appendices II and III to this Composite Document.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

Set out below are the shareholding structure of the Company (i) immediately prior to Completion; and (ii) immediately upon Completion and as at the Latest Practicable Date:

| | Immediately prior to Completion | | Immediately upon Completion and as at the Latest Practicable Date | |
|----------------------------|---------------------------------|--------------------------------|-------------------------------------------------------------------|--------------------------------|
| | Number of Shares | Percentage of shareholding (%) | Number of Shares | Percentage of shareholding (%) |
| The Vendor (<i>Note</i>) | 375,000,000 | 75.0 | – | – |
| The Offeror | – | – | 375,000,000 | 75.0 |
| Public Shareholders | <u>125,000,000</u> | <u>25.0</u> | <u>125,000,000</u> | <u>25.0</u> |
| Total | <u>500,000,000</u> | <u>100.0</u> | <u>500,000,000</u> | <u>100.0</u> |

Note: The Vendor is owned as to 75% by Mr. Leong and as to 25% by Ms. Chew.

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed “Information on the Offeror” in the “Letter from Huarong International Securities” as set out in this Composite Document.

INTENTIONS OF THE OFFEROR IN RELATION TO THE GROUP

Your attention is drawn to the section headed “Intentions of the Offeror in relation to the Group” in the “Letter from Huarong International Securities” as set out in this Composite Document. The Board is pleased to note the Offeror’s intention to continue to focus on the development of the Group’s existing business, namely, one-stop integrated interior design solutions including design, fit out and decoration as well as overall project management, and the Offeror, Ms. Niu Fang and Mr. Liu Quanhui and their respective concert parties have no intention, arrangement or negotiation on any injection of new business/assets to the Company or any disposal/downsize of the existing business of the Company.

It is intended that save for Mr. Leong and Ms. Chew, all the remaining four members of the existing Board will resign as Directors with effect from the earliest time permitted under the Listing Rules, the Takeovers Code and the applicable laws and regulations. In place of the above resigning Directors, the Offeror intends to nominate two to four executive Directors and/or non-executive Directors and three independent non-executive Directors to the Board, details of which are set out in the section headed “Proposed change of board composition” in the “Letter from Huarong International Securities” as set out in this Composite Document.

LETTER FROM THE BOARD

The Offeror will use reasonable endeavours to maintain the listing status of the Shares on the Stock Exchange and procure that not less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares be held by the public in compliance with the Listing Rules. The sole director of the Offeror has undertaken and the proposed Director(s) to be nominated by the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Share Offer to ensure that such number of Shares as may be required by the Stock Exchange are held by the public within the prescribed time frame.

The Stock Exchange has stated that if, at the close of the Share Offer, less than the minimum prescribed percentage applicable to the listed issuer, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) there are insufficient Shares in public hands to maintain an orderly market,

it will consider exercising its discretion to suspend dealings in the Shares until a level of sufficient public float is attained.

RECOMMENDATION

Your attention is drawn to the “Letter from the Independent Board Committee” set out on pages 19 to 20 of this Composite Document and the “Letter from VMS Securities” set out on pages 21 to 38 of this Composite Document, which contain, among other things, their advice in relation to the Share Offer and the principal factors considered by them in arriving at their recommendation.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this Composite Document. You are also recommended to read carefully Appendix I to this Composite Document and the accompanying Form of Acceptance for further details in respect of the terms and procedures for acceptance of the Share Offer.

Yours faithfully,
By order of the Board
LC Group Holdings Limited
LEONG Hing Loong Rudoff
Chairman and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Set out below is the text of the letter of recommendation from the Independent Board Committee in respect of the Share Offer which has been prepared for the purpose of inclusion in this Composite Document.



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)

20 January 2017

To the Qualifying Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER FOR SHARES BY
HUARONG INTERNATIONAL SECURITIES LIMITED
FOR AND ON BEHALF OF STATE ENERGY HK LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
LC GROUP HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY
STATE ENERGY HK LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

We refer to this composite offer and response document dated 20 January 2017 jointly issued by the Offeror and the Company (the “**Composite Document**”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in this Composite Document.

We have been appointed to constitute the Independent Board Committee to consider the terms of the Share Offer and to advise you as to whether, in our opinion, the terms of the Share Offer are fair and reasonable so far as the Qualifying Shareholders are concerned and as to the acceptance of the Share Offer. VMS Securities has been appointed as the independent financial adviser to advise us in this respect. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the “Letter from VMS Securities” on pages 21 to 38 of this Composite Document.

We also wish to draw your attention to the “Letter from the Board”, the “Letter from Huarong International Securities” and the additional information set out in the appendices to this Composite Document and the accompanying Form of Acceptance in respect of the terms and procedures for acceptance of the Share Offer.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Taking into account the terms of the Share Offer and the advice from VMS Securities, we consider that the Share Offer is fair and reasonable so far as the Qualifying Shareholders are concerned and recommend the Qualifying Shareholders to accept the Share Offer.

However, for those Qualifying Shareholders who wish to realise part or all of their investments in the Company are reminded to carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market instead of accepting the Share Offer, if the net proceeds from such sale after deducting all transaction costs exceed the net amount to be received under the Share Offer.

In any case, the Qualifying Shareholders are strongly advised that the decision to realise or to hold their investment is subject to individual circumstances and investment objectives. If in doubt, the Qualifying Shareholders should consult their own professional advisers for advice. Furthermore, the Qualifying Shareholders who wish to accept the Share Offer are recommended to read carefully the terms and procedures for acceptance of the Share Offer as detailed in this Composite Document and the accompanying Form of Acceptance.

Yours faithfully,

**Independent Board Committee of
LC Group Holdings Limited**

Mr. TANG Hamilton Ty Mr. LEE Frank King-ting Mr. HO Hin Yip
Independent Non-executive Directors

LETTER FROM VMS SECURITIES

The following is the letter of advice from VMS Securities Limited to the Independent Board Committee and Qualifying Shareholders which has been prepared for the purpose of inclusion in the Composite Document.



VMS Securities Limited
49/F, One Exchange Square,
8 Connaught Place,
Central, Hong Kong

20 January 2017

To the Independent Board Committee and Qualifying Shareholders of LC Group Holdings Limited

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER FOR SHARES
BY HUARONG INTERNATIONAL SECURITIES LIMITED
FOR AND ON BEHALF OF STATE ENERGY HK LIMITED
TO ACQUIRE ALL THE ISSUED SHARES
OF LC GROUP HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED OR AGREED TO
BE ACQUIRED BY STATE ENERGY HK LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Share Offer. Details of the Share Offer are set out in the Composite Document jointly issued by the Offeror and the Company dated 20 January 2017, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Composite Document unless otherwise specified herein.

Pursuant to the Takeovers Code, the Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Tang Hamilton Ty, Mr. Lee Frank King-ting and Mr. Ho Hin Yip, has been established for the purpose of making a recommendation to the Qualifying Shareholders as to whether the Share Offer is fair and reasonable, and as to acceptance of the Share Offer. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to the Independent Board Committee in connection with the Share Offer. In our capacity as the Independent Financial Adviser to the Independent Board Committee, our role is to provide the Independent Board Committee with independent advices as to whether the Share Offer is fair and reasonable, and as to acceptance of the Share Offer.

LETTER FROM VMS SECURITIES

We are not associated or connected with the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Share Offer. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have reviewed, among other things, (i) the Composite Document; (ii) the Company's annual report for the year ended 30 September 2016 (the "**2016 Annual Report**"); (iii) the announcement published by the Company on website of the Stock Exchange since 1 January 2016; and (iv) the material change statement set out in Appendix II to the Composite Document. We have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Group, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were made, and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Composite Document are true, accurate and complete as at the date of the Composite Document. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Shareholders shall also be informed as soon as practicable when there are any material changes to the information contained or referred to herein and our opinion after the Latest Practicable Date and throughout the Offer Period. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information have been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror or respective parties acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied.

In relation to the Share Offer, we have not considered the tax implications on the Qualifying Shareholders of the acceptance or non-acceptance of the Share Offer since these depend on their individual circumstances. In particular, the Qualifying Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

LETTER FROM VMS SECURITIES

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Share Offer, we have taken into account the following principal factors and reasons:

1. Background leading to, and principal terms of the Share Offer

On 20 December 2016, the Vendor, Mr. Leong and the Offeror entered into the Sale and Purchase Agreement, pursuant to which the Vendor agreed to sell, and the Offeror agreed to acquire the Sale Shares for an aggregate consideration of HK\$648,000,000, which is equivalent to approximately HK\$1.728 per Sale Share.

Immediately prior to Completion, the Offeror and parties acting in concert with it did not own any Shares or voting rights of the Company. Completion took place on 20 December 2016. Immediately after Completion, the Offeror and parties acting in concert with it were interested in 375,000,000 Shares, representing 75.00% of the entire issued share capital of the Company as at the Latest Practicable Date. Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory unconditional cash offer for all Offer Shares. Huarong International Securities, for and on behalf of the Offeror, is making the Share Offer to acquire all the Offer Shares in accordance with the Takeovers Code on the following basis:

Consideration of the Share Offer

For each Offer Share HK\$1.728 in cash

The Offer Price of HK\$1.728 for each Offer Share is equal to the price per Sale Share paid by the Offeror to the Vendor under the Sale and Purchase Agreement. The Offer Shares to be acquired under the Share Offer shall be free from all Encumbrances and together with all rights accruing or attaching to them, including the rights to receive in full all dividends and other distributions, if any, declared, made or paid by reference to a record date on or after the date on which the Share Offer is made, being the date of the Composite Document.

Further details of the Share Offer, including the expected timetable, terms of the Share Offer and procedures for acceptance of the Share Offer, are set out in the sections headed “Expected timetable”, “Letter from Huarong International Securities”, Appendix I to the Composite Document and the accompanying Form of Acceptance. Qualifying Shareholders are urged to read the Composite Document in full.

LETTER FROM VMS SECURITIES

2. Information of the Group

The Group is principally engaged in providing one-stop integrated interior design solutions including design, fit out and decoration as well as overall project management with a primary focus on the residential property segment in Hong Kong. The Group's services to its 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"). As advised by the executive Directors, the Group's principal business has remained substantially unchanged since the Company's listing on 8 September 2015 (the "Listing Date"). According to the 2016 Annual Report, approximately 76.10% and 23.90% of the Group's total revenue for 2016 was contributed from DFD and DD respectively. The revenue generated from customers locating in Hong Kong and the PRC accounted for approximately 79.42% and 19.53% of the Group's total revenue respectively for the year ended 30 September 2016.

3. Financial information and prospects of the Group

(i) Financial results

The following is a summary of the audited consolidated results of the Company for the two years ended 30 September 2015 and 2016 (as extracted from the 2016 Annual Report). Further details of the results and other financial information of the Group are set out in Appendix II to the Composite Document.

LETTER FROM VMS SECURITIES

| | For the year ended | |
|-----------------------------------------------------------|---------------------------|---------------|
| | 30 September | |
| | 2016 | 2015 |
| | (Audited) | (Audited) |
| | <i>HK'000</i> | <i>HK'000</i> |
| Revenue | | |
| DD | 27,732 | 25,220 |
| DFD | 88,289 | 134,307 |
| Total revenue | 116,021 | 159,527 |
| Cost of sales | (68,376) | (99,289) |
| Gross profit | 47,645 | 60,238 |
| Other revenue and other gains | 1,779 | 1,017 |
| Other operating expenses | (1,049) | (687) |
| Administrative expenses | (20,096) | (35,515) |
| Profit before taxation | 28,279 | 25,053 |
| Taxation | (4,098) | (4,103) |
| Profit and total comprehensive income for the year | 24,181 | 20,950 |
| Attributable to: | | |
| Owners of the Company | 24,181 | 21,255 |
| Non-controlling interests | – | (305) |
| Profit and total comprehensive income for the year | 24,181 | 20,950 |

a. Revenue

The Group recorded revenue of approximately HK\$116.0 million for the year ended 30 September 2016, representing a decrease of approximately 27.3% as compared to that of 2015 in an amount of approximately HK\$159.5 million. The major customers of the Group were mostly well established listed property developers based in Hong Kong. The Group's revenue was mainly derived from the DFD projects in Hong Kong, which amounted to approximately HK\$132.6 million and HK\$88.3 million, representing approximately 83.1% and 76.1% of the total revenue of the Group for the two years ended 30 September 2015 and 2016 respectively. The decrease in revenue was mainly due to the Hong Kong property market sentiment in financial year of 2016 turning weak because of, among other things, the volatility in stock markets, the possibility for increase in interest rates of United States of America and uncertainties in the economic outlook, resulting in a decline in the number of sizeable DFD projects in Hong Kong.

LETTER FROM VMS SECURITIES

b. Gross profit and gross profit margin

Gross profit decreased by approximately HK\$12.6 million or 20.9% 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 due to the overall downward movement of the total revenue.

Gross profit margin for the year ended 30 September 2016 was approximately 41.1%, representing an increase of approximately 3.3 percentage points from approximately 37.8% for the year ended 30 September 2015 due to the change in the mix of DD projects and DFD projects. For the year ended 30 September 2016, there was a decrease in the portion of the DFD projects of which had a relatively lower gross profit margin. This resulted in a higher overall gross profit margin. The gross profit margin of DD projects was generally higher than that of the DFD projects, which require the Group's fit out services because (i) DD projects involved fewer subcontractors than DFD projects and this allowed rooms for higher mark-up in consideration of the quality of the Group's interior design solution services; and (ii) the major cost components of the DD projects were direct staff costs and drafting subcontractors cost, which were common cost components to be shared among all the projects of the Group.

c. Administrative expenses

The administrative expenses amounted to approximately HK\$20.1 million for the year ended 30 September 2016, representing a decrease of approximately 43.4% from approximately HK\$35.5 million for the year ended 30 September 2015. Such decrease was primarily due to the one-off initial public offering expenses of approximately HK\$14.8 million (which was charged to the Company's consolidated statement of profit or loss and other comprehensive income in 2015) having been recorded for the year ended 30 September 2015 but no such one-off initial public offering expenses were recorded for the year ended 30 September 2016.

d. Net Profit for the year

The Group recorded a net profit attributable to the Shareholders of approximately HK\$24.2 million for the year ended 30 September 2016, representing an increase of approximately 13.8% or HK\$2.9 million as compared to that of 2015. However, carving out the one-off initial public offering expenses of approximately HK\$14.8 million (which was charged to consolidated statement of profit or loss and other comprehensive income) for the year ended 30 September 2015, the Group recorded a decrease in net profit attributable to the Shareholder of approximately 33.0% from approximately HK\$36.1 million for the year ended 30 September 2015 to approximately HK\$24.2 million for the year ended 30 September 2016. The decrease in net profit for 2016 was mainly due to the decrease in gross profit as stated above.

LETTER FROM VMS SECURITIES

(ii) *Financial position*

The following is a summary of the audited consolidated financial position of the Company as at 30 September 2015 and 2016 respectively (as extracted from the 2016 Annual Report). Further details of the financial position and other financial information of the Group are set out in Appendix II to the Composite Document.

| | As at 30 September | |
|-----------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| | 2016 (Audited) <i>HK'000</i> | 2015 (Audited) <i>HK'000</i> |
| Non-current asset | | |
| Property, plant and equipment | 3,878 | 1,775 |
| Total non-current asset | 3,878 | 1,775 |
| Current assets | | |
| Trade receivables | 10,276 | 29,399 |
| Amounts due from customers for contract work | 919 | 448 |
| Deposits, prepayments and other receivables | 3,765 | 2,022 |
| Cash and bank balances | 154,235 | 130,565 |
| Total current assets | 169,195 | 162,434 |
| Current liabilities | | |
| Trade payables | 6,629 | 15,067 |
| Amounts due to customers for contract work | 726 | 2,210 |
| Accrued expenses and other payables | 1,448 | 4,534 |
| Income tax payable | 7,657 | 9,966 |
| Total current liabilities | 16,460 | 31,777 |
| Net current assets | 152,735 | 130,657 |
| Total assets less current liabilities | 156,613 | 132,432 |
| Net assets | 156,613 | 132,432 |
| Capital and reserves | | |
| Share capital | 5,000 | 5,000 |
| Reserves | 151,613 | 127,432 |
| Total equity attributable to owners of the Company | 156,613 | 132,432 |

LETTER FROM VMS SECURITIES

The Company is a one-stop integrated interior design solutions provider based in Hong Kong. The integrated interior design solutions include design, fit out and decoration. The Company is also responsible for overall project management. Accordingly, the business of the Group is asset light in nature without substantial capital expenditure investment. This explained why the property, plant and equipment as at 30 September 2016 amounted to approximately HK\$3.9 million, which accounted for only approximately 2.2% of the total assets of the Group as at 30 September 2016. Cash and bank balances as at 30 September 2016 amounted to approximately HK\$154.2 million, which contributed to approximately 89.1% of the total assets of the Group as at 30 September 2016. The cash and bank balances comprised mainly the net proceeds from the Company's share offer in September 2015 of approximately HK\$100.0 million (after deducting underwriting commissions and all related expenses). It was stated in the 2016 Annual Report that the Company did not utilize any of the net proceeds as at 30 September 2016.

The total liabilities of the Group as at 30 September 2016 amounted to approximately HK\$16.5 million, mainly comprising trade payables and income tax payable of approximately HK\$6.6 million and approximately HK\$7.7 million respectively. Trade payables as at 30 September 2016 decreased by approximately 56.0% or HK\$8.4 million from approximately HK\$15.1 million as at 30 September 2015. Income tax payable decreased from approximately HK\$10.0 million as at 30 September 2015 to approximately HK\$7.7 million as at 30 September 2016, representing a decrease of approximately 23.2%. In addition, as at 30 September 2016, the Group had trade receivables of approximately HK\$10.3 million, representing a decrease of approximately 65.0% or HK\$19.1 million as compared to that as at 30 September 2015. Such drop of trade payables, trade receivables and income tax payable was mainly caused by squeeze of business as reflected by the drop of revenue and assessable profits for taxation purpose for the year ended 30 September 2016.

As set out in Appendix II to the Composite Document, the Directors confirmed that as at Latest Practicable Date, there were no material changes in the financial or trading position or outlook of the Group since 30 September 2016.

(iii) Prospects of the Group

Revenue of the Group decreased 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, representing a drop of approximately 27.3%. The drop was primarily due to the Hong Kong property market downward sentiment in financial year of 2016. The executive Directors consider that the business of the Group is affected by the development and growth in the Hong Kong property development industry as well as the performance of property developers. The executive Directors are of the view that the Hong Kong property development industry will face challenges in near future brought about by certain unfavourable market conditions such as the Hong Kong Government's demand curb measures (such as recent sharp rise in property stamp duty to 15% adopted by the Hong Kong Government) and interest rate hikes in the United States of America which may increase the cost of borrowing in Hong Kong. In response to these challenges, the Group will take initiatives to prudently seize any opportunities to enhance its competitiveness so as to alleviate the possible impact from the uncertainty in Hong Kong property development industry. For example, the Group would cautiously monitor the business environment and direct resources conservatively to strengthen and develop its existing business.

LETTER FROM VMS SECURITIES

4. Information on the Offeror

As set out in “Letter from Huarong International Securities” of the Composite Document, the Offeror is a company incorporated in Hong Kong on 16 November 2011 with limited liability and is principally engaged in trading of bulk commodities including non-ferrous metal, chemicals and electronic products. The Offeror is wholly owned by National Business. Ms. Niu Fang is the sole director of the Offeror. Upon the Completion, the Offeror became the controlling Shareholder of the Company.

It is further set out in “Letter from Huarong International Securities” of the Composite Document that in view of the well-established business history of the Company which was first established in 1996, with main focus in Hong Kong, as evidenced by the revenue generated from Hong Kong contributing over 70% of the Group’s total revenue as disclosed in the financial statements of the Company, the Offeror considers that it could leverage on the presence of the Company in Hong Kong to strengthen its business coverage and network. On the other hand, the extensive network of the Offeror in the PRC may bring suitable business opportunities to the Group, thereby expanding the Group’s operation and client base.

National Business is a company established under the laws of the PRC on 8 March 2011 with limited liability and its group of companies is principally engaged in trading of bulk energy and resource commodities and related investment. It has cooperated with a number of oil and gas companies in the PRC to establish its energy and petrochemical business. National Business is owned as to approximately 66.67% by Shanghai Guoming and as to approximately 33.33% by Shanghai Zhongshe. Ms. Niu Fang is the sole director of National Business.

Shanghai Guoming is an investment holding company established under the laws of the PRC on 27 November 2012 with limited liability. Shanghai Guoming is owned as to 70% by Mr. Liu Quanhui and 30% by Ms. Niu Fang. Ms. Niu Fang is the sole director of Shanghai Guoming.

Shanghai Zhongshe is an investment holding company established under the laws of the PRC on 12 June 2015 with limited liability. Shanghai Zhongshe is owned as to 20% by Mr. Liu Quanhui and 80% by Ms. Niu Fang. Ms. Niu Fang is the sole director of Shanghai Zhongshe.

Ms. Niu Fang, aged 42, has more than 10 years of experience in corporate management and business investment. She took part in the establishment of National Business, and has been National Business’s general manager since 2011, and is principally responsible for its strategic planning and business development. She obtained a bachelor’s degree in economics from Hebei University in the PRC in 1997, and qualified as a mid-level accountant in the PRC in 2004.

Mr. Liu Quanhui, aged 57, has more than 30 years of experience in the bulk energy and resource commodities industry. He has held managerial roles in a number of oil and gas companies in the PRC since 1983 and has been principally responsible for their business development and investment strategies. He obtained a master’s degree in economics and finance management from Beijing Jiaotong University in the PRC.

Save and except their respective shareholding in Shanghai Guoming and Shanghai Zhongshe, there is no other business or financial relationships between Ms. Niu Fang and Mr. Liu Quanhui.

Further details of the information on the Offeror are set out in the “Letter from Huarong International Securities” of the Composite Document.

LETTER FROM VMS SECURITIES

5. Intentions of the Offeror in relation to the Group and proposed change of Board composition

As stated in the “Letter from Huarong International Securities” of the Composite Document, following the close of the Share Offer, it is the intention of the Offeror that the Group will continue to focus on the development of its existing businesses, and the Offeror does not intend to introduce any major changes to the existing operations and business of the Company immediately after the Share Offer. The Offeror will regularly review the operations and business activities of the Group to formulate a suitable business strategy for the Group and will explore other business opportunities and consider whether any assets and/or business acquisitions or disposals by the Group will be appropriate in order to enhance its growth. The Offeror, Ms. Niu Fang and Mr. Liu Quanhui and their respective concert parties have no intention, arrangement or negotiation on any injection of new business/assets to the Company or any disposal/downsize of the existing business of the Company. The Offeror, Ms. Niu Fang and Mr. Liu Quanhui and their respective concert parties have no intention to discontinue the employment of the employees (save for the changes in the composition of the board of directors of the Group) or to dispose of or re-deploy the assets of the Group other than those in its ordinary course of business. The Offeror, Ms. Niu Fang and Mr. Liu Quanhui and their respective concert parties have no plan, discussion nor negotiation on any injection of any assets or businesses into the Group as at the Latest Practicable Date.

As disclosed in the “Letter from Huarong International Securities” of the Composite Document, save for Mr. Leong and Ms. Chew, all the remaining four members of the existing Board will resign as Directors with effect from the earliest time permitted under the Listing Rules, the Takeovers Code and the applicable laws and regulations. The Offeror intends to nominate new Director(s) to the Board. Any change to the Board will be made in compliance with the Takeovers Code and the Listing Rules.

Further details of intentions of the Offeror in relation the Group and proposed change of Board composition are set out in the “Letter from Huarong International Securities” of the Composite Document.

6. Evaluation of the Offer Price

(i) Comparison of the Offer Price and recent Share prices

The Offer Price of HK\$1.728 per Offer Share represents:

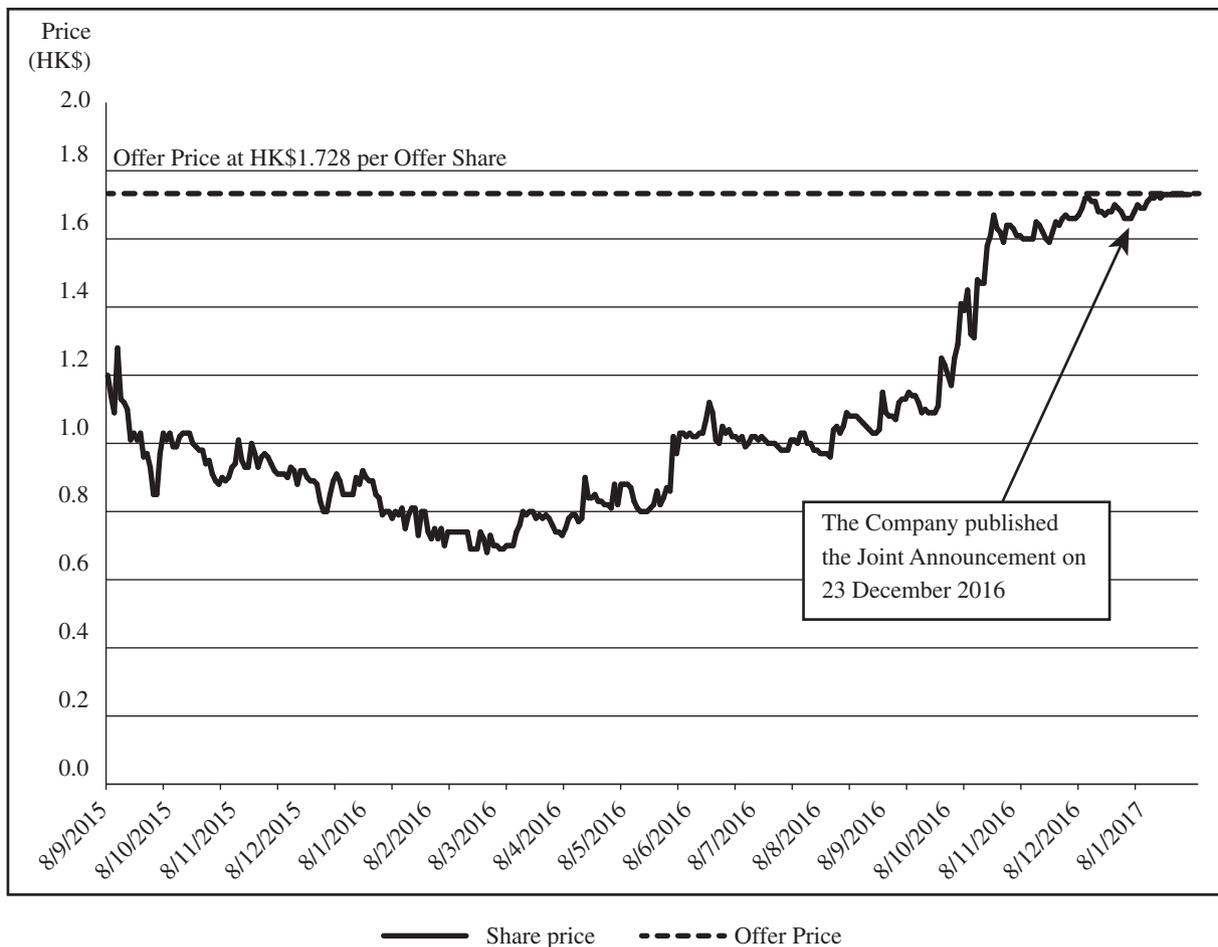
- (a) a premium of approximately 2.25% over the closing price of HK\$1.69 per Share as quoted on the Stock Exchange on 19 December 2016, being the Last Trading Day;
- (b) a premium of approximately 2.25% over the closing price of HK\$1.69 per Share as quoted on the Stock Exchange, prior to the trading suspension of the Shares with effect from 11:08 a.m. on 20 December 2016;
- (c) a premium of approximately 2.98% over the average closing price of approximately HK\$1.678 per Share for the last 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a premium of approximately 2.86% over the average closing price of approximately HK\$1.68 per Share for the last 10 consecutive trading days immediately prior to and including the Last Trading Day;

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- (e) a premium of approximately 3.41% over the average closing price of approximately HK\$1.671 per Share for the last 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (f) a discount of approximately 0.12% to the closing price of HK\$1.73 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (g) a premium of approximately 452.08% over the net asset value per Share of approximately HK\$0.313, calculated based on the audited consolidated net asset value attributable to the Shareholders as at 30 September 2016, divided by the 500,000,000 Shares in issue as at 30 September 2016.

(ii) *Historical Share price performance*

The chart below shows the daily closing price of the Shares quoted on the Stock Exchange since the Listing Date, and up to the Latest Practicable Date (both dates inclusive) (the “**Review Period**”).



Source: Bloomberg

LETTER FROM VMS SECURITIES

During the period from the Listing Date to the Last Trading Day, the lowest and the highest closing price of the Shares were HK\$0.68 per Share recorded on 29 February 2016 and HK\$1.72 per Share recorded on 24 and 25 November 2016 respectively. The Offer Price of HK\$1.728 represents a premium of approximately 154.12% and 0.47% over the lowest closing price and the highest closing price of the Shares respectively during the period from the Listing Date to the Last Trading Day.

Two distinct trends could be depicted in the above chart. We noted that there was a general downward trend of closing price of the Shares since the Listing Date and reached the lowest closing price at HK\$0.68 on 29 February 2016. During the period from the Listing Date to 29 February 2016, the Company had published, among other things, the annual report for the year ended 30 September 2015, which the net profit attributable to the Shareholders had decreased to approximately HK\$21.3 million, representing a decrease of approximately 8.38% as compared to that of 2014. The decrease was primarily caused by the recognition of the one-off initial public offering expenses of approximately HK\$14.8 million during the year ended 30 September 2015. The closing price of the Shares has then gradually picked up, and reached the highest closing price at HK\$1.72 on 24 and 25 November 2016 respectively for the period up to the Last Trading Day. As at the Latest Practicable Date, the Shares closed at HK\$1.73 per Share, which represented a slight premium of approximately 0.12% over the Offer Price.

With reference to the chart above, the closing prices of the Shares were below the Offer Price at most of the time since the Listing Date up to and including the Latest Practicable Date.

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(iii) *Liquidity of the Shares*

The following table sets out the trading volume of the Shares during the Review Period (including (i) the monthly total and average daily trading volume of the Shares for the respective month/period; (ii) the percentage of the average daily trading volume to the total issued Share capital as at the Latest Practicable Date; and (iii) the percentage of the average daily trading volume to the public float as at the Latest Practicable Date):

| | Monthly total trading volume <i>(Note 1)</i> | No. of trading days for the month/ period | Average daily trading volume for the month/ period <i>(Note 2)</i> | % of average daily trading volume of the Shares to total issued Share capital as at the Latest Practicable Date <i>(Note 3)</i> | % of average daily trading volume of the Shares to the public float as at the Latest Practicable Date <i>(Note 4)</i> |
|------------------|----------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2015 | | | | | |
| Listing Date to | | | | | |
| 30 September | 236,212,000 | 16 | 14,763,250 | 2.95% | 11.81% |
| October | 90,416,000 | 20 | 4,520,800 | 0.90% | 3.62% |
| November | 13,176,000 | 21 | 627,429 | 0.13% | 0.50% |
| December | 12,816,000 | 22 | 582,545 | 0.12% | 0.47% |
| 2016 | | | | | |
| January | 8,388,400 | 20 | 419,420 | 0.08% | 0.34% |
| February | 1,912,000 | 18 | 106,222 | 0.02% | 0.08% |
| March | 2,536,000 | 21 | 120,762 | 0.02% | 0.10% |
| April | 6,120,000 | 20 | 306,000 | 0.06% | 0.24% |
| May | 23,936,000 | 21 | 1,139,810 | 0.23% | 0.91% |
| June | 22,408,000 | 21 | 1,067,048 | 0.21% | 0.85% |
| July | 6,112,000 | 20 | 305,600 | 0.06% | 0.24% |
| August | 25,504,000 | 22 | 1,159,273 | 0.23% | 0.93% |
| September | 23,004,000 | 21 | 1,095,429 | 0.22% | 0.88% |
| October | 58,730,000 | 19 | 3,091,053 | 0.62% | 2.47% |
| November | 30,710,000 | 22 | 1,395,909 | 0.28% | 1.12% |
| December | 50,876,000 | 17 | 2,992,706 | 0.60% | 2.39% |
| 2017 | | | | | |
| January to the | | | | | |
| Latest | | | | | |
| Practicable Date | 27,064,000 | 11 | 2,460,364 | 0.49% | 1.97% |

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Notes:

1. Source: Bloomberg
2. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the total number of trading days during the respective month/period, excluding any trading days on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
3. Based on 500,000,000 Shares in issue as at the Latest Practicable Date.
4. Based on 125,000,000 Shares held by the public Shareholders as at the Latest Practicable Date.

As set out above, the average daily trading volume during the Review Period ranged from approximately 0.11 million Shares to approximately 14.76 million Shares, representing approximately 0.02% to approximately 2.95% of the total number of issued Share capital as at the Latest Practicable Date, or approximately 0.08% to approximately 11.81% of the total number of Shares held by the public Shareholders as at the Latest Practicable Date. The trading volume of the Shares was comparatively high from September 2015 to October 2015 upon the successful listing of the Company. Other than the above said period, the liquidity of the Shares was relatively low during the Review Period. As such, Shareholders may find it difficult to dispose of large number of Shares in the open market without exerting a downward pressure on the price of the Shares. We consider that the Share Offer provides an assured exit to Qualifying Shareholders to realize their investment in the Shares should they wish to do so.

(iv) Peer companies

For the purpose of assessing the fairness and reasonableness of the Offer Price, we have sought to compare the historical price-to-earnings ratio (the “**P/E ratio**”) and the historical price-to-book ratio (the “**P/B ratio**”) of the Shares implied by the Offer Price against those of the companies comparable to the Company. We consider that companies (i) which are principally engaged in the interior design and decoration services with revenue generated from such operating segment contributing over 50% of the total revenue for the latest financial year; (ii) whose shares are listed on the Stock Exchange; and (iii) with market capitalisation not exceeding HK\$1,800 million (representing approximately two times of the implied market capitalisation of the Company of approximately HK\$864.0 million calculated by the Offer Price multiplied by the total number of issued Shares as at the Latest Practicable Date) as at the Latest Practicable Date, are meaningful references for this purpose. We have identified a total of three companies (the “**Peer Companies**”) which form an exhaustive list based on the aforesaid criteria, and have compared the historical P/E ratio and P/B ratio of the Peer Companies against those of the Company represented by the Offer Price as follows. Although there are only three Peer Companies, we consider them to be fair and representatively comparable for us to assess the fairness and reasonableness of the Offer Price because (1) the Peer Companies are principally engaged in the business similar to that of the Group; and (2) the Peer Companies can provide a general understanding of their respective market ratings in terms of P/E ratios and P/B ratios in the Hong Kong stock market.

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| Company (stock code) | Closing Market Capitalisation as at the Latest Practicable Date <i>(Note 1)</i> <i>HK\$ million</i> <i>(approximate)</i> | Historical P/E ratio <i>(Note 2)</i> <i>times</i> <i>(approximate)</i> | Historical P/B ratio <i>(Note 3)</i> <i>times</i> <i>(approximate)</i> |
|----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| Kate China Holdings Limited ("Kate China") (8125) <i>(Note 9)</i> | 1,001.9 | Not applicable <i>(Note 4)</i> | 6.33 |
| AL Group Limited ("AL Group") (8360) | 199.2 | 13.02 | 2.98 <i>(Note 5)</i> |
| K W Nelson Interior Architect Group Limited ("K W Nelson") (8411) | 212.0 | 16.40 | 2.63 <i>(Note 6)</i> |
| | Mean | 14.71 | 3.98 |
| The Company | 864.0 <i>(Note 7)</i> | 35.73 <i>(Note 8)</i> | 5.52 <i>(Note 8)</i> |

Notes:

1. Source: Bloomberg
2. Historical P/E ratios of the Peer Companies are calculated based on their respective closing market capitalisation as at the Latest Practicable Date divided by their respective audited consolidated net profit attributable to shareholders for the latest financial year as extracted from their respective latest published annual reports/listing prospectus.
3. Historical P/B ratios of the Peer Companies are calculated based on their respective closing market capitalisation as at the Latest Practicable Date divided by their respective consolidated net assets attributable to shareholders as published in their respective latest annual/interim reports.
4. The historical P/E ratio for Kate China is not available as it recorded a net loss position for the year ended 31 March 2016.
5. AL Group was listed on 12 July 2016 and raised initial public offering net proceeds of approximately HK\$57 million as shown in its 2016 interim report. Since the unaudited consolidated net assets attributable to equity holders of AL Group as at 30 June 2016 did not include the net proceeds of approximately HK\$57 million, the unaudited consolidated net assets attributable to equity holders of AL Group used for calculating the historical P/B ratio represents the sum of figure of approximately HK\$9.8 million as at 30 June 2016 extracted from its 2016 interim report and the net proceeds of approximately HK\$57 million.
6. K W Nelson was listed on 8 December 2016 and the net proceeds from initial public offering are estimated to be approximately HK\$30.6 million as disclosed in its announcement dated 7 December 2016. Since the audited consolidated net assets attributable to equity holders of K W Nelson as at 30 June 2016 as disclosed in the listing prospectus did not include the estimated net proceeds of approximately HK\$30.6 million, the audited consolidated net assets attributable to equity holders of K W Nelson used for calculating the historical P/B ratio represents the sum of figure of approximately HK\$50.1 million as at 30 June 2016 extracted from its listing prospectus and the estimated net proceeds of approximately HK\$30.6 million.

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7. The market capitalisation of the Company was computed based on the Offer Price and the total number of the issued Shares as at the Latest Practicable Date.
8. The implied historical P/E ratio and P/B ratio of the Company are calculated based on the market capitalisation of the Company represented by the Offer Price of HK\$1.728 and its latest published consolidated net profit and net assets attributable to the Shareholders of approximately HK\$24.2 million and HK\$156.6 million respectively as disclosed in the 2016 Annual Report.
9. As published by Kate China on 23 December 2016, Kate China proposed to change its company name to “Royal Century Resources Holdings Limited 仁德資源控股有限公司”, subject to, among other things, the passing of a special resolution by its shareholders approving the change of the company name.

As shown in the table set out above, the implied historical P/E ratio of the Company represented by the Offer Price is more favourable than that of AL China and K W Nelson. The implied historical P/B ratio of the Company represented by the Offer Price falls within the range of the historical P/B ratios of the Peer Companies and is above the mean of the historical P/B ratio of the Peer Companies.

7. Maintaining the listing status of the Company

The Offeror intends to maintain the listing of the Shares on the Stock Exchange following the close of the Share Offer. It is stated in the “Letter from Huarong International Securities” of the Composite Document that the Offeror will use reasonable endeavours to maintain the listing status of the Shares on the Stock Exchange and procure that not less than the minimum prescribed percentage applicable to the Company, being 25%, of the total issued Shares be held by the public in compliance with the Listing Rules.

Pursuant to the Listing Rules, if, at the close of the Share Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the total issued Shares are held by the public, or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading of the Shares; or
- (ii) there are insufficient Shares in public hands to maintain an orderly market,

the Stock Exchange may exercise its discretion to suspend trading in the Shares.

It is further stated in the “Letter from Huarong International Securities” of the Composite Document that the sole director of the Offeror has undertaken and the proposed Director(s) to be nominated by the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Share Offer to ensure that such number of Shares as may be required by the Stock Exchange are held by the public within the prescribed time frame.

It is also stated in the “Letter from Huarong International Securities” of the Composite Document that the Offeror does not intend to privatise the Company by availing itself of any powers of compulsory acquisition of the Shares after the close of the Share Offer.

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RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular,

- (i) the Offer Price represents a premium over each of the closing price of the Shares on the Last Trading Day and the respective average closing prices per Share as quoted on the Stock Exchange for the last five, ten and thirty consecutive trading days immediately prior to and including the Last Trading Day;
- (ii) the Offer Price also represents a premium of approximately 452.08% over the audited consolidated net asset value attributable to the Shareholders of approximately HK\$0.313 per Share as at 30 September 2016;
- (iii) the Offer Price is higher than the closing Share prices at most of the time during the Review Period;
- (iv) no dividend has been declared and paid by the Company after the listing. Those Qualifying Shareholders who seek for dividend return for their investment may consider accepting the Share Offer and invest the proceeds receivable therefrom in other securities with better dividend yield than the Shares;
- (v) the historical P/E ratio of the Shares implied by the Offer Price is more favourable than that of AL Group and K W Nelson and the historical P/B ratio of the Shares implied by the Offer Price is within the range of those of the Peer Companies; and
- (vi) liquidity of the Shares was generally low and the Qualifying Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares. The Share Offer provides an assured opportunity to the Qualifying Shareholders to realise their investments in the Company should they wish to do so;

we consider that the terms of the Share Offer are fair and reasonable so far as the Qualifying Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Qualifying Shareholders to accept the Share Offer.

Qualifying Shareholders should note that the closing prices of Shares are at a level close to the Offer Price in a range of between HK\$1.71 and 1.73 per Share following the publication of the Joint Announcement. The Offer Price represented a slight discount of approximately 0.12% to the closing price of HK\$1.73 per Share on the Latest Practicable Date. The Qualifying Shareholders who wish to realise part or all of their investments in the Company are reminded to carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market instead of accepting the Share Offer, if the net proceeds from such sale after deducting all transaction costs exceed the net amount to be received under the Share Offer.

LETTER FROM VMS SECURITIES

Qualifying Shareholders should also be aware that, if the number of Shares held by the public, as defined in the Listing Rules, comprises less than 25% of the total issued Shares of the Company at the close of the Share Offer, trading in the Shares may be suspended. Should this happen, the Qualifying Shareholders who choose not to accept the Share Offer will not be able to sell their Shares on the Stock Exchange until trading in the Shares resumes.

Qualifying Shareholders are strongly recommended to read carefully the terms and procedures for accepting the Share Offer set out in the “Letter from Huarong International Securities”, Appendix I to the Composite Document and the accompanying Form of Acceptance.

Yours faithfully,
for and on behalf of
VMS Securities Limited
Richard Leung
Managing Director
Corporate Finance

Mr. Richard Leung is a licensed person and a responsible officer of VMS Securities Limited registered with the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and has over ten years of experience in corporate finance industry.

1. GENERAL PROCEDURES FOR ACCEPTANCE OF THE SHARE OFFER

To accept the Share Offer, you should complete and sign the accompanying Form of Acceptance in accordance with the instructions printed thereon, which form part of the terms of the Share Offer.

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Share Offer in respect of your Shares (whether in full or in part), you must send the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong marked "LC Group Holdings Limited — Share Offer" on the envelope as soon as possible but in any event so as no later than 4:00 p.m. on the Closing Date or such later time(s) and/or date(s) as the Offeror may determine and announce in accordance with the Takeovers Code.
- (b) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Share Offer in respect of all or part of your Shares, you must either:
 - (i) lodge your share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares with the nominee company, or other nominee, with instructions authorising it to accept the Share Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the number of Shares in respect of which you intend to accept the Share Offer to the Registrar in an envelope marked "LC Group Holdings Limited — Share Offer"; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the Form of Acceptance duly completed and signed together with the relevant share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares to the Registrar in an envelope marked "LC Group Holdings Limited — Share Offer"; or
 - (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Share Offer on your behalf on or before the

deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the timing on processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

- (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.

- (c) If the share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Share Offer in respect of your Shares, the Form of Acceptance should nevertheless be completed, signed and delivered in an envelope marked "LC Group Holdings Limited — Share Offer" to the Registrar together with a letter stating that you have lost one or more of your share certificate(s) and/or transfer receipt(s) and/or other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares should be forwarded to the Registrar as soon as possible thereafter. If you have lost the share certificate(s) and/or transfer receipt(s) and/or other documents of title in respect of your Shares, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar. The Offeror shall have the absolute discretion to decide whether any Shares in respect of which the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title is/are not readily available and/or is/are lost will be taken up by the Offeror.

- (d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your share certificate(s), and you wish to accept the Share Offer in respect of your Shares, you should nevertheless complete and sign the Form of Acceptance and deliver it in an envelope marked "LC Group Holdings Limited — Share Offer" to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to the Offeror and/or Huarong International Securities and/or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant share certificate(s) when issued and to deliver such share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such share certificate(s), subject to the terms and conditions of the Share Offer, as if it was/they were delivered to the Registrar with the Form of Acceptance.

- (e) Acceptance of the Share Offer will be treated as valid only if the completed and signed Form of Acceptance is received by the Registrar by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce with the consent of the Executive in accordance with the Takeovers Code and the Registrar has recorded that the acceptance and the relevant documents as required by the Takeovers Code have been so received, and is:
- (i) accompanied by the relevant share certificate(s) and/or transfer receipt(s) and/or other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares and, if that/those share certificate(s) and/or transfer receipt(s) and/or other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or in favour of the acceptor executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or
 - (ii) from a registered Shareholder or his/her personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
 - (iii) certified by the Registrar or the Stock Exchange.
- (f) If the Form of Acceptance is executed by a person other than the registered Qualifying Shareholder, appropriate documentary evidence of authority (for example, grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.
- (g) In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer will be payable by each accepting Shareholder at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Share Offer, whichever is higher, and will be deducted from the cash amount payable by the Offeror to such Qualifying Shareholder on acceptance of the Share Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of relevant accepting Shareholders and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Share Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).
- (h) No acknowledgement of receipt of any Form of Acceptance, share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares will be given.

2. ACCEPTANCE PERIOD AND REVISIONS

- (a) Unless the Share Offer has previously been revised or extended with the consent of the Executive or otherwise in accordance with the Takeovers Code, to be valid, the Form of Acceptance must be received by the Registrar in accordance with the instructions printed thereon by 4:00 p.m. on the Closing Date.
- (b) The Offeror reserves the right to revise the terms of the Share Offer after the despatch of this Composite Document until such day as they may determine and in accordance with the Takeovers Code. If the Offeror revises the terms of the Share Offer, all the Qualifying Shareholders, whether or not they have already accepted the Share Offer, will be entitled to accept the revised Share Offer under the revised terms.
- (c) If the Share Offer is extended, the Offeror will issue an announcement in relation to any extension of the Share Offer, which announcement will state either the next closing date or, a statement that the Share Offer will remain open until further notice. In the latter case, at least fourteen (14) days' notice in writing must be given before the Share Offer is closed to those Qualifying Shareholders who have not accepted the Share Offer.
- (d) If the Closing Date is extended, any reference in this Composite Document and in the Form of Acceptance to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the subsequent Closing Date of the Share Offer so extended.
- (e) Any acceptance of the relevant revised Share Offer shall be irrevocable unless and until the Qualifying Shareholders who accept the Share Offer become entitled to withdraw their acceptance under the paragraph headed "5. Right of withdrawal" in this Appendix I below and duly do so.

3. NOMINEE REGISTRATION

To ensure equality of treatment of all Qualifying Shareholders, those Qualifying Shareholders who hold Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Shares whose investments are registered in nominee names to accept the Share Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Share Offer.

4. ANNOUNCEMENTS

- (a) By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Share Offer. The Offeror must publish an announcement in accordance with the Takeovers Code on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating, amongst other information required under Rule 19.1 of the Takeovers Code, whether the Share Offer has been revised, extended or expired.
- (b) The announcement will state, among other matters, the following:
 - (i) the total number of Offer Shares for which acceptances of the Share Offer have been received;
 - (ii) the total number of Shares held, controlled or directed by the Offeror and parties acting in concert with it before the Offer Period;
 - (iii) the total number of Shares acquired or agreed to be acquired during the Offer Period by the Offeror and parties acting in concert with it;
 - (iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or any parties acting in concert with it has borrowed or lent, save for any borrowed securities which have been either on-lent or sold; and
 - (v) the percentages of the issued share capital of the Company and the percentages of voting rights of the Company represented by these numbers.
- (c) In computing the total number of Shares represented by acceptances as of the Closing Date, only valid acceptances in complete and good order and in compliance with Note 1 to Rule 30.2 of the Takeovers Code, which have been received by the Registrar, no later than 4:00 p.m. on the Closing Date, shall be included.
- (d) If the Offeror, the parties acting in concert with it or its advisers make any statement about the level of acceptances or the number or percentage of accepting Shareholders during the Offer Period, then the Offeror must make an immediate announcement in compliance with Note 2 to Rule 19 of the Takeovers Code.
- (e) As required under the Takeovers Code and the Listing Rules, any announcement in relation to the Share Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments, will be made in accordance with the requirements of the Takeovers Code and the Listing Rules, where appropriate.

5. RIGHT OF WITHDRAWAL

- (a) Acceptances of the Share Offer shall be irrevocable and cannot be withdrawn, except in the circumstances set out in the following paragraph.
- (b) In the circumstances set out in Rule 19.2 of the Takeovers Code (which is to the effect that if the Offeror is unable to comply with any of the requirements of making announcements relating to the Share Offer as described in the paragraph headed “4. Announcements” in this Appendix I above, the Executive may require that accepting Shareholders be granted a right of withdrawal, on terms acceptable to the Executive, until such requirements can be met).
- (c) If an accepting Shareholder withdraws the acceptance, the Offeror shall, as soon as possible but in any event within ten (10) days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the Shares lodged with the Form of Acceptance to the relevant accepting Shareholders.

6. SETTLEMENT OF THE SHARE OFFER

Provided that a valid Form of Acceptance and the relevant share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of the relevant Shares as required by the Takeovers Code are complete and in good order and in all respects and have been received by the Registrar by not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount due to each of the accepting Shareholders, less seller’s ad valorem stamp duty, in respect of the Offer Shares tendered by him/her under the Share Offer, will be despatched to such Shareholder by ordinary post at his/her own risk as soon as possible but in any event within seven (7) Business Days after the date on which the duly completed and valid acceptances of the Share Offer and the relevant documents of title in respect of such acceptances are received by the Registrar to render each such acceptance complete and valid.

Settlement of the consideration to which any accepting Shareholder is entitled under the Share Offer will be paid by the Offeror in full in accordance with the terms of the Share Offer (save with respect of the payment of seller’s ad valorem stamp duty in respect of the Share Offer) without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting Shareholder.

No fraction of a cent will be payable and the amount of consideration payable to an accepting Shareholder will be rounded up to the nearest cent.

7. OVERSEAS SHAREHOLDERS

The Offeror intends to make the Share Offer available to all Qualifying Shareholders, including those who are not resident in Hong Kong. The making and the implementation of the Share Offer to Qualifying Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant overseas jurisdictions in which such Qualifying Shareholders are located. Such Overseas Shareholders should inform themselves about and observe any applicable requirements and restrictions in their own jurisdictions, and where necessary, seek independent legal advice in respect of the Share Offer. It is the responsibility of such Overseas Shareholders who have registered addresses outside Hong Kong and wish to accept the Share Offer to satisfy themselves as to the full observance of the applicable laws and regulations of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes payable by such accepting Shareholders in such jurisdiction).

Any acceptance of the Share Offer by such Overseas Shareholders will be deemed to constitute a representation and warranty from such Overseas Shareholders to the Offeror that the local laws and requirements have been complied with. The Overseas Shareholders should consult their professional advisers if in doubt.

8. TAX IMPLICATIONS

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Share Offer. None of the Offeror, parties acting in concert with the Offeror, the Company, Huarong International Securities, Huarong International Capital, Goldin Financial, Lego Corporate Finance, and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Share Offer accepts responsibility for any taxation effects on, or liabilities of, any person or persons as a result of their acceptance of the Share Offer.

9. GENERAL

- (a) All communications, notices, Form of Acceptance, share certificates, transfer receipts (as the case may be), other documents of title and/or any satisfactory indemnity or indemnities required in respect thereof and remittances to settle the consideration payable under the Share Offer to be delivered by or sent to or from the Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Offeror, the Company, their respective ultimate beneficial owners and parties acting in concert with them, Huarong International Securities, Huarong International Capital, Goldin Financial, Lego Corporate Finance, the Independent Financial Adviser, the Registrar, any of their respective directors, officers, advisers, associates, agents or any persons involved in the Share Offer will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

- (b) The provisions set out in the Form of Acceptance form part of the terms and conditions of the Share Offer to which it relates.
- (c) The accidental omission to despatch this Composite Document and/or Form of Acceptance or any of them to any person to whom the Share Offer is made will not invalidate the Share Offer in any way.
- (d) The Share Offer and all acceptances are governed by and shall be construed in accordance with the laws of Hong Kong.
- (e) Due execution of a Form of Acceptance will constitute an authority to the Offeror, Huarong International Securities and such person or persons as the Offeror may direct to complete, amend and execute any document on behalf of the person or persons accepting the Share Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as they may direct, the Shares in respect of which such person or persons has accepted the Share Offer.
- (f) Acceptance of the Share Offer will be deemed to constitute a warranty to the Offeror, Huarong International Securities and the Company by the accepting Shareholder(s) that
 - (i) the Shares held by the Qualifying Shareholders are sold to the Offeror free from all Encumbrances and together with all rights accruing or attaching thereto or subsequently becoming attached to them, including, without limitation, the rights to receive all future dividends and/or other distributions declared, paid or made, if any, on or after the date on which the Share Offer is made, being the date of posting of this Composite Document; and
 - (ii) the Qualifying Shareholder(s) have not taken or omitted to take any action which will or may result in the Offeror, Huarong International Securities or any other person acting in breach of the legal or regulatory requirements of any territory in connection with the Share Offer or the acceptance thereof, and am/are permitted under all applicable laws to receive and accept the Share Offer, and any revision thereof, and that such acceptance is valid and binding in accordance with all applicable laws. For the avoidance of doubt, neither HKSCC nor HKSCC Nominees Limited will give, or be subject to, the above representations and warranties.
- (g) Acceptance of the Share Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of Shares in respect of which as indicated in the Form of Acceptance is the aggregate number of Shares held by such nominee for such beneficial owner who is accepting the Share Offer.
- (h) References to the Share Offer in this Composite Document and in the Form of Acceptance include any extension or revision thereof.

- (i) In making their decision, Qualifying Shareholders must rely on their own examination of the Offeror, the Group and the terms of the Share Offer, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Form of Acceptance, shall not be construed as legal or business advice on the part of the Offeror, its beneficial owners, the Company, Huarong International Securities, Huarong International Capital, Goldin Financial, Lego Corporate Finance, the Independent Financial Adviser. The Qualifying Shareholders should consult their own professional advisers for professional advice.
- (j) Unless otherwise expressly stated in this Composite Document and/or the Form of Acceptance, no one other than the Offeror and the relevant accepting Shareholder may enforce any terms of the contract that will arise on delivery of the relevant Form of Acceptance, duly completed and executed, under the Contracts (Rights of Third Parties) Ordinance, Cap. 623 of the Laws of Hong Kong.
- (k) The English texts of this Composite Document and the Form of Acceptance shall prevail over their respective Chinese texts in case of inconsistency.

I. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited consolidated financial statements of the Group for each of the three years ended 30 September 2014, 2015 and 2016, respectively, as extracted from the prospectus of the Company dated 21 August 2015 and the published annual report of the Company for the year ended 30 September 2016.

| | Year ended 30 September | | |
|---------------------------------------------------------------|-------------------------|----------------|----------------|
| | 2014 | 2015 | 2016 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| | (audited) | (audited) | (audited) |
| Revenue | 113,786 | 159,527 | 116,021 |
| Profit before taxation | 28,107 | 25,053 | 28,279 |
| Taxation | <u>(4,756)</u> | <u>(4,103)</u> | <u>(4,098)</u> |
| Profit and total comprehensive income for the year | 23,351 | 20,950 | 24,181 |
| Profit and total comprehensive income attributable to: | | | |
| Owners of the Company | 23,200 | 21,255 | 24,181 |
| Non-controlling interests | 151 | (305) | – |
| Dividends | – | – | – |
| Basic earnings per share | 6.2 cents | 5.6 cents | 4.8 cents |
| Diluted earnings per share | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |

| | As at 30 September | | |
|---------------------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | 2014 <i>HK\$'000</i> (audited) | 2015 <i>HK\$'000</i> (audited) | 2016 <i>HK\$'000</i> (audited) |
| Non-current assets | 2,830 | 1,775 | 3,878 |
| Current assets | 81,207 | 162,434 | 169,195 |
| Current liabilities | <u>33,539</u> | <u>31,777</u> | <u>16,460</u> |
| Net current assets | 47,668 | 130,657 | 152,735 |
| Non-current liabilities | <u>—</u> | <u>—</u> | <u>—</u> |
| Net assets | 50,498 | 132,432 | 156,613 |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 621 | 5,000 | 5,000 |
| Reserves | 47,423 | 127,432 | 151,613 |
| Non-controlling interests | <u>2,454</u> | <u>—</u> | <u>—</u> |
| Total equity | <u><u>50,498</u></u> | <u><u>132,432</u></u> | <u><u>156,613</u></u> |

The auditors of the Company, HLB Hodgson Impey Cheng Limited, did not issue any qualified or modified opinion (including emphasis of matter, adverse opinion and disclaimer of opinion) on the respective financial statements of the Group for the three years ended 30 September 2016, and the Company had no items which are exceptional or extraordinary because of size, nature or incidence for the same financial years.

II. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 30 SEPTEMBER 2016

Set out below are the audited consolidated financial statements of the Group for the year ended 30 September 2016 which are contained in the Company's annual report published on 22 December 2016.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2016

| | <i>Notes</i> | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|----------------------------------------------------|--------------|--------------------------------|--------------------------------|
| Revenue | 7 | 116,021 | 159,527 |
| Cost of sales | | <u>(68,376)</u> | <u>(99,289)</u> |
| Gross profit | | 47,645 | 60,238 |
| Other revenue and other gains | 8 | 1,779 | 1,017 |
| Other operating expenses | | (1,049) | (687) |
| Administrative expenses | | <u>(20,096)</u> | <u>(35,515)</u> |
| Profit before taxation | 9 | 28,279 | 25,053 |
| Taxation | 10 | <u>(4,098)</u> | <u>(4,103)</u> |
| Profit and total comprehensive income for the year | | <u><u>24,181</u></u> | <u><u>20,950</u></u> |
| Attributable to: | | | |
| Owners of the Company | | 24,181 | 21,255 |
| Non-controlling interests | | <u>–</u> | <u>(305)</u> |
| Profit and total comprehensive income for the year | | <u><u>24,181</u></u> | <u><u>20,950</u></u> |
| Earnings per share: | | | |
| Basic and diluted (HK cents) | 14 | <u><u>4.8</u></u> | <u><u>5.6</u></u> |

CONSOLIDATED STATEMENT OF BALANCE SHEET

For the year ended 30 September 2016

| | <i>Notes</i> | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|---------------------------------------------------------------|--------------|--------------------------------|--------------------------------|
| Non-current asset | | | |
| Property, plant and equipment | 15 | 3,878 | 1,775 |
| Current assets | | | |
| Trade receivables | 16 | 10,276 | 29,399 |
| Amounts due from customers for contract work | 17 | 919 | 448 |
| Deposits, prepayments and other receivables | 18 | 3,765 | 2,022 |
| Cash and bank balances | 19 | 154,235 | 130,565 |
| | | 169,195 | 162,434 |
| Current liabilities | | | |
| Trade payables | 20 | 6,629 | 15,067 |
| Amounts due to customers for contract work | 17 | 726 | 2,210 |
| Accrued expenses and other payables | 21 | 1,448 | 4,534 |
| Income tax payable | | 7,657 | 9,966 |
| | | 16,460 | 31,777 |
| Net current assets | | 152,735 | 130,657 |
| Total assets less current liabilities | | 156,613 | 132,432 |
| Net assets | | 156,613 | 132,432 |
| Capital and reserves | | | |
| Share capital | 22 | 5,000 | 5,000 |
| Reserves | | 151,613 | 127,432 |
| Total equity attributable to owners of the Company | | 156,613 | 132,432 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 30 September 2016

| | Attributable to owners of the Company | | | | Sub-total HK\$'000 (Note) | Non- controlling interests HK\$'000 | Total HK\$'000 |
|------------------------------------------------------------------|---------------------------------------|-------------------------------------------|----------------------------------|------------------------------|---------------------------------|----------------------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 (Note 22) | Retained earnings HK\$'000 | Other reserve HK\$'000 | | | |
| As at 1 October 2014 | 621 | - | 47,423 | - | 48,044 | 2,454 | 50,498 |
| Profit and total comprehensive income for the year | - | - | 21,255 | - | 21,255 | (305) | 20,950 |
| Change in ownership interests in subsidiaries | - | - | - | 2,149 | 2,149 | (2,149) | - |
| Effect of reorganisation | (621) | - | - | 621 | - | - | - |
| Issue of shares | | | | | | | |
| - share offer | 1,250 | 123,750 | - | - | 125,000 | - | 125,000 |
| - capitalisation issue | 3,750 | (3,750) | - | - | - | - | - |
| Transaction costs attributable to issue of share (Note 27(c)) | - | (10,166) | - | - | (10,166) | - | (10,166) |
| Dividend paid (Note 13) | - | - | (53,850) | - | (53,850) | - | (53,850) |
| As at 30 September 2015 | <u>5,000</u> | <u>109,834</u> | <u>14,828</u> | <u>2,770</u> | <u>132,432</u> | <u>-</u> | <u>132,432</u> |
| As at 1 October 2015 | 5,000 | 109,834 | 14,828 | 2,770 | 132,432 | - | 132,432 |
| Profit and total comprehensive income for the year | - | - | 24,181 | - | 24,181 | - | 24,181 |
| As at 30 September 2016 | 5,000 | 109,834 | 39,009 | 2,770 | 156,613 | - | 156,613 |

Note:

Other reserve

Other reserve represented (i) the difference between the Group's share of nominal values of the paid-up capital of the subsidiaries acquired over the Group's cost of acquisition of the subsidiaries under common control upon the completion of the Group's corporate re-organisation in the preparation of the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited; and (ii) the changes in the Group's ownership interests in its subsidiaries that do not result in the loss of control.

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2016

| | <i>Notes</i> | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|----------------------------------------------------------------------|--------------|--------------------------------|--------------------------------|
| Cash flows from operating activities | | | |
| Profit before taxation | | 28,279 | 25,053 |
| Adjustments for: | | | |
| Bad debts written off | 9, 16 | 162 | 520 |
| Bank interest income | 8 | (833) | (61) |
| Depreciation of property, plant and equipment | 9, 15 | 1,291 | 1,643 |
| Gain on disposals of property, plant and equipment | 8 | — | (250) |
| Operating cash flows before movements in working capital | | 28,899 | 26,905 |
| Decrease/(increase) in trade receivables | | 18,961 | (23,242) |
| Increase in deposits, prepayments and other receivables | | (1,586) | (802) |
| Increase in amounts due from customers for contract work | | (471) | (330) |
| (Decrease)/increase in trade payables | | (8,438) | 8,445 |
| (Decrease)/increase in amounts due to customers for contract work | | (1,484) | 1,403 |
| (Decrease)/increase in accrued expenses and other payables | | (3,077) | 2,373 |
| Cash generated from operations | | 32,804 | 14,752 |
| Hong Kong tax paid | | (6,407) | (235) |
| Net cash generated from operating activities | | 26,397 | 14,517 |
| Cash flows from investing activities | | | |
| Purchases of items of property, plant and equipment | 15 | (3,394) | (588) |
| Bank interest received | | 676 | 42 |
| Proceeds from disposals of property, plant and equipment | | — | 250 |
| Net cash used in investing activities | | (2,718) | (296) |

| | <i>Notes</i> | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|--------------------------------------------------------------------------------------------------------|--------------|--------------------------------|--------------------------------|
| Cash flows from financing activities | | | |
| Increase in amount due from a shareholder | | – | (16,948) |
| Decrease in amount due to a non-controlling shareholder | | – | (126) |
| Net proceed from disposal of a subsidiary | 25 | (9) | 974 |
| Net proceeds from listing | | – | 114,834 |
| Dividend paid to shareholders | | – | (16,750) |
| | | <u> </u> | <u> </u> |
| Net cash (used in)/generated from financing activities | | <u> (9)</u> | <u> 81,984</u> |
| Net increase in cash and cash equivalents | | 23,670 | 96,205 |
| Cash and cash equivalents at the beginning of the year | | <u> 130,565</u> | <u> 34,360</u> |
| Cash and cash equivalents at the end of the year | | <u> 154,235</u> | <u> 130,565</u> |
| Cash and cash equivalents as stated in the consolidated statement of financial position | | <u> 154,235</u> | <u> 130,565</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;
- (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; and
- (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. SIGNIFICANT ACCOUNTING POLICIES

(a) 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 be disclosed 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. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of the reporting period as further explained below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable for the asset or liability.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(d) Merger accounting for common control combination

The consolidated financial statements incorporates the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or business from the earliest date presented or since the date when combining entities or business first came under common control, where this is a shorter period, regardless of the date of common control combination.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or business are eliminated. Unrealised losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or business have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, cost of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

The comparative amounts in the consolidated financial statements are presented as if the entities or business had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

(e) Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group.

(f) Investments in subsidiaries

Investments in subsidiaries are stated in the statement of financial position of the Company at cost less accumulated impairment losses, if any.

(g) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors that makes strategic decisions.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(h) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- (i) Project for design, fit out and decoration service income is recognised based on the stage of completion of the contracts, provided that the stage of contract completion and the contract costs of the contracting work can be measured reliably. The stage of completion of a contract is established by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract cost;
- (ii) Design and/or decoration service income is recognised upon services rendered; and
- (iii) Interest income is recognised on a time proportion basis taking into account the principal outstanding and the interest applicable.

The Group's policy for recognition of service income from provision of design, fit out and decoration services is set out in note 3(j).

(i) Property, plant and equipment

Property, plant and equipment is stated in the consolidated statement of financial position at historical cost less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|------------------------|-----------|
| Office equipment | 20% |
| Furniture and fixtures | 20% |
| Motor vehicles | 25% – 30% |

The residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

Gain and loss on disposals are determined by comparing proceeds with carrying amount and are recognised in the consolidated statement of profit or loss and other comprehensive income.

(j) Construction contracts

Where the outcome of a construction contract in relation to provision of design, fit out and decoration services can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position as a liability, as receipt in advances. Amounts billed for work performed but not yet paid by the customers are included in the consolidated statement of financial position under trade receivables.

(k) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(l) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measures in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) at the rate of exchange prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(n) Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but as that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(p) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

*Financial liabilities and equity instruments**Classification as debt or equity*

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including trade payables, accrued expenses and other payables) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discount) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing of the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocated the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid and payable is recognised in profit or loss.

(q) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and in banks. Restricted bank deposits are excluded from cash and cash equivalents.

(r) Employee benefits

(i) Defined contribution retirement plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(ii) *Share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(s) **Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

(t) **Related parties**

- (i) A person or a closed member of that person's family, is related to the Group, if that person:
- (a) has control or joint control over the Group;
 - (b) has significant influence over the Group; or
 - (c) is a member of the key management personnel of the Group or of a parent of the Group.

- (ii) An entity is related to the Group if any of the following conditions applies:
 - (a) the entity and the Group are members of the same group;
 - (b) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (c) the entity and the Group are joint ventures of the same third party;
 - (d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (f) the entity is controlled or jointly controlled by a person identified in (i);
 - (g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (h) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

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

¹ Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, earlier application is permitted if only in conjunction with HKFRS 15.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after 1 January 2017.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (“FVTOCI”) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The directors of the Company (“Directors”) anticipate that the application of HKFRS 9 in the future may impact the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The amendments to HKFRS 15 apply prospectively for annual periods beginning on or after 1 January 2018.

The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016.

The Directors do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 was issued on 13 January 2016 and is effective for annual periods beginning on or after 1 January 2019. HKFRS 16 replaces all existing lease accounting requirements and represents a significant change in the accounting and reporting of leases, with more assets and liabilities to be reported on the consolidated statement of financial position and a different recognition of lease costs.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Subject to limited exceptions for short-term leases and low value assets, distinctions of operating and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees.

Application of HKFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of many of the Group's lease arrangements.

The Directors anticipate that the application of HKFRS 16 in the future may impact the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

Amendments to HKAS 7 Disclosure Initiative

The amendments to HKAS 7 require entities to provide disclosure that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

To satisfy such requirements, an entity shall disclose (to the extent necessary) the changes in liabilities arising from financing activities including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.

Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

The amendments state that one way to fulfil the new disclosure requirement is to provide reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities.

Finally, the amendments also state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments to HKAS 7 apply prospectively for annual periods beginning on or after 1 January 2017.

The Directors anticipate that the application of amendments to HKAS 7 in the future may have a material impact on the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of amendments to HKAS 7 until the Group performs a detailed review.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- (a) when the intangible asset is expressed as a measure of revenue; or
- (b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation for its property, plant and equipment.

The Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- At cost;
- In accordance with HKFRS 9 Financial Instruments (or HKAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted HKFRS 9) or
- Using the equity method as described in HKAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 Consolidated Financial Statements and to HKFRS 1 First time Adoption of Hong Kong Financial Reporting Standards.

The amendments to HKAS 27 apply prospectively for annual periods beginning on or after 1 January 2016.

The Directors do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.
- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2012–2014 Cycle

The Annual Improvements to HKFRSs 2012–2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 Disclosure – Offsetting Financial Assets and Financial Liabilities issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 Interim Financial Reporting.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The Directors do not anticipate that the application of the said amendments to HKFRSs will have a material effect on the Group's consolidated financial statements.

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 HKFRS, will have a significant impact on the Group's results of operations and financial position.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Construction contracts revenue recognition

The Group recognises contract revenue and profit of a construction contract in relation to provision of design, fit out and decoration services and design and decoration services according to the management's estimation of the total outcome of the contract as well as the percentage of completion of construction works. Notwithstanding that the management reviews and revises the estimates of both contract revenue and costs for the construction contract as the contract progresses, the actual outcome of the contract in terms of its total revenue and costs may be higher or lower than the estimates and this will affect the revenue and profit recognised.

(b) Impairment of trade receivables

The aging debt profile of trade debtors is reviewed on a regular basis to ensure that the trade receivables balances are collectable and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade receivables balance are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aging analysis of the trade receivables balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the consolidated statement of profit or loss and other comprehensive income. Changes in the collectability of trade receivables for which provisions are not made could affect the results of operations of the Group.

(c) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, and technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

(d) Income taxes

The Group is subject to income taxes in Hong Kong. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

6. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

| | As at 30 September | |
|---------------------------------------------------------|--------------------|----------------|
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Financial assets: | | |
| Loan and receivables (including cash and bank balances) | | |
| – Trade receivables | 10,276 | 29,399 |
| – Deposits and other receivables | 3,009 | 1,666 |
| – Cash and bank balances | 154,235 | 130,565 |
| | <u>167,520</u> | <u>161,630</u> |
| | As at 30 September | |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Financial liabilities: | | |
| Amortised cost | | |
| – Trade payables | 6,629 | 15,067 |
| – Accrued expenses and other payables | 1,448 | 4,534 |
| | <u>8,077</u> | <u>19,601</u> |

(b) Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Market risk(i) *Interest rate risk*

As at 30 September 2016 and 2015, the Group did not hold any assets and liabilities which are exposed to significant interest risk.

(ii) *Foreign exchange risk*

The Group has certain portion of bank balances and cash denominated in currencies other than the functional currency of the entities to which they related. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Group's exposure at the balance sheet date to major currency risk:

| | Liabilities | | Assets | |
|----------------------------|--------------------|----------|--------------------|--------------|
| | As at 30 September | | As at 30 September | |
| | 2016 | 2015 | 2016 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Australian Dollars ("AUS") | – | – | 211 | 3,454 |
| Renminbi ("RMB") | – | – | 78 | 1,411 |
| Singapore Dollars ("SGD") | – | – | 24 | 1,898 |
| | <u>–</u> | <u>–</u> | <u>24</u> | <u>1,898</u> |

The foreign currency sensitivity analysis The Group is mainly exposed to the effects of fluctuation in AUS, RMB and SGD.

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in HK\$ against AUS, RMB and SGD. 5% (2015: 5%) is the sensitivity rate used in the current year when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items. If HK\$ strengthen 5% against AUS, RMB and SGD while a positive number below indicates an increase in profit, there would be an equal and opposite impact on the profit as those referred to in the table below:

The foreign currency sensitivity analysis

| | Impact of AUS | |
|------------------|---------------------------------|------------|
| | For the year ended 30 September | |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Sensitivity rate | 5% | 5% |
| Profit or loss | 11 | 173 |
| | <u>11</u> | <u>173</u> |

| | Impact of RMB | |
|------------------|---------------------------------|-----------|
| | For the year ended 30 September | |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Sensitivity rate | 5% | 5% |
| Profit or loss | 4 | 71 |
| | <u>4</u> | <u>71</u> |

| | Impact of SGD | |
|------------------|----------------------------------------|-----------------|
| | For the year ended 30 September | |
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Sensitivity rate | 5% | 5% |
| Profit or loss | <u>1</u> | <u>95</u> |

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to bank deposits, trade and other receivables. In order to minimise the credit risk, management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis and follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is adequately managed and mitigated.

The Group had certain concentration of credit risk as 33.3% of the total trade receivables of the Group were due from the largest customer and 89.1% of the total trade receivables of the Group were due from five largest customers as at 30 September 2016 (30 September 2015: 22.9% and 96.7% respectively). Management considered the credit risk is limited since the Group trades only with customers with an appropriate credit history and good reputation. The management monitored the financial background and creditability of those debtors on an ongoing basis. In addition, the credit risks on liquid funds including bank deposit and bank balances is limited because the counterparties are banks with good reputation.

Liquidity risk

The Group's liquidity risk management includes maintaining flexibility by keeping sufficient cash and cash equivalents generated from operations. The Company regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following table details the Group's remaining contractual maturity for its non-derivatives financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial liabilities, the table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

| | Weighted average effective interest rate % | Within 1 year HK\$'000 | Over 1 year HK\$'000 | Total undiscounted cash flows HK\$'000 | Total carrying amount HK\$'000 |
|---------------------------------------------|-----------------------------------------------------------|------------------------------|----------------------------|-------------------------------------------------|-----------------------------------------|
| As at 30 September 2016 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Trade payables | – | 6,629 | – | 6,629 | 6,629 |
| Accrued expenses and other payables | – | 1,448 | – | 1,448 | 1,448 |
| | – | 8,077 | – | 8,077 | 8,077 |
| As at 30 September 2015 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Trade payables | – | 15,067 | – | 15,067 | 15,067 |
| Accrued expenses and other payables | – | 4,534 | – | 4,534 | 4,534 |
| | – | 19,601 | – | 19,601 | 19,601 |

(c) **Fair value of financial instruments**

The fair values of financial assets and financial liabilities are determined as follows:

- (i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid and ask prices respectively; and
- (ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of those financial instrument.

For financial reporting purpose, fair value measurement are categorised into Level 1, 2 and 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the input to the fair value measurements in its entirety.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

There were no transfers between Level 1 and 2 and no transfers into or out of Level 3 during the year.

(d) Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to fund its construction business, provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

There was no change in the Group's approach to capital management during the year.

7. 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 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Design and/or decoration service income | 27,732 | 25,220 |
| Design, fit out and decoration service income | 88,289 | 134,307 |
| | 116,021 | 159,527 |
| | 116,021 | 159,527 |

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 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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.

8. OTHER REVENUE AND OTHER GAINS

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

9. PROFIT BEFORE TAXATION

| | For the year ended 30 September | |
|-----------------------------------------------------------------------------|---------------------------------|----------------------|
| | 2016 HK\$'000 | 2015 HK\$'000 |
| Profit before taxation has been arrived at after charging: | | |
| Directors' emoluments (<i>Note 11</i>) | 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 (<i>Note 16</i>) | 162 | 520 |
| Depreciation of property, plant and equipment (<i>Note 15</i>) | 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> |

10. TAXATION

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

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.

No deferred tax has been provided for as there were no material differences.

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | For the year ended 30 September | |
|-----------------------------------------------------------------------------|----------------------------------------|-----------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit before taxation | 28,279 | 25,053 |
| Tax expense at rates applicable to profits in the jurisdiction concerned | 4,666 | 4,134 |
| Tax effect of income not taxable for tax purpose | (155) | (51) |
| Tax effect of expenses not deductible for tax purpose | 71 | 2,517 |
| Tax effect of temporary differences | (228) | 191 |
| Tax effect of tax losses not recognised | 127 | 195 |
| Tax loss utilised | (221) | – |
| Over-provision in previous year | (162) | (2,883) |
| Income tax expense for the year | 4,098 | 4,103 |

As at 30 September 2016, the Group has estimated tax losses arising of approximately HK\$1,515,000 (2015: approximately HK\$2,573,000). Tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

11. DIRECTORS' EMOLUMENTS

Details of the emoluments paid or payable to the Directors during the years ended 30 September 2016 and 2015 are as follows:

For the year ended 30 September 2016

| | Fees <i>HK\$'000</i> | Salaries, allowances, bonuses and benefit in kind <i>HK\$'000</i> | Pension scheme contributions <i>HK\$'000</i> | Total remuneration <i>HK\$'000</i> |
|--------------------------------------------|-------------------------|----------------------------------------------------------------------------------|-------------------------------------------------------|------------------------------------------|
| Executive directors | | | | |
| Mr. LEONG | – | 2,119 | 18 | 2,137 |
| Ms. CHEW (Chief Executive Officer) | – | 2,146 | 18 | 2,164 |
| Mr. SHIH Steven Chun Ning | – | 1,004 | 18 | 1,022 |
| Independent non-executive directors | | | | |
| Mr. TANG Hamilton Ty | 240 | – | – | 240 |
| Mr. LEE Frank King-ting | 240 | – | – | 240 |
| Mr. HO Hin Yip | 240 | – | – | 240 |
| | <u>720</u> | <u>5,269</u> | <u>54</u> | <u>6,043</u> |

For the year ended 30 September 2015

| | Fees <i>HK\$'000</i> | Salaries, allowances, bonuses and benefit in kind <i>HK\$'000</i> | Pension scheme contributions <i>HK\$'000</i> | Total remuneration <i>HK\$'000</i> |
|-----------------------------------------------|-------------------------|----------------------------------------------------------------------------------|-------------------------------------------------------|------------------------------------------|
| Executive directors | | | | |
| Mr. LEONG (<i>Note (a)</i>) | – | 2,095 | 18 | 2,113 |
| Ms. CHEW (<i>Note (b)</i>) | – | 2,138 | 18 | 2,156 |
| Mr. SHIH Steven Chun Ning (<i>Note (b)</i>) | – | 940 | 14 | 954 |
| Independent non-executive directors | | | | |
| Mr. TANG Hamilton Ty (<i>Note (c)</i>) | 32 | – | – | 32 |
| Mr. LEE Frank King-ting (<i>Note (c)</i>) | 32 | – | – | 32 |
| Mr. HO Hin Yip (<i>Note (c)</i>) | 32 | – | – | 32 |
| | <u>96</u> | <u>5,173</u> | <u>50</u> | <u>5,319</u> |

Notes:

- (a) Mr. LEONG was appointed as director of the Company on 19 January 2015 and re-designated as executive director on 24 April 2015.
- (b) Ms. CHEW and Mr. SHIH Steven Chun Ning were appointed as executive directors of the Company on 24 April 2015.
- (c) Mr. TANG Hamilton Ty, Mr. LEE Frank King-ting and Mr. HO Hin Yip were appointed as independent non-executive directors of the Company on 13 August 2015.

During the years ended 30 September 2016 and 2015, no emolument was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

There were no arrangement under which a director waived or agreed to waive any emoluments during the years ended 30 September 2016 and 2015.

12. EMPLOYEES EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUAL

Five highest paid individuals

The five highest paid employees of the Group for the year ended 30 September 2016 included three (2015: three) directors, details of whose remuneration are disclosed above. The remuneration of the five highest paid individuals are analysed as follows:

| | For the year ended 30 September | |
|---------------|----------------------------------------|-----------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Directors | 5,323 | 5,223 |
| Non-directors | 2,118 | 1,815 |
| | <u>7,441</u> | <u>7,038</u> |

Details of the remuneration of the above non-directors, highest paid employees during the years ended 30 September 2016 and 2015 are as follows:

| | For the year ended 30 September | |
|----------------------------------|----------------------------------------|-----------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Salaries, allowances and bonuses | 2,082 | 1,779 |
| Pension scheme contributions | 36 | 36 |
| | <u>2,118</u> | <u>1,815</u> |

The number of these non-directors, highest paid employees where remuneration fell within the following, and is as follows:

| | Number of individuals | |
|--------------------------------|----------------------------------------|-------------|
| | For the year ended 30 September | |
| | 2016 | 2015 |
| Nil to HK\$1,000,000 | 1 | 2 |
| HK\$1,000,001 to HK\$2,000,000 | 1 | – |
| | <u>2</u> | <u>2</u> |

Senior Management of the Group

The remuneration of the senior management (other than directors) of the Group are within the following band:

| | Number of individuals | |
|--------------------------------|----------------------------------------|-------------|
| | For the year ended 30 September | |
| | 2016 | 2015 |
| Nil to HK\$1,000,000 | 2 | 3 |
| HK\$1,000,001 to HK\$2,000,000 | 1 | – |
| | <u>3</u> | <u>3</u> |

During the years ended 30 September 2016 and 2015, no emolument was paid by the Group to non-directors, highest paid employees and senior management as an inducement to join or upon joining the Group or as compensation for loss of office. None of the non-directors, highest paid employees and senior management waived or agreed to waive any emolument during the years ended 30 September 2016 and 2015.

13. DIVIDENDS

The Directors 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.

14. 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.

15. PROPERTY, PLANT AND EQUIPMENT

| | Office equipment <i>HK\$'000</i> | Furniture and fixtures <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------------------------|----------------------------------------|-------------------------------------------------|--------------------------------------|--------------------------|
| Cost: | | | | |
| As at 1 October 2014 | 2,044 | 55 | 6,733 | 8,832 |
| Additions | 79 | – | 509 | 588 |
| Disposals | – | – | (1,583) | (1,583) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| As at 30 September 2015 and 1 October 2015 | 2,123 | 55 | 5,659 | 7,837 |
| Additions | 64 | – | 3,330 | 3,394 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| As at 30 September 2016 | <u>2,187</u> | <u>55</u> | <u>8,989</u> | <u>11,231</u> |
| Accumulated depreciation: | | | | |
| As at 1 October 2014 | 1,545 | 55 | 4,402 | 6,002 |
| Charge for the year | 281 | – | 1,362 | 1,643 |
| Written back on disposals | – | – | (1,583) | (1,583) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| As at 30 September 2015 and 1 October 2015 | 1,826 | 55 | 4,181 | 6,062 |
| Charge for the year | 197 | – | 1,094 | 1,291 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| As at 30 September 2016 | <u>2,023</u> | <u>55</u> | <u>5,275</u> | <u>7,353</u> |
| Net book value: | | | | |
| At 30 September 2016 | <u>164</u> | <u>–</u> | <u>3,714</u> | <u>3,878</u> |
| At 30 September 2015 | <u>297</u> | <u>–</u> | <u>1,478</u> | <u>1,775</u> |

16. TRADE RECEIVABLES

| | As at 30 September | |
|-------------------|---------------------------|-----------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade receivables | 10,276 | 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:

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

Movement in the impairment loss of trade receivables, is as follow:

| | As at 30 September | |
|--------------------------------------|---------------------------|-----------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Balance at the beginning of the year | – | – |
| Impairment loss on trade receivables | 162 | 520 |
| Amount written off as uncollectible | (162) | (520) |
| | <u>–</u> | <u>–</u> |

Impaired trade receivables

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. Accordingly, the Directors believe that there is no further credit provision required in excess of the impairment of trade receivables.

The Group's policy for impairment loss on trade receivables is based on an evaluation of collectability and aging analysis of the receivables which requires the use of judgment and estimates. Provisions are applied to the receivables when there are events or changes in circumstances indicate that the balances may not be collectible. The management closely reviews the trade receivables balances and any overdue balances on an ongoing basis and assessments are made by the management on the collectability of overdue balances.

Past due but not impaired

Included in the Group's trade receivables balances are debts with carrying amounts of approximately HK\$8,487,000 and HK\$3,869,000 as at 30 September 2016 and 2015 respectively which were past due at the end of the reporting period.

Age of receivables that are past due but not impaired

| | As at 30 September | |
|----------------------------|---------------------------|-----------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Less than 1 month past due | 2,901 | 978 |
| 1 to 3 months past due | 3,533 | 1,985 |
| Over 3 months past due | 2,053 | 906 |
| | 8,487 | 3,869 |
| | 8,487 | 3,869 |

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. The management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit risk and the balances are still considered fully recoverable. The Group does not hold any collateral over those balances.

17. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

| | As at 30 September | |
|------------------------------------------------------------------------|--------------------|-----------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Amounts due from customers for contract work | | |
| Contract costs incurred plus recognised profits less recognised losses | 7,504 | 38,488 |
| Less: Progress billings received and receivable | <u>(6,585)</u> | <u>(38,040)</u> |
| | <u>919</u> | <u>448</u> |

| | As at 30 September | |
|------------------------------------------------------------------------------|--------------------|-----------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Amounts due to customers for contract work | | |
| Progress billings received and receivable | 9,434 | 31,272 |
| Less: Contract costs incurred plus recognised profits less recognised losses | <u>(8,708)</u> | <u>(29,062)</u> |
| | <u>726</u> | <u>2,210</u> |

All gross amounts due from/to customers for contract work are expected to be recovered/settled within one year.

As at 30 September 2016 and 2015, retention held by customers for contract work amounted to approximately HK\$2,189,000 and HK\$1,210,000 respectively.

18. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | As at 30 September | |
|------------------------------------------|--------------------|-----------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Deposits | 663 | 437 |
| Prepayments | 756 | 356 |
| Interest receivables | 157 | 19 |
| Retention receivables (<i>Note 17</i>) | <u>2,189</u> | <u>1,210</u> |
| | <u>3,765</u> | <u>2,022</u> |

19. CASH AND BANK BALANCES

Cash and bank balances comprise cash at banks and cash on hand held by the Group. Bank balances earn interests at floating rate based on daily bank deposit rates and is placed with creditworthy banks with no recent history of default.

| | As at 30 September | |
|------------------------------------------------------------------------------|---------------------------|-------------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cash and bank balance | 64,069 | 30,565 |
| Bank deposits (<i>Note</i>) | 90,166 | 100,000 |
| | <u> </u> | <u> </u> |
| Cash and bank balance in the consolidated statement of financial position | <u>154,235</u> | <u>130,565</u> |

Note:

Deposits with bank carried interest at market rate which was approximately 0.95% to 0.96% (2015: 0.85%) per annum for the year ended 30 September 2016.

Included in cash and bank balances in the consolidated statement of financial position are mainly the following amounts denominated in currency other than the functional currency of the entity to which they relate:

| | As at 30 September | |
|------------------|---------------------------|-------------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| AUS | 211 | 3,454 |
| EUR | 42 | 50 |
| British Pound | 228 | 267 |
| RMB | 78 | 1,411 |
| Canadian Dollars | 1 | 1 |
| Japanese Yen | 98 | 82 |
| SGD | 24 | 1,898 |
| | <u> </u> | <u> </u> |
| | <u>682</u> | <u>7,163</u> |

Note:

The amounts in RMB are not freely convertible into other currencies and subject to the foreign exchange control.

20. TRADE PAYABLES

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

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

21. ACCRUED EXPENSES AND OTHER PAYABLES

| | As at 30 September | |
|------------------|---------------------------|-----------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Other payables | – | 1,490 |
| Accrued expenses | 1,448 | 3,044 |
| | <u>1,448</u> | <u>3,044</u> |
| | <u>1,448</u> | <u>4,534</u> |

22. SHARE CAPITAL

| | Number of Shares | Nominal value <i>HK\$'000</i> |
|-----------------------------------------------------------------------|---------------------------|-------------------------------------|
| Authorised: | | |
| Ordinary shares of HK\$0.01 each | | |
| As at 19 January 2015 (<i>note (a)</i>) | 38,000,000 | 380 |
| Increase under the reorganisation (<i>note (b)</i>) | <u>962,000,000</u> | <u>9,620</u> |
| As at 30 September 2015, 1 October 2015 and 30 September 2016 | <u>1,000,000,000</u> | <u>10,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.01 each | | |
| As at 19 January 2015 (<i>note (a)</i>) | 1 | – |
| Issue of shares under the Reorganisation (<i>note 2</i>) | 25 | – |
| Issue of shares under the capitalisation issue (<i>note (c)</i>) | 374,999,974 | 3,750 |
| Issue of shares under the share offer (<i>note (d)</i>) | <u>125,000,000</u> | <u>1,250</u> |
| As at 30 September 2015, 1 October 2015 and 30 September 2016 | <u><u>500,000,000</u></u> | <u><u>5,000</u></u> |

Notes:

- (a) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liabilities on 19 January 2015, with an initial authorised share capital of HK\$380,000 divided into 38,000,000 shares (“Shares”) of HK\$0.01 each and the Company allotted and issued one share.
- (b) Pursuant to a resolution in writing passed by all shareholders on 13 August 2015, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$10,000,000 divided into 1,000,000,000 Shares by the creation of additional 962,000,000 Shares.
- (c) On 13 August 2015, the Directors authorised to capitalise approximately HK\$3,750,000 by applying that sum in paying up in full at par 374,999,974 shares for allotment.
- (d) On 8 September 2015, 125,000,000 Shares were issued pursuant to the share offer upon the Listing.
- (e) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally regard to the Company’s residual assets.

23. SHARE OPTION SCHEME

Pursuant to the share option scheme adopted on 14 August 2015 (“Share Option Scheme”), the Company may grant share options to any directors, employees, consultants, customers, suppliers of goods or services to any member of the Group or any entity in which the Group holds any equity interests who, in the sole discretion of the board, have contributed or will contribute to the growth and development of the Group so as to provide incentives or rewards for their contribution to the success of the Group’s operation.

The maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the total number of shares in issue from time to time. The total number of shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of listing of the shares unless the Company obtains the approval of the shareholders in general meeting for refreshment.

The total number of shares issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to (i) each eligible participant must not exceed 1.0% of the total number of shares in issue; and (ii) a substantial shareholder of the Company or an independent non-executive director must not exceed 0.1% of the total number of shares in issue and not exceed HK\$5.0 million in aggregate value.

The exercise price must be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange’s daily quotation sheet on the date of grant; (ii) the average closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

The Share Option Scheme has a life of 10 years and will expire on 13 August 2025 unless otherwise terminated in accordance with the terms of the Share Option Scheme.

From 8 September 2015 (date of Listing) to 30 September 2016, no share option was granted by the Company under the Share Option Scheme.

Details of the Share Option Scheme are disclosed in the section headed “Directors’ Report” on pages 19 to 21.

24. CHANGES IN OWNERSHIP INTERESTS OF SUBSIDIARIES

- (a) On 23 January 2015, Ms. CHEW acquired 13% equity interests of LCL Ltd. and LCL Decoration respectively for a cash consideration of approximately HK\$111,000 and HK\$276,000 respectively. Thereafter and before the Re-organisation, LCL Ltd. and LCL Decoration were wholly owned by Mr. LEONG and Ms. CHEW.
- (b) On 2 March 2015, the non-controlling shareholder of LCL Deco disposed of all his 5,000 shares in LCL Deco to Mr. LEONG at a consideration of HK\$500,000. The consideration for the transfer was determined based on the unaudited net assets value of such shares as at 31 January 2015. Upon completion of the transfer and before the Re-organisation, LCL Deco became wholly-owned by Mr. LEONG.
- (c) On 2 March 2015, the non-controlling shareholder of LCL Architects disposed of his one share in LCL Architects to Mr. LEONG at a consideration of HK\$2,000,000. The consideration for the transfer was determined based on the unaudited net assets value of such shares as at 31 January 2015. Upon completion of the transfer and before the Re-organisation, LCL Architects was owned as to approximately 66.66% and 33.33% by Mr. LEONG and Ms. CHEW, respectively.

25. 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> |
|--------------------------|--------------------------------|
| Current asset | |
| Cash | 19 |
| Current liability | |
| Accrued expenses | (9) |
| 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 | (10) |
| | <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 | (19) |
| 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*

2015
HK\$'000

| | |
|----------------------------------------------------------------------------------------------------------|-------------------|
| Total consideration received in cash and cash equivalents/Net cash inflow on disposal of a subsidiary | 974 |
| | <u><u>974</u></u> |

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

2015
HK\$'000

Current asset

| | |
|------------------------------|---------------|
| Amount due from LCL Interior | 18,699 |
| | <u>18,699</u> |

Current liabilities

| | |
|--------------------|-----------------|
| Accrued expenses | (4,604) |
| Income tax payable | (13,121) |
| | <u>(17,725)</u> |

| | |
|--|-----------------|
| | <u>(17,725)</u> |
|--|-----------------|

| | |
|------------------------|-------------------|
| Net assets disposed of | 974 |
| | <u><u>974</u></u> |

(iii) *Result on disposal of a subsidiary*

2015
HK\$'000

| | |
|------------------------|-----|
| Consideration received | 974 |
|------------------------|-----|

| | |
|------------------------|--------------|
| Net assets disposed of | (974) |
| | <u>(974)</u> |

-

26. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries as at 30 September 2016 are as follows:

| Name of company | Place of incorporation | Class of share/ registered capital held | Issued and fully paid share capital/ registered or paid-up capital | Proportion of ownership interest and voting rights held by the Company | | Principal activities and place of operation |
|------------------|------------------------|-----------------------------------------------|-----------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------|-----------------------------------------------------------------------------|
| | | | | Directly % | Indirectly % | |
| SBHL | BVI | Ordinary | 1 share of US\$1 each | 100 | – | Investment holding, Hong Kong |
| LCL Construction | Hong Kong | Ordinary | 200,000 shares of HK\$1 each | – | 100 | Provision of one-stop integrated interior design solutions, Hong Kong |
| LCL Design | Hong Kong | Ordinary | 200,000 shares of HK\$1 each | – | 100 | Provision of one-stop integrated interior design solutions, Hong Kong |
| LCL Interior | Hong Kong | Ordinary | 200,000 shares of HK\$1 each | – | 100 | Provision of one-stop integrated interior design solutions, Hong Kong |
| LCL China | Hong Kong | Ordinary | 10,000 shares of HK\$1 each | – | 100 | Provision of one-stop integrated interior design solutions, Hong Kong |
| LCL Ltd. | Hong Kong | Ordinary | 100 shares of HK\$1 each | – | 100 | Provision of one-stop integrated interior design solutions, Hong Kong |
| LCL Decoration | Hong Kong | Ordinary | 100 shares of HK\$1 each | – | 100 | Provision of one-stop integrated interior design solutions, Hong Kong |
| LCL Architects | Hong Kong | Ordinary | 3 shares of HK\$1 each | – | 100 | Provision of one-stop integrated interior design solutions, Hong Kong |

27. STATEMENT OF FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY

(a) Statement of Financial Position of the Company

| | <i>Notes</i> | As at 30 September | |
|-----------------------------------------------------------|--------------|-------------------------|-------------------------|
| | | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
| Non-current asset | | | |
| Interests in subsidiaries | | — | — |
| Current assets | | | |
| Prepayments and other receivables | | 246 | 23 |
| Amounts due from subsidiaries | | 3,347 | 4,219 |
| Cash and bank balances | | 111,085 | 110,527 |
| | | <u>114,678</u> | <u>114,769</u> |
| Current liabilities | | | |
| Accrued expenses | | 991 | 533 |
| Amounts due to subsidiaries | | 349 | 644 |
| | | <u>1,340</u> | <u>1,177</u> |
| Net current assets | | <u>113,338</u> | <u>113,592</u> |
| Total assets | | | |
| less current liabilities | | <u>113,338</u> | <u>113,592</u> |
| Net assets | | <u>113,338</u> | <u>113,592</u> |
| Equity | | | |
| Share capital | | 5,000 | 5,000 |
| Reserves | 27(b) | <u>108,338</u> | <u>108,592</u> |
| Total equity attributable to owners of the Company | | <u>113,338</u> | <u>113,592</u> |

Approved and authorised for issue by the board of directors on 16 December 2016.

On behalf of the board

LEONG Hing Loong Rudoff
Director

CHEW Christina Mooi Chong
Director

(b) Reserves movement of the Company

| | Share premium HK\$'000 | Accumulated loss HK\$'000 | Total HK\$'000 |
|-----------------------------------------------------------------|------------------------------|---------------------------------|-----------------------|
| As at 19 January 2015 (date of incorporation) | – | – | – |
| Loss and total comprehensive loss for the period | – | (1,242) | (1,242) |
| Issue of shares under the capitalisation issue (Note (a)) | (3,750) | – | (3,750) |
| Issue of shares under the share offer (Note (b)) | 123,750 | – | 123,750 |
| Transaction costs attributable to issue of shares (Note (c)) | (10,166) | – | (10,166) |
| | <u>109,834</u> | <u>(1,242)</u> | <u>108,592</u> |
| As at 30 September 2015 and 1 October 2015 | <u>109,834</u> | <u>(1,242)</u> | <u>108,592</u> |
| Loss and total comprehensive loss for the year | – | (254) | (254) |
| | <u>–</u> | <u>(254)</u> | <u>(254)</u> |
| As at 30 September 2016 | <u>109,834</u> | <u>(1,496)</u> | <u>108,338</u> |

Notes:

- (a) Issue of shares under the capitalisation issue represented the capitalisation of the sum by applying such sum in paying up in full at par 374,999,974 shares of the Company.
- (b) Issue of shares under share offer represented the difference between the nominal amount of shares issued by the Company and the gross proceeds on issue of shares under the share offer for the Listing.
- (c) Transaction costs attributable to issue of shares represented the capitalised listing expenses arising from the share offer.
- (d) At 30 September 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately HK\$108,338,000 (2015: HK\$108,592,000).
- (e) The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of losses of approximately HK\$1,496,000 (2015: approximately HK\$1,242,000).

28. OPERATING LEASE COMMITMENTS**The Group as lessee**

The Group entered into commercial leases on certain land, office buildings and directors' quarters. These leases have an average life of 2 years. None of the leases include contingent rentals.

At the end of reporting period, the Group had total future minimum lease payment under non-cancellable operating lease falling due as follows:

| | As at 30 September | |
|----------------------------------------|---------------------------|-----------------|
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 2,038 | 3,869 |
| In the second to fifth years inclusive | — | 2,054 |
| | <u>2,038</u> | <u>5,923</u> |

29. MAJOR NON-CASH TRANSACTION

The Group settled the dividend to shareholder of approximately HK\$37,100,000 for the year ended 30 September 2015 through the Group's current account with a shareholder.

30. MATERIAL RELATED PARTY TRANSACTIONS

The Group had entered into the following material transactions with related parties during the year:

(a) Transactions with related parties

| | For the year ended | |
|--------------------------------------------------------------------------------------------------------|---------------------------|-----------------|
| | 30 September | |
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Rental expense paid to Well East Limited (<i>Note (a)</i>) | 53 | 50 |
| Rental expense paid to Pacific East Limited (<i>Note (b)</i>) | 1,459 | 1,450 |
| Rental expense of the directors' quarters paid to World Pioneer Asia Limited (<i>Note (c)</i>) | 1,486 | 1,463 |
| Design and/or decoration service income received from World Pioneer Asia Limited (<i>Note(c)</i>) | 350 | — |
| Disposal of Crystal Sky to Mr. LEONG (<i>Note 25</i>) | — | 974 |
| | <u>—</u> | <u>974</u> |

Notes:

- (a) Mr. LEONG and Ms. CHEW are the common directors and shareholders of the Company and Well East Limited.
- (b) Mr. LEONG is the common director and shareholder of the Company and Pacific East Limited.
- (c) Mr. LEONG and Ms. CHEW are the common directors and shareholders of the Company and World Pioneer Asia Limited.

(b) Key management personnel compensation

Remuneration for key management personnel, including amounts paid to the Directors and certain of the highest paid employees, as disclosed in Notes 11 and 12 are as follows:

| | For the year ended | |
|--------------------------------------------------|---------------------------|-----------------|
| | 30 September | |
| | 2016 | 2015 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Fees | – | – |
| Other emoluments, salaries and other benefits | 8,901 | 7,569 |
| Pension scheme contributions | 109 | 99 |
| | <u>9,010</u> | <u>7,668</u> |

31. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 16 December 2016.

III. INDEBTEDNESS

As at the close of business on 30 November 2016, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Composite Document, the Group did not have any outstanding indebtedness.

Apart from intra-group liabilities, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities as at 30 November 2016.

The Directors confirm that there were no material changes in terms of indebtedness and contingent liabilities of the Group since 30 November 2016 and up to the Latest Practicable Date.

IV. MATERIAL CHANGE

The Directors confirm that there were no material changes in the financial or trading position or outlook of the Group since 30 September 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up, and up to and including the Latest Practicable Date.

(A) RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Share Offer, the Offeror and the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror and parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Offeror and parties acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement contained in this Composite Document misleading.

The sole director of the Offeror, National Business, Shanghai Guoming and Shanghai Zhongshe and the persons who control the Offeror, namely Ms. Niu Fang and Mr. Liu Quanhui, jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Vendor and the Group), and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the Group, the Vendor and their respective directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statements contained in this Composite Document misleading.

(B) SHARE CAPITAL

The authorised and issued share capital of the Company since the end of 30 September 2016 and as at the Latest Practicable Date were as follows:

| Authorised | <i>HK\$</i> |
|-----------------------------|-------------------|
| <u>1,000,000,000</u> Shares | <u>10,000,000</u> |
| Issued | |
| <u>500,000,000</u> Shares | <u>5,000,000</u> |

As at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right on the holder thereof to subscribe for, convert or exchange into Shares or any agreement or arrangement to issue Shares.

All issued Shares rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting rights and return of capital. The Company has not issued any Shares since 30 September 2016, the date to which the latest audited financial statements of the Group were made up.

The issued Shares are listed on the Stock Exchange. None of the securities of the Company is listed or dealt in, and no listing or permission to deal in the securities of the Company is being or is proposed to be sought on any other stock exchange.

(C) DISCLOSURE OF INTERESTS BY DIRECTORS OF THE COMPANY

As at the Latest Practicable Date, none of the Directors and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers had been notified to the Company and the Stock Exchange.

(D) DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

Long position in Shares

| Name of substantial Shareholder | Capacity | Number of Shares held/interested | Approximate % of the total issued Shares |
|----------------------------------------|-------------------------------------|-----------------------------------------|-------------------------------------------------|
| The Offeror (<i>Note</i>) | Beneficial owner | 375,000,000 | 75.00% |
| National Business (<i>Note</i>) | Interests of controlled corporation | 375,000,000 | 75.00% |
| Shanghai Guoming (<i>Note</i>) | Interests of controlled corporation | 375,000,000 | 75.00% |
| Shanghai Zhongshe (<i>Note</i>) | Interests of controlled corporation | 375,000,000 | 75.00% |
| Ms. Niu Fang (<i>Note</i>) | Interests of controlled corporation | 375,000,000 | 75.00% |
| Mr. Liu Quanhui (<i>Note</i>) | Interests of controlled corporation | 375,000,000 | 75.00% |
| Ms. Hu Zhangcui (<i>Note</i>) | Interests of spouse | 375,000,000 | 75.00% |

Note:

The Offeror is wholly owned by National Business, which in turn is owned as to approximately 66.67% by Shanghai Guoming and approximately 33.33% by Shanghai Zhongshe. Shanghai Guoming is owned as to 70% by Mr. Liu Quanhui and as to 30% by Ms. Niu Fang. Shanghai Zhongshe is owned as to 20% by Mr. Liu Quanhui and as to 80% by Ms. Niu Fang. Ms. Hu Zhangcui is the spouse of Mr. Liu Quanhui. Therefore each of National Business, Shanghai Guoming, Shanghai Zhongshe, Ms. Niu Fang, Mr. Liu Quanhui and Ms. Hu Zhangcui is deemed to be interested in the Shares held by the Offeror under the SFO.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, no person had an interest or a short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or any options in respect of such share capital.

Save as disclosed above, as at the Latest Practicable Date, no other person had any interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

(E) INTERESTS OF THE OFFEROR AND PARTIES ACTING IN CONCERT WITH IT IN THE SHARES

As at the Latest Practicable Date, details of interests in the Shares, the underlying Shares, debentures or other relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company held or controlled by the Offeror and parties acting in concert with it has been set out in the paragraph headed “(D) Disclosure of interests of substantial Shareholders” in this appendix.

(F) ADDITIONAL DISCLOSURE OF INTERESTS IN THE COMPANY AND ARRANGEMENTS IN CONNECTION WITH THE SHARE OFFER

As at the Latest Practicable Date:

- (i) save and except for the sale and purchase of the Sale Shares pursuant to the Sale and Purchase Agreement, the Offeror and parties acting in concert with it have not acquired any voting rights in or otherwise dealt for value in the Shares or rights over the Shares during the Relevant Period;
- (ii) save and except for the Sale Shares, the Offeror, its ultimate beneficial owners and/or parties acting in concert with any of them do not hold, have control or have direction over any voting rights or rights over Shares, convertible securities, warrants or options in the Company;
- (iii) the Offeror, its ultimate beneficial owners and/or parties acting in concert with any of them have not received any irrevocable commitment to accept the Share Offer;

- (iv) save for the Loan Facility, there is no agreement, arrangement or understanding that any securities in the Company acquired pursuant to the Share Offer would be transferred, charged or pledged to any other persons;
- (v) there is no outstanding derivative in respect of the securities in the Company which has been entered into by the Offeror, its ultimate beneficial owners and/or parties acting in concert with any of them;
- (vi) there is no outstanding options, warrants, derivatives or securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares;
- (vii) there is no arrangement (whether by way of option, indemnity or otherwise) (as referred to in Note 8 to Rule 22 of the Takeovers Code) in relation to the shares of the Offeror or the Company and which might be material to the Share Offer;
- (viii) there is no agreement or arrangement to which the Offeror, its ultimate beneficial owners and/or parties acting in concert with any of them is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Share Offer;
- (ix) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror, its ultimate beneficial owners and/or parties acting in concert with any of them has borrowed or lent;
- (x) save as disclosed in the section headed “Shareholding structure” in the “Letter from the Board”, none of the Directors was interested in or owned or controlled any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (xi) none of the subsidiaries of the Company, pension fund of the Group or an adviser to the Company as specified in class (2) of the definition of “associate” under the Takeovers Code owned or controlled any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (xii) no persons had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code and no such person had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;
- (xiii) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company were managed on a discretionary basis by fund managers connected with the Company and none of them had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company during the Relevant Period;

- (xiv) none of the Directors held any beneficial shareholdings in the Company which would otherwise entitle them to accept or reject the Share Offer;
- (xv) there were no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Company or the Directors had borrowed or lent;
- (xvi) no arrangement was in place for any benefit to be given to any Director as compensation for loss of office or otherwise in connection with the Share Offer;
- (xvii) save for the Sale and Purchase Agreement, which Mr. Leong, Ms. Chew, Mr. Liu Quanhui and Ms. Niu Fang had interests in, there was no agreement or arrangement or understanding (including any compensation arrangement) between any Director, recent Director, Shareholder or recent Shareholder and any other person which was conditional on or dependent upon the outcome of the Share Offer or otherwise connected with the Share Offer;
- (xviii) save for the Sale and Purchase Agreement, which Mr. Leong, Ms. Chew, Mr. Liu Quanhui and Ms. Niu Fang had interests in, no material contracts have been entered into by the Offeror in which any Director has a material personal interest; and
- (xix) save for the entering into of the Sale and Purchase Agreement, which Mr. Leong, Ms. Chew, Mr. Liu Quanhui and Ms. Niu Fang had interests in, none of the Directors had dealt for value in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

(G) MARKET PRICE

The table below shows the closing price of the Shares quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

| Date | Closing price per Share <i>HK\$</i> |
|-------------------------|-----------------------------------------------|
| 2016 | |
| 30 June | 1.01 |
| 29 July | 0.97 |
| 31 August | 1.07 |
| 30 September | 1.39 |
| 31 October | 1.60 |
| 30 November | 1.68 |
| Last Trading Day | 1.69 |
| 30 December | 1.72 |
| Latest Practicable Date | 1.73 |

During the Relevant Period, the highest closing price of the Shares was HK\$1.73 per Share as quoted on the Stock Exchange on 3 January 2017, 5 January 2017, 6 January 2017, 9 January 2017, 10 January 2017, 11 January 2017, 12 January 2017, 13 January 2017, 16 January 2017 and 17 January 2017 and the lowest closing price of the Shares was HK\$0.96 per Share as quoted on the Stock Exchange on 3 August 2016.

(H) DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, the Company had entered into the following service contracts and letters of appointment with the Directors:

- (a) the service agreement dated 13 August 2015 entered into between the Company and Mr. Leong, pursuant to which Mr. Leong was appointed as an executive Director for an initial period of three years commencing from 13 August 2015 and shall continue thereafter unless terminated by either party by giving not less than 3 months' prior written notice and entitled to receive (i) a fixed salary of HK\$1,300,000 per annum and (ii) a discretionary bonus equivalent to 7% of the amount of profit exceeding HK\$23,000,000 if the audited consolidated profit of the Group after taxation but before payment of bonuses of the Group for the relevant financial year is greater than HK\$23,000,000 (the "**Discretionary Bonus**");
- (b) the service agreement dated 13 August 2015 entered into between the Company and Ms. Chew, pursuant to which Ms. Chew was appointed as an executive Director for an initial period of three years commencing from 8 September 2015 and renewable automatically for successive term of one year each commencing from the day following the expiry of the then current term unless terminated by either party by giving not less than 3 months' prior written notice and entitled to receive (i) a fixed salary of HK\$1,300,000 per annum and (ii) the Discretionary Bonus;

- (c) the service agreement dated 13 August 2015 entered into between the Company and Mr. Shih Steven Chun Ning, pursuant to which Mr. Shih Steven Chun Ning was appointed as an executive Director for an initial period of three years commencing from 13 August 2015 and shall continue thereafter unless terminated by either party by giving not less than 3 months' prior written notice and entitled to receive (i) a fixed salary of HK\$910,000 per annum and (ii) the Discretionary Bonus;
- (d) the letter of appointment dated 13 August 2015 entered into between the Company and Mr. Ho Hin Yip, pursuant to which Mr. Ho Hin Yip was appointed as an independent non-executive Director for an initial period commencing from 13 August 2015 to the date of listing of the Company on the Stock Exchange (i.e. 8 September 2015) ("**Listing Date**") and one year from the Listing Date and entitled to receive a director's fee of HK\$240,000 per annum. The Company continues to pay the director's fee of HK\$20,000 per month to Mr. Ho Hin Yip following the expiry of the terms of such letter of appointment;
- (e) the letter of appointment dated 13 August 2015 entered into between the Company and Mr. Tang Hamilton Ty, pursuant to which Mr. Tang Hamilton Ty was appointed as an independent non-executive Director for an initial period commencing from 13 August 2015 to the Listing Date and one year from the Listing Date and entitled to receive a director's fee of HK\$240,000 per annum. The Company continues to pay the director's fee of HK\$20,000 per month to Mr. Tang Hamilton Ty following the expiry of the terms of such letter of appointment; and
- (f) the letter of appointment dated 13 August 2015 entered into between the Company and Lee Frank King-ting, pursuant to which Mr. Lee Frank King-ting was appointed as an independent non-executive Director for an initial period commencing from 13 August 2015 to the Listing Date and one year from the Listing Date and entitled to receive a director's fee of HK\$240,000 per annum. The Company continues to pay the director's fee of HK\$20,000 per month to Mr. Lee Frank King-ting following the expiry of the terms of such letter of appointment.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) had been entered into or amended within six months before the date of commencement of the Offer Period; (ii) was a continuous contract with a notice period of 12 months or more; (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

(I) EXPERTS AND CONSENTS

The followings are the qualifications of the experts whose letters or opinions are contained in this Composite Document:

| Name | Qualification |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Huarong International Capital | A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| Goldin Financial | A licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO |
| Huarong International Securities | A licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO |
| VMS Securities | A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO |

As at the Latest Practicable Date, save for Huarong International Securities' interests in the Shares charged to it under the Loan Facility, neither Huarong International Capital, Goldin Financial, Huarong International Securities nor VMS Securities had any shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Huarong International Capital, Goldin Financial, Huarong International Securities and VMS Securities has given and has not withdrawn their respective written consents to the issue of this Composite Document with the inclusion of their respective letter, report and/or references to their respective name in the form and context in which they appear respectively.

(J) LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claims which would materially and adversely affect the operations of the Company and no litigation, arbitration or claims which would materially and adversely affect the operations of the Company was known to the Directors to be pending or threatened by or against any members of the Group.

(K) MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group) were entered into by the members of the Group within two years immediately preceding 23 December 2016 (being the commencement date of the Offer Period) and up to the Latest Practicable Date which are or may be material:

- (a) a sale and purchase agreement dated 19 January 2015 and entered into between, among others, Mr. Leong and Ms. Chew as vendors and the Company (which was a newly incorporated company at that time) as purchaser in respect of the sale and purchase of the entire issued share capital of Crystal Sky Group Limited in consideration of the Company allotting and issuing consideration Shares to the Vendor;
- (b) a sale and purchase agreement dated 3 August 2015 and entered into between, among others, Mr. Leong and Ms. Chew as vendors and the Company as purchaser in respect of the sale and purchase of the entire issued share capital of LCL China Limited in consideration of the Company allotting and issuing consideration Shares to the Vendor;
- (c) a sale and purchase agreement dated 3 August 2015 and entered into between, among others, Mr. Leong and Ms. Chew as vendors and the Company as purchaser in respect of the sale and purchase of the entire issued share capital of LCL Construction Limited in consideration of the Company allotting and issuing consideration Shares to the Vendor;
- (d) a sale and purchase agreement dated 3 August 2015 and entered into between, among others, Mr. Leong and Ms. Chew as vendors and the Company as purchaser in respect of the sale and purchase of the entire issued share capital of LCL Decoration Limited in consideration of the Company allotting and issuing consideration Shares to the Vendor;
- (e) a sale and purchase agreement dated 3 August 2015 and entered into between, among others, Mr. Leong and Ms. Chew as vendors and the Company as purchaser in respect of the sale and purchase of the entire issued share capital of LCL Design Limited in consideration of the Company allotting and issuing consideration Shares to the Vendor;
- (f) a sale and purchase agreement dated 3 August 2015 and entered into between, among others, Mr. Leong and Ms. Chew as vendors and the Company as purchaser in respect of the sale and purchase of the entire issued share capital of LCL Interior Limited in consideration of the Company allotting and issuing consideration Shares to the Vendor;
- (g) a sale and purchase agreement dated 3 August 2015 and entered into between, among others, Mr. Leong and Ms. Chew as vendors and the Company as purchaser in respect of the sale and purchase of the entire issued share capital of LCL Limited in consideration of the Company allotting and issuing consideration Shares to the Vendor;
- (h) a sale and purchase agreement dated 3 August 2015 and entered into between, among others, Mr. Leong and Ms. Chew as vendors and the Company as purchaser in respect of the sale and purchase of the entire issued share capital of LCL Architects Limited in consideration of the Company allotting and issuing consideration Shares to the Vendor;

- (i) a sale and purchase agreement dated 3 August 2015 and entered into between, among others, Mr. Leong as vendor and the Company as purchaser in respect of the sale and purchase of the entire issued share capital of LCL Deco Limited in consideration of the Company allotting and issuing consideration Shares to the Vendor;
- (j) a sale and purchase agreement dated 4 August 2015 and entered into between Smart Builder Holdings Limited, a wholly owned subsidiary of the Company, as vendor and Mr. Leong as purchaser in respect of the sale and purchase of the entire issued share capital of Crystal Sky Group Limited at a consideration of HK\$973,940.40;
- (k) the deed of non-competition undertaking dated 13 August 2015 and entered into between Mr. Leong, Ms. Chew and the Vendor in favour of the Company (for itself and as trustee for each of its subsidiaries), pursuant to which, Mr. Leong, Ms. Chew and the Vendor undertook not to compete with the business engaged by the Group on and subject to the terms set out therein;
- (l) the deed of indemnity dated 13 August 2015 and entered into between Mr. Leong, Ms. Chew and the Vendor in favour of the Company, pursuant to which each of Mr. Leong, Ms. Chew and the Vendor has given certain tax and estate duty indemnities and other indemnities in favour of the Company (for itself and as trustee for its subsidiaries);
- (m) the conditional public offer underwriting agreement dated 19 August 2015 and entered into by the Company, the executive Directors, the Vendor, Ample Capital Limited and Pacific Foundation Securities Limited relating to the offer of Shares for subscription by the public in Hong Kong (the “**Public Offer**”) on and subject to the terms set out therein;
- (n) the conditional placing underwriting agreement dated 1 September 2015 and entered into by the Company, the executive Directors, Ample Capital Limited, Ample Orient Capital Limited, Pacific Foundation Securities Limited, CNI Securities Group Limited, Supreme China Securities Limited, Kingsway Financial Services Group Limited and the Vendor relating to the conditional placing of Shares to professional, institutional and private investors (the “**Placing**”); and
- (o) the price determination agreement dated 1 September 2015 and entered into by the Company and Pacific Foundation Securities Limited for the purpose of determining the final offer price per Share under the Public Offer and the Placing.

(L) GENERAL

- (a) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at 21st Floor, Wyndham Place, No. 44 Wyndham Street, Central, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

- (d) The principal share registrar and transfer office of the Company in the Cayman Islands is Codan Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (e) The principal members of the Offeror's concert parties include the Offeror, National Business, Shanghai Guoming, Shanghai Zhongshe, Ms. Niu Fang and Mr. Liu Quanhui.
- (f) The registered address of the Offeror is Suite D, 11/F., One Capital Place, 18 Luard Road, Wanchai, Hong Kong.
- (g) The address of Ms. Niu Fang (who is the sole director and one of the beneficial owners of the Offeror) is No. 1996 Zhangyang Road, Pudong New Area, Shanghai, PRC.
- (h) The address of Mr. Liu Quanhui (who is one of the beneficial owners of the Offeror) is No. 606 Jiefang Avenue, Qiaokou District, Wuhan City, PRC.
- (i) The registered address of Huarong International Securities is 29/F, One Pacific Place, 88 Queensway, Hong Kong.
- (j) The English text of this Composite Document and the Form of Acceptance shall prevail over their Chinese text for the purpose of interpretation.

(M) DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) at the principal place of business of the Company in Hong Kong at 21st Floor, Wyndham Place, No. 44 Wyndham Street, Central, Hong Kong; (ii) on the website of the Company (<http://lchk.hk/>); and (iii) on the website of the SFC (www.sfc.hk), during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) from the date of this Composite Document up to and including the Closing Date:

- (a) the memorandum and articles of association of the Company;
- (b) the articles of association of the Offeror;
- (c) the annual reports of the Company for the two years ended 30 September 2015 and 2016;
- (d) the letter from Huarong International Securities, the text of which is set out on pages 6 to 13 of this Composite Document;
- (e) the letter from the Board, the text of which is set out on pages 14 to 18 of this Composite Document;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 19 to 20 of this Composite Document;
- (g) the letter from VMS Securities, the text of which is set out on pages 21 to 38 of this Composite Document;

- (h) the service contracts and letters of appointment referred to in the paragraph headed “Directors’ Service Contracts” in this appendix;
- (i) the written consents referred to under the paragraph headed “Experts and Consents” in this appendix;
- (j) the material contracts referred to in the paragraph headed “Material Contracts” in this appendix; and
- (k) the loan facility agreement dated 19 December 2016 in relation to the Loan Facility.