On Real International Holdings Limited
安悅國際控股有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 8245

2019
ANNUAL REPORT

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This report, for which the directors (the "**Directors**") of On Real International Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "**GEM Listing Rules**") of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

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CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. Tam Wing Ki
(Chief Executive Officer)
Mr. Gao Hong
(Vice chairman, retired on 25 July 2018)
Mr. Fu Yan Ming
Mr. Kwok Ming Fai

Non-executive Directors:

Mr. Chan Chung Yin Victor
(Appointed on 16 January 2019)

Independent Non-executive Directors:

Mr. Chan Shiu Man
Mr. Fung Chan Man, Alex
Mr. Wong Ching Wan

AUDIT COMMITTEE

Mr. Wong Ching Wan *(Chairman)*
Mr. Chan Shiu Man
Mr. Fung Chan Man, Alex

REMUNERATION COMMITTEE

Mr. Fung Chan Man *(Chairman)*
Mr. Chan Shiu Man
Mr. Wong Ching Wan

NOMINATION COMMITTEE

Mr. Tam Wing Ki *(Chairman)*
Mr. Chan Shiu Man
Mr. Wong Ching Wan
Mr. Fung Chan Man Alex

COMPANY SECRETARY

Mr. Hui Man Ho Ivan
(Appointed on 28 February 2019)
Mr. Au Yeung Ming Yin Gordon
(Resigned on 28 February 2019)

COMPLIANCE OFFICER

Mr. Kwok Ming Fai

AUTHORISED REPRESENTATIVES

Mr. Kwok Ming Fai
Mr. Au Yeung Ming Yin Gordon
(Resigned on 28 February 2019)
Mr. Hui Man Ho Ivan
(Appointed on 28 February 2019)

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1–1111 Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office D, 27/F., Billion Plaza 2
10 Cheung Yue Street
Kowloon, Hong Kong (Since 10 October 2018)

Office C, 27/F., Billion Plaza 2
10 Cheung Yue Street
Kowloon, Hong Kong (Up to 9 October 2018)

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1–1111 Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
Room 2103B, 21/F.
148 Electric Road, North Point
Hong Kong (Since 20 November 2017)

31/F, 148 Electric Road
North Point, Hong Kong (Up to 20 November 2017)

CORPORATE INFORMATION

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
16/F, The Center
99 Queen's Road Central
Hong Kong

AUDITOR

Elite Partners CPA Limited
10/F., 8 Observatory Road
Tsim Sha Tsui, Kowloon
Hong Kong
(appointed on 4 June 2019)

SHINEWING (HK) CPA Limited
43/F., Lee Garden One, 33 Hysan Avenue
Causeway Bay, Hong Kong
(resigned on 4 June 2019)

STOCK CODE

8245

COMPANY'S WEBSITE

www.on-real.com

DIRECTORS' STATEMENT

Dear shareholders,

On behalf of the board of Directors (the "**Board**") of On Real International Holdings Limited (the "**Company**") and its subsidiaries (together the "**Group**"), I am pleased to present to our shareholders the audited annual report of the Group for the financial year ended 31 March 2019 (hereafter referred as the "**Financial Year**").

OVERVIEW

During the financial year, the increasing trade tension between China and United States of America put stronger pressure to the overall economic environment and also to our business. Our sales of the major products of two-way radio and baby monitors decreased by 6.4% and 41.6% respectively in this financial year due to decrease in demand as a result of such macro environment. We remain cautious on the business outlook for the next year as the trade tension has no sign of ending at the moment.

The Directors have been continuously evaluating the current business strategies of the Group with an aim to streamline its business and improve its overall performance. The Group has continuously focusing on research and development of products and strength its products portfolio, to enhance the information and management system, and to strengthen its marketing efforts. The Group is proceeding cost migration of our fixed overhead in manufacturing into a variable costs in order to increase the flexibility of operation the business. The Group also explored opportunity in electronic component distribution business by start of trading of smart TV in the first quarter of 2018/19.

PROSPECT

Our business objectives are to grow our existing business by strengthen our product portfolio, enhancing our information management system and strengthen our marketing efforts. We have continued reviewing our business and manufacturing processes to implement cost saving measures in operations. Riding on our car camera system product launched last year, the Group is exploring opportunity in electronic component distribution business by starting of trading of smart TV in the first quarter of 2018/19.

The Group will continue looking into opportunities to diversify our revenue stream. For instance, we will be exploring the way to leverage our research and development capability to provide design engineering service to our customers. We will also be searching opportunities to leverage our developed sales channels and network for distributing related products.

In coming year, the Group is expecting to deploy more subcontracting arrangement to enhance the flexibility in terms of fixed cost commitment. The subcontracting arrangement may shift outside the People's Republic of China (the "**PRC**") to diversify the production processes and fulfill the requirement from the customers. We have started trading of smart TV to diversify the revenue stream. We will continue to put effort in developing new model of our products and diversify our revenue streams which are expected to bring growth potential for turnover to the Group and returns to the shareholders of the Company (the "**Shareholders**").

The Group will continue to put effort in developing new models of our products and aim to streamline the business and improve overall performance of the Group which are expected to bring growth potential for revenue to the Group and returns to the Shareholders. To reducing the impact of ongoing trade war between the PRC and the US, the Group intends to develop new production facilities outside the PRC, such as Malaysia, Vietnam. The Group looks at and considers potential investment opportunities from time to time and looking for business opportunity of the Company. The Group will also be looking at enhancing our business revenue and profitability by introducing new product categories and/or leverage our research and development capability to provide design engineering service to our customers.

Our gross margin and the profitability has been impacted by the exchange rate fluctuation and raw material increment in the financial year. To improve the profitability and compensate the exposure, we have been adjusting our pricing strategy to our customers and our material vendors and expecting some improvement in future.

APPRECIATION

I would like to take this opportunity to extend my sincere gratitude to all shareholders, investors and business partners for their continuous support to the Group. I would also like to express my appreciation to all fellow Directors, management and staff for their contributions to achieve the major milestones of the Group to date.

Kwok Ming Fai
Executive Director

Hong Kong
28 June 2019

OUTLOOK

Our business objectives are to grow our existing business by strengthen our product portfolio, enhancing our information management system and strengthen our marketing efforts. We have continued reviewing our business and manufacturing processes to implement cost saving measures in operations. Riding on our car camera system product launched last year, the Group is exploring opportunity in electronic component distribution business by starting of trading of smart TV in the first quarter of 2018/19.

The Group will continue looking into opportunities to diversify our revenue stream. For instance, we will be exploring the way to leverage our research and development capability to provide design engineering service to our customers. We will also be searching opportunities to leverage our developed sales channels and network for distributing related products.

On 11 December 2017, On Real Limited (as vendor), an indirect wholly-owned subsidiary of the Company, and Smart Tech Development Limited (as purchaser) entered into a disposal agreement (the "**Disposal Agreement**"), pursuant to which On Real Limited has conditionally agreed to sell and Smart Tech Development Limited has conditionally agreed to purchase the entire issued share capital in Onward Technology Development Limited, an indirect wholly-owned subsidiary of the Company, at a total consideration of HK$9.5 million (the "**Disposal**").

The Disposal is a step to achieve the cost restructuring plan of the Group and to reduce the costs of production and contingent liabilities for the labour cost.

Pursuant to the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018), the conditions precedent to the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018) shall be satisfied (or as the case may be, waived) on or before 30 June 2018 (the "**Long Stop Date**"), or such other date as the Vendor and the Purchaser may agree in writing. As certain conditions precedent to the Disposal Agreement have not been satisfied (or as the case may be, waived) on or before 30 June 2018, the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018) has ceased and determined. Given that considerable time has elapsed since the date of the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018) and the market condition has changed, the Purchaser decided, and the Vendor agreed, not to further extend the Long Stop Date and proceed with the transaction.

Upon termination of the Disposal Agreement, neither party shall have any obligations and liabilities towards each other thereunder.

Details of the Disposal and the expiry of the Long Stop Date were set out in the Company's announcements dated 11 December 2017, 5 January 2018, 5 February 2018, 5 March 2018, 29 March 2018, 7 May 2018, 4 June 2018 and 3 July 2018.

On 27 September 2018, the Company, as subscriber, entered into the memorandum of understanding (the "**MOU**") with Primus Power Corporation, a company incorporated and existing under the laws of the State of Delaware, the United States of America ("**Target**"), pursuant to which the parties to the MOU will negotiate for the proposed subscription by the Company of certain securities in the Target.

Subject to further negotiation and the entering into of a legally-binding formal agreement, and the fulfilment or wavier of conditions precedent which may be set out in the formal agreement, the Company intends to subscribe for certain number of securities to be issued by the Target at a consideration to be determined (the "**Proposed Subscription**").

The final terms of the Proposed Subscription, including the consideration and the number of securities to be subscribed will be subject to further negotiations and the formal agreement to be entered into between the parties to the MOU.

On 8 October 2018, the Company entered into a non-legally binding term sheet (the "**Term Sheet**") with the Target, pursuant to which the parties to the Term Sheet will further negotiate for the Proposed Subscription by the Company of certain number of Series F Convertible Preferred Stock to be issued by the Target at a share price to be determined by the parties to upon signing of a formal agreement. The indicative total subscription consideration is US$10 million. The subscription price will be payable by the Company to the Target at the applicable closing date of the upon the satisfaction or waiver of closing conditions as may be stated in the formal agreement.

On 16 December 2018, the Company entered into the Series F preferred stock purchase agreement with the Target (the "**Preferred Stock Purchase Agreement**"), pursuant to which the Company agrees to purchase and the Target agrees to sell and issue to the Company, the 47,510,800 Series F preferred stocks at the subscription price of US$0.136811 per Series F preferred stock ("**Purchased Preferred Stocks**"). As at the date of the Preferred Stock Purchase Agreement, the Purchased Preferred Stocks represent approximately 11.89% of the enlarged issued share capital of the Target upon full conversion of all issued preferred stocks of the Target but before the exercise of options under the employees share option plan and the warrants of the Target in issue.

In addition to the Purchased Preferred Stocks, the Target will issue to the Company without additional consideration, the warrants, to purchase the number of 5,138,574 fully paid and non-assessable shares of Series F preferred stocks at the fair value.

On 17 January 2019, the Company announced that the Preferred Stock Purchase Agreement has lapsed on 14 January 2019. The Board is in the course of negotiating with the Target to continue the transaction contemplated under the Preferred Stock Purchase Agreement, yet as at the date of this report no binding agreement has been entered into between the parties to such effect. Further announcement will be made by the Company as and when appropriate when material development take place.

Details of the Proposed Subscription and Preferred Stock Purchase Agreement were set out in the Company's announcements dated 27 September 2018, 8 October 2018, 7 December 2018, 14 December 2018, 16 December 2018 and 17 January 2019.

On 10 October 2018, the Company entered into the technology collaboration agreement (the "**Agreement**") with Seiki Corporation ("**Seiki**"), which is a company incorporated in the United States of America, pursuant to which the Company has agreed to provide engineering design and technical support service to Seiki in relation to the Project (defined as below).

The Company will provide engineering design and technical support service to Seiki to facilitate the implementation of the project(s) (the "**Project**") under a collaboration agreement entered into between Google LLC ("**Google**") and Kelly Digital Company Limited ("**KDI**"), the holding company of Seiki. The Project is related to the products and services developed by KDI under Google's technology including but not limited to smart TV, smart speakers, smart soundbar, smart idisplay and smart monitors.

Details of the Agreement were set out in the Company's announcement dated 10 October 2018.

Below are the progress of the objectives and strategies as disclosed in our prospectus (the "**Prospectus**") dated 18 September 2015:

(i) Strengthen our product portfolio: we are going to develop new high-end two-way radio and baby monitor products with new features and technologies. The high-end commercial two-way radio for European market was launched in third quarter of 2017. A new series of analog radio with new outlook has been launched by the end of 2017. Another high-end marine two-way radio is expected to be launched in the coming year. We are also looking at enhancing our business revenue and profitability by introducing new product categories and/or leverage our research and development capability to provide design engineering service to our customers.

(ii) Enhance our information management system: We will keep evaluating our information management system, upon the market condition, we will target to improve our information system to cope with the communication between our customers and suppliers.

(iii) Strengthen our marketing efforts: we continue to maintain our market presence and expand our sales channels and new potential customers globally by introducing new products.

In additional to the objectives and strategies as disclosed in Prospectus, we are proceeding costs migration of our fixed overhead in manufacturing into a variable cost in order to increase the flexibility of operation the business.

Use of Proceeds from the Listing

On 30 September 2015, 120,000,000 ordinary shares of the Company were allotted at HK$0.57 per placing share pursuant to the Placing (as defined in the Prospectus). The net proceeds from the Placing received by the Company were approximately HK$30.9 million (after deduction of any related expenses). As at 31 March 2019, the unused proceeds of approximately HK$4.5 million were deposited into licensed banks in Hong Kong. The Company intends to continue to apply the remaining net proceeds in accordance with the proposed applications set out above.

From the listing date of the Company to 31 March 2019, the net proceeds had been utilized as follows:

	Actual net proceeds allocated HK$ Million	**Amount utilized up to 31 March 2019** HK$ Million	**Balance as at 31 March 2019** HK$ Million
Strengthen our product portfolio	21.7	19.6	2.1
Enhance our information management systems	2.4	—	2.4
Strengthen our marketing efforts	4.0	4.0	—
Working capital and other general corporate purposes	2.8	2.8	—
	30.9	26.4	4.5

In additional to the objectives and strategies as disclosed in the Prospectus, it is the Company's continuous effort to maintain low overhead costs, and by reducing our own in-house production; and increasing outsourcing to some PRC and overseas subcontractors, the Company is able to enhance its flexibility and maintained a cost control. The Company will assess the feasibility to outsource more production in the future.

BUSINESS REVIEW

The Group is a two-way radio product designer and manufacturer established in 2001. We derive revenue principally from designing, manufacturing and selling two-way radios and baby monitor products on original design manufacturing basis.

The Group's revenue increased from approximately HK$297.1 million for the year ended 31 March 2018 to approximately HK$323.5 million for the year ended 31 March 2019, representing an increase of approximately 8.9%. The major reason is the decrease of the Group's revenue of two-way radios and baby monitors for the year ended 31 March 2018. Such increase was mainly due to start trading of smart TV during the year ended 31 March 2019.

The Group's revenue of two-way radios decreased by approximately 6.4% from approximately HK$225.9 million for the year ended 31 March 2018 to approximately HK$211.4 million for the year ended 31 March 2019 mainly due to the decrease in demand from our customers.

The Group's revenue of baby monitor significantly decreased by approximately 41.6% from approximately HK$29.4 million for the year ended 31 March 2018 to approximately HK$17.1 million for the year ended 31 March 2019 mainly due to the decrease in demand of our audio baby monitor products.

The Group's revenue of services business increased by approximately 36.6% from approximately HK$7.1 million for the year ended 31 March 2018 to approximately HK$9.7 million for the year ended 31 March 2019 mainly due to the increase in the provision of electric manufacturing servicing business.

The Group's revenue of other products significantly increased by approximately 144.7% from approximately HK$34.8 million for the year ended 31 March 2018 to approximately HK$85.2 million for the year ended 31 March 2019 mainly due to start trading of smart TV with a amount of HK$39.9 million during the year ended 31 March 2019.

The following table sets forth the breakdown of the revenue of the Group by product/service categories for each of the year ended 31 March 2019 and 2018:

	For the year ended 31 March					
	2019		2018		Increase (Decrease)	
	HK$'000	**%**	HK$'000	%	HK$'000	%
Two-way radio	**211,486**	**65.4**	225,866	76.0	(14,380)	(6.4)
Baby monitors	**17,141**	**5.3**	29,356	9.9	(12,215)	(41.6)
Service business	**9,692**	**3.0**	7,094	2.4	2,598	36.6
Other products	**85,187**	**26.3**	34,815	11.7	50,372	144.7
Total	**323,506**	**100**	297,131	100	26,375	8.9

FINANCIAL REVIEW

Cost of Sales and Gross Profit

The majority of the Group's cost of sales comprised of raw material cost, direct labour costs and subcontracting fees. The cost of sales increased by approximately 12.1% from approximately HK$266.8 million for the year ended 31 March 2018 to approximately HK$299.1 million for the year ended 31 March 2019, due to start trading of smart TV. The gross profit margin decreased from approximately 10.2% for the year ended 31 March 2018 to approximately 7.5% for the year ended 31 March 2019, mainly due to the increase in trading of smart TV with a lower margin comparing with other product categories which in turns drag down the entire profit margin of the Group.

Selling and Distribution Expenses

The selling and distribution expenses increased from approximately HK$3.9 million for the year ended 31 March 2018 to approximately HK$4.1 million for the year ended 31 March 2019, which was mainly due to increase of marketing and promotion expenses for the market of America.

Administrative Expenses

The administrative expenses decreased from approximately HK$32.6 million for the year ended 31 March 2018 to approximately HK$27.4 million for the year ended 31 March 2019, which was mainly due to the costs optimization.

(Loss)/profit attributable to the owners of the Company

The Group recorded a loss of HK$9.8 million for the year ended 31 March 2019, compared to profit of HK$0.9 million for the year ended 31 March 2018 primarily due to the decrease in gross profit in trading of lower margin product and the impairment loss of financial assets at amortised cost.

Dividends

The Board does not recommend the payment of a dividend for the year ended 31 March 2019.

Significant Investments held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

There were neither significant investments held as at 31 March 2019 nor material acquisitions and disposals of subsidiaries during the year ended 31 March 2019.

On 20 June 2019, Mr. Tam Wing Ki ("**Mr. Tam**"), the executive directors of the Company and On Real Limited ("**the Vendor**"), an indirect wholly-owned subsidiary of the Company entered into the Agreement, pursuant to which Mr. Tam has conditionally agreed to purchase, and the Vendor has agreed to sell, the asset of the life insurance plan "Jade Global Select Universal Life Plan" insured by HSBC Life (International) Limited on the life of Mr. Tam at a consideration of HK$9,500,000 to be settled by cash.

Apart from the transactions disclosed on the above, there is no plan for material investment or capital assets as at 31 March 2019.

Treasury policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients and credit review of the Group's loan portfolio. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Employees and remuneration policies

As at 31 March 2019, the Group had a total of 284 staff (2018: 380). Total staff costs (including Directors' emoluments) were approximately HK$27.5 million for the year ended 31 March 2019 (2018: approximately HK$39.0 million). Remuneration is determined with reference to market conditions and the performance, qualifications and experience of individual employee. Year-end bonus will be paid to employees as recognition of and reward for their contributions according to individual performance. Other benefits include share option scheme, contributions to statutory mandatory provident fund schemes and social insurance together with housing provident funds to its employees in Hong Kong and the PRC respectively.

Liquidity and financial resources

As at 31 March 2019, the Group's cash and cash equivalents amounted to approximately HK$24.6 million, representing a decrease of approximately HK$5.1 million as compared to that of approximately HK$29.7 million as at 31 March 2018. Historically, the Group has funded the liquidity and capital requirements primarily through operating cash flows and bank borrowings. As of 31 March 2019, we had various short term loan, bank borrowings and overdrafts of approximately HK$54.2 million, including factoring loan for trade receivables (as at 31 March 2018: approximately HK$36.5 million), representing an increase of approximately HK$17.7 million as compared to that as at 31 March 2018.

Net current assets decreased from approximately HK$54.2 million for the year ended 31 March 2018 to approximately HK$42.8 million for the year ended 31 March 2019, which was mainly due to increase in short-term borrowings for trading business during the year.

The Company requires cash primarily for working capital need. As of 31 March 2019, the Company had approximately HK$24.6 million in cash and bank balances (as at 31 March 2018: approximately HK$29.7 million), representing a decrease of approximately HK$5.1 million as compared to that as at 31 March 2018.

Gearing Ratio

As at 31 March 2019, the gearing ratio of the Group was approximately 85.6% (as at 31 March 2018: approximately 61.3%). The gearing ratio is calculated based on the total borrowings divided by the total equity at the end of the period. The increase of the gearing ratio was mainly attributable to the increase in amount of borrowings for short-term loan to support the settlement to suppliers.

Contingent Liabilities

As at 31 March 2019, the Company had no significant contingent liabilities (as at 31 March 2018: Nil).

Pledged of Assets

At the end of the reporting period, the Group's banking facilities were secured by:

(i) certain of the Group's trade receivables with an aggregate amount of approximately HK$33,584,000 (2018: HK$27,556,000);

(ii) pledged bank deposits with an aggregate amount of approximately HK$1,128,000 (2018: HK$2,381,000);

(iii) pledge of key-man insurance with an aggregate amount of approximately HK$14,132,000 in year ended 31 March 2018; and

(iv) a corporate guarantee from the Company with an aggregate amount of approximately HK$65,000,000 (2018: HK$65,000,000).

Capital Commitments

The Company had capital commitments on acquisition of intangible assets and property, plant and equipment of approximately HK$0.2 million (as at 31 March 2018: HK$1.2 million).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Tam Wing Ki (談永基), aged 50, is the founder of the Group and appointed as the executive Director on 30 June 2014. He is the chairman of our nomination committee and our chief executive officer. He is also the chairman of our Board from June 2019 to April 2019.

He is responsible for the overall strategic planning and corporate policies as well as overseeing the operations of our Group. He is also a director of each subsidiary of our Company except Shenzhen Anyue New Technology Limited*. Mr. Tam has more than 20 years of experience in the consumer electronic products industry. Before founding our Group, Mr. Tam assumed various positions including a production material control manager of Central Base Enterprises Ltd from April 1991 to May 1998 and the factory manager of Hantong Communication Company Limited from June 1998 to December 2000. Mr. Tam attended the Tsuen Wan Government Secondary Technical School in Hong Kong and completed the Hong Kong Certificate of Education Examination in 1986.

Mr. Fu Yan Ming (符恩明), aged 54, is appointed as our executive Director on 3 October 2016. Mr. Fu is a fellow member of The Association of Chartered Certified Accountants. He holds a bachelor degree in business administration from The Chinese University of Hong Kong. Mr. Fu possess over 25 years of experience in accounting, audit, internal control, financial control, strategic business planning and operations. He has worked for various international institutions, accounting firms, pharmaceutical distributor, TMT companies and listed companies. He held various senior positions including chief executive officer, finance manager, financial controller and company secretary in Hong Kong, Taiwan and the PRC.

Mr. Kwok Ming Fai (郭明輝), aged 54, is appointed as our executive Director on 10 August 2016. Mr. Kwok is appointed as the Compliance Officer on 1 September 2017. Mr. Kwok possesses over 20 years of experience in banking, finance and accounting and held executive positions at several international financial institutions, accounting firm and listed companies. Mr. Kwok obtained a Bachelor Degree in Accounting & Economics from the University of Sheffield in the United Kingdom and a Master Degree in Business Administration from the University of Adelaide in Australia. He is a member of CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwok is currently an independent non-executive director of DT Capital Limited (stock code: 0356). Mr. Kwok was also an independent non-executive director of Winshine Science Company Limited (formerly known as Winshine Entertainment & Media Holding Company Limited) (stock code: 0209) from October 2009 to November 2014.

From September 2006 to April 2019, Mr. Kwok was also an executive director of Zhongda International Holdings Limited (Stock code: 0909), whose shares delisted on the main board of the Stock Exchange on 8 March 2019.

NON-EXECUTIVE DIRECTORS

Mr. Chan Chung Yin Victor (陳仲然), aged 57, is appointed as our non-executive Director on 16 January 2019. He obtained a Bachelor of Arts degree from the University of Hong Kong in 1984. He has been admitted as a Solicitor of the High Court of Hong Kong since 1991 and has over 27 years of experience in commercial law, and civil and criminal litigations. He is now the principal of his own solicitors firm, Messrs. Victor Chan & Co.

Currently, Mr. Chan is an independent non-executive director of Teamway International Group Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 1239) and Sanai Health Industry Group Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1889). Mr. Chan was an independent non-executive director of Elegance Optical International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 907) from 29 September 2018 to 11 January 2019.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Shiu Man (陳劭民), aged 52, is appointed as our independent non-executive Director, a member of each of our audit committee, remuneration committee and nomination committee on 31 August 2016. Mr. Chan is a certified public accountant in Hong Kong and the US. He holds a master degree in finance from University of Hawaii of US. Mr. Chan has over 25 years of experience in financial control and corporate restructuring. He has worked for various companies in the US, including a NASDAQ listed company to establish financial operation in Japan, Europe, and the PRC. Mr. Chan also has experience in consulting on corporate finance, project financing and accounting issues to companies in US, Europe and the PRC. From October 2011 to April 2019, Mr. Chan was an independent non-executive director of Zhongda International Holdings Limited (Stock code: 0909), whose shares delisted on the main board of the Stock Exchange on 8 March 2019. Mr. Chan was a non-executive Director of China Oil Gangran Energy Group Holdings Limited (Stock code: 8132) from July 2017 to August 2018.

Mr. Fung Chan Man Alex, (馮燦文) aged 56, is appointed as our independent non-executive Director, a chairman of remuneration committee, a member of each of our audit committee and nomination committee on 31 July 2017. Mr. Fung obtained a BSc (Hons) degree in electrical and electronic engineering from the University of Bath in 1986 and subsequently a MBA degree from Heriot-Watt University. He has over 15 years of working experience in financial market and corporate finance activities in both Hong Kong and China. Currently, Mr. Fung is the independent non-executive director of Luxey International (Holdings) Limited (stock code: 8041) and i-Control Holdings Limited (stock code: 8355). Mr. Fung is also the independent non-executive director of Great Wall Belt & Road Holdings Limited (stock code: 524) from February 2015 to December 2018. Mr. Fung is representative of a licensed corporation to advise on corporate finance matters.

Mr. Wong Ching Wan (王青雲), aged 53, is appointed as our independent non-executive Director on 31 March 2016. He is also as the chairman of our audit committee, member of our remuneration committee and a member of our nomination committee. He is a member of the CPA Australia, the Hong Kong Institute of Certified Public Accountants, Chartered Professional Accountant of Canada and a fellow member of The Taxation Institute of Hong Kong. He has obtained a Bachelor of Business and Administration from the Chinese University of Hong Kong in 1989 and a Bachelor of Commerce from The University of Southern Queensland in 1992. Also, he has studied in the Professional Master of Business Administration course offered by the Troy State University, the US. Mr. Wong is the compliance officer of China Finance Investment Holdings Limited (stock code: 0875) from November 1, 2018 and an independent non-executive director of Huge China Holdings Limited (now known as Cocoon Holdings Limited) (stock code: 0428), which shares are listed on main board of the Stock Exchange from May 2015 to June 2018. He was the company secretary and authorised representative of China Oil Gangran Energy Group Holdings Limited (stock code: 8132) from 15 December 2015 to 31 October 2016 and from 15 December 2015 to 23 January 2017 respectively, which shares are listed on GEM board of the Stock Exchange. He was also a director of Network CN, Inc. (stock code: NWCN) from 28 August 2015 to 1 July 2017, which shares are duly traded in the US. Mr. Wong has more than 25 years of experience in audit, internal control, financial control and capital market. He has held various positions in different companies in the PRC, the USA and Hong Kong including senior position in multinational companies.

SENIOR MANAGEMENT

Mr. Ho Kwok Ming (何國明), age 57, is an engineering manager of our Group. He is primarily responsible for product design and coordination with marketing department of our Group. He joined our Group in October 2004.

Prior to joining our Group, Mr. Ho's primary working experiences include: a technician, an electronic engineer and an electronic engineer of Kong Wah Communications Limited from August 1987 to December 1991, January 1992 to August 1992 and April 1993 to March 1996, respectively, an electronic engineer of Kong Wah Electronic Enterprises Ltd. from April 1996 to November 1996, a technical officer and subsequently promoted to senior technical officer of New World Telephone Ltd. from December 1996 to December 1999 and an electronic engineer of Elite Industrial Holdings Ltd. from January 2000 to July 2003. Mr. Ho received a higher diploma in telecommunications and networking from Hong Kong Institute of Vocational Education in Hong Kong in July 2004.

Mr. Wong Kin Fan (黃健勳), aged 53, is the financial controller and is primarily responsible for the financial reporting and financial and accounting management of our Group. He joined our Group in May 2018.

Mr. Wong received the bachelor's degree in business from University of Southern Queensland in March 1994, the post graduate diploma of information technology from Central Queensland University in 2001 and the Master of business administration from University of Ballarat in 2007. He is a member of the Certified Public Accountants Australia since March 2003. Mr. Wong has more than 20 years of experience in auditing, internal control and financial control. He worked for various international institutions and listed companies.

* *The English translation of the Chinese name is for information only, and should not be regarded as the official English translation of such name. Please refer to the Chinese version of this annual report for the Chinese name.*

CORPORATE GOVERNANCE REPORT

The Company is committed to ensure a high standard of corporate governance in the interests of the shareholders and devote considerable effort to maintain high level of business ethics and corporate governance practices.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "**GEM Listing Rules**") throughout the year. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code during the year ended 31 March 2019, except for certain deviations as specified with considered reasons for such deviations as explained below. The Board of the Company will keep reviewing and updating such practices from time to time to ensure compliance with legal and commercial standards.

CORPORATE GOVERNANCE STRUCTURE

The Board is primarily responsible for formulating strategies, monitoring performance and managing risks of the Group. At the same time, it also has the duty to enhance the effectiveness of the corporate governance practices of the Group. Under the Board, there are 3 board committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**"). All these committees perform their distinct roles in accordance with their respective terms of reference (available on the Company's website) and assist the Board in supervising certain functions of the senior management.

DIRECTORS' SECURITIES TRANSACTIONS

The Group had adopted Rules 5.46 to 5.67 of the GEM Listing Rules (the "**Model Code**") as its own code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings.

Having made specific enquiry with all the Directors, all the Directors of the Company had confirmed compliance with the required standard of dealings set out in the Model Code and the code of conduct for Directors' securities transactions during the year ended 31 March 2019.

BOARD OF DIRECTORS

At present, the Board comprises seven directors ("**Directors**") as follows:

Executive Directors:
Mr. Tam Wing Ki *(Chief Executive Officer)*
Mr. Gao Hong *(Vice Chairman, retired on 25 July 2018)*
Mr. Fu Yan Ming
Mr. Kwok Ming Fai

Non-executive Directors:
Mr. Chan Chung Yin Victor *(Appointed on 16 January 2019)*

Independent Non-executive Directors:
Mr. Chan Shiu Man
Mr. Fung Chan Man Alex
Mr. Wong Ching Wan

Biographical details of the Directors are set out in the section of "Biographical Details of Directors and Senior Management" on pages 14 to 16. There are no family or other material relationships among members of the Board.

The Board has the responsibility for leadership and control of the Company. They are collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board is accountable to the shareholders for the strategic development of the Group with the goal of maximising long-term shareholder value, while balancing broader stakeholder interests.

Pursuant to Code Provision A.1.1 of the CG Code, the Board is expected to meet regularly and Board meeting should be held at least four times a year at approximately quarterly intervals. 9 Board meetings and 1 general meeting were held during the year ended 31 March 2019.

The attendance record of each Director at Board meetings, Audit Committee meetings, Remuneration Committee meeting, Nomination Committee meeting and general meeting during the year ended 31 March 2019 is set out in the following table:

Name of Directors	Board Meetings (attendance/ total no. of meeting held)	Audit Committee Meetings (attendance/ total no. of meeting held)	Remuneration Committee Meetings (attendance/ total no. of meeting held)	Nomination Committee Meetings (attendance/ total no. of meeting held)	General Meeting (attendance/ total no. of meeting held)
Executive Directors					
Mr. Tam Wing Ki	9/9	N/A	N/A	2/2	1/1
Mr. Fu Yan Ming	9/9	N/A	N/A	N/A	1/1
Mr. Gao Hong *(Retired on 25 July 2018)*	1/2	N/A	N/A	N/A	1/1
Mr. Kwok Ming Fai	9/9	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Chan Chung Yin Victor *(Appointed on 16 January 2019)*	1/1	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Chan Shiu Man	9/9	4/4	2/2	2/2	1/1
Mr. Fung Chan Man Alex	9/9	4/4	2/2	2/2	1/1
Mr. Wong Ching Wan	9/9	4/4	2/2	2/2	1/1

Code Provision A.1.3 of the CG Code stipulates that at least 14 days' notice should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are generally given. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or audit committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All Directors are provided with details of agenda items for decisions making with reasonable notice and welcome to include matters in the agenda of each Board meeting. Directors have access to the advice and services of the company secretary of the Company ("**Company Secretary**") who is responsible for ensuring that the Board procedures are complied with and advising the Board on compliance matters.

Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are opened for inspection as request by Directors. During the year, the Board was given sufficient time to review and approve the minutes of Board meetings and meetings of Board committees. Directors are also provided with access to independent professional advice, where necessary, in carrying out their obligations as Directors of the Company, at the expense of the Company.

If potential conflict of interest involving a substantial shareholder or a Director arises which the Board has determined to be material, the matter will be dealt with by a physical Board meeting rather than a written resolution. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting. The Directors attend meetings in persons or through other means of electronic communication in accordance with the Bye-laws of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Executive Directors and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the Executive Directors and senior management.

All Directors assume the responsibilities owed to the shareholders of the Company for the well-being and success of the Company. They are aware of their duties to act in good faith and in the best interests of the Company.

The Board is responsible for maintaining proper accounting records so as to enable the Directors to monitor the Company's overall financial position. The Board updates shareholders on the operations and financial position of the Group through quarterly, half yearly and annual results announcements as well as the publication of timely announcements of other matters as prescribed by the relevant rules and regulations.

The Company has three Independent Non-executive Directors, at least one of whom has appropriate financial management expertise, in compliance with the GEM Listing Rules. Each of the Independent Non-executive Director has made an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the Independence Guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

According to the Company's articles of association, newly appointed Directors shall hold office until the next following general meeting and shall be eligible for re-election at that meeting. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under Code Provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

During the year ended 31 March 2019 under review, the roles of chairman and chief executive officer of the Company has not been separated. Mr. Tam is currently performing the roles of chairman and chief executive officer of the Company. Taking into account Mr. Tam is the founder of the Group and has been operating and managing the Group since 2001, the Board considers that the roles of chairman and chief executive officer being performed by Mr. Tam enable more effective and efficient overall business planning, decision making and implementation thereof by the Group. In order to maintain good corporate governance and fully comply with code provisions of the CG Code, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

One of the important roles of the chairman is to provide leadership for the Board to ensure that the Board always acts in the best interest of the Group. The chairman takes primary responsibility for ensuring that good corporate governance practices and procedures are established and the Board works effectively and fully discharges its responsibilities, and that all key issues are discussed by the Board in a timely manner. The chairman has taken into account, where appropriate, any matters proposed by the Directors for inclusion in the agenda. The chairman has delegated the responsibility of drawing up the agenda for each Board meeting to the Company Secretary. With the support of the Company Secretary, the chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and have received adequate and reliable information in a timely manner.

The Board considers that there are adequate balance of power and safeguards in place and will review and monitor this situation periodically and will ensure that present structure would not impair the balance of power of the Company.

Subsequent on 1 April 2019, Mr. Tam has resigned from his position as Chairman of the Board of the Company. The position of Chairman of the Board has been vacant since 1 April 2019. The Company will seek suitable candidate to fill the vacancy of the Chairman of the Board.

APPOINTMENT, RE-ELECTION AND REMOVAL

During the year, the Directors provided the Company and its subsidiaries with a wide range of expertise and experience. Their active participation in the Board and committee meetings brought independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders of the Company. Under Code Provision A.4.1 of the CG Code, each of the Non-Executive Directors and Independent Non-Executive Directors ("**INED**") has entered into a service contract with the Company for three years but subject to termination in certain circumstance as stimulated in the relevant service contracts. At each annual general meeting, one third of the Directors for the time being (of if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his/her appointment and be eligible for re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing corporate governance duties and has adopted written terms of reference on its corporate governance functions.

The duties of the Board in respect of the corporate governance functions include:

(i) developing and reviewing the Company's policies and practices on corporate governance;

(ii) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year ended 31 March 2019 and up to the date of this report, the Board has performed the corporate governance duties in accordance with its terms of reference.

BOARD DIVERSITY POLICY

The Company has adopted the board diversity policy. The policy sets out the approach to achieve diversity in the Board that should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Group's business and compliance with policies. The composition and diversity policies of the Board is reviewed annually and regularly. The Board should ensure that its changes in composition will not result in any undue interference. The Board members should possess appropriate professionalism, experience and trustworthiness in performing duties and functions. The Board would diversify its members according to the Company's situations and need. While participating in nomination and recommendation of director candidates during the year, each member of the Board may consider a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, or professional experience in achieving diversity for the benefit of the Company's various business development and management. The Board has to review the policy concerning diversity of Board members and to disclose the policy or a summary of the policy in the corporate governance report, including any quantitative targets and standards and its progress with policy implementation.

BOARD COMMITTEES

The Board has established three board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

AUDIT COMMITTEE

The Company has established an audit committee on 16 September 2015 with written terms of reference that set out the authorities and duties of the Audit Committee. The terms of reference of the Audit Committee are available at the Company's website and on the website of the Stock Exchange. The Audit Committee performs, amongst others, the following functions:

- To review the financial information of the Group.
- To review the relationship with and terms of appointment of the external auditor.
- To review the effectiveness and adequacy of the Company's financial reporting system, internal control system and risk management system.

During the year, the Audit Committee held 4 meetings. The Audit Committee oversaw the internal control system of the Group, reviewed the consolidated financial statements of the Group for the year ended 31 March 2019, quarterly and half yearly results, the accounting principles and practices adopted by the Group, selection and appointment of the external auditor, reports to the Board on any material issues, and made recommendations to the Board. There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 March 2019.

As at 31 March 2019, the Audit Committee comprises three members namely:

Mr. Wong Ching Wan *(Chairman)*
Mr. Chan Shiu Man
Mr. Fung Chan Man Alex

All the members are Independent Non-Executive Directors (including two Independent Non-Executive Directors who possess the appropriate professional qualifications, accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

REMUNERATION COMMITTEE

A remuneration committee was set up on 16 September 2015, with written terms of reference in compliance with the code provisions of the CG Code, which have been reviewed from time to time by the Board to keep them in line with the most up-to-date requirements to oversee the remuneration policy and structure for all Directors and senior management. The most up-to-date written terms of reference of the Remuneration Committee are available on the Company's website and on the website of the Stock Exchange.

The primary objectives of the Remuneration Committee include making recommendations to the Board on the remuneration policy and structure of the Directors and the senior management and determining the remuneration packages of all Executive Directors and senior management. The Remuneration Committee is also responsible to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance based remuneration. The Remuneration Committee has reviewed the remuneration packages and emoluments of Directors and senior management and considered that they are fair and reasonable during the year ended 31 March 2018.

The Remuneration Committee held 2 meetings during the year. The members reviewed the remuneration package of Directors and the senior management of the Company.

As at 31 March 2019, the Remuneration Committee comprises three members namely:

Mr. Fung Chan Man Alex *(Chairman)*
Mr. Chan Shiu Man
Mr. Wong Ching Wan

Majority of the members are Independent Non-executive Directors.

In addition, pursuant to Code Provision B.1.5 of the CG Code, the number of non-director senior management whose annual remuneration by band during the year ended 31 March 2019 is set out below, details of the Directors remuneration are set out in note 14:

	2019
Nil to HK$1,000,000	2

NOMINATION COMMITTEE

The Company has established a nomination committee on 16 September 2015 for making recommendations to the Board on appointment of Directors and succession planning for the directors.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of Directors, reviewing and recommending for the Board's approval of the proposed resolution for re-election of the retiring Directors at 2019 AGM, reviewing the structure, size, composition and diversity of the Board and assessing the independence of each INED.

In considering the appointment of new directors, the Nomination Committee assessed the relevant candidates on criteria such as integrity, independent mindedness, experience, skill and ability to commit time and effort to carry out their duties and responsibilities effectively etc., and made recommendation to the Board for approval.

In accordance with the Company's Articles of Association, Mr. Gao Hong, Mr. Fung Chan Man Alex, Mr. Tam Wing Ki and Mr. Wong Ching Wan shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Nomination Committee will meet as and when necessary in accordance with its terms of reference and may also deal with matters by way of circulation. The Nomination Committee held 2 meetings during the year. The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the forthcoming annual general meeting of the Company.

As at 31 March 2019, the Nomination Committee comprises four members namely:

Mr. Tam Wing Ki *(Chairman)*
Mr. Chan Shiu Man
Mr. Wong Ching Wan
Mr. Fung Chan Man Alex

Majority of the members are Independent Non-executive Directors.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial year which gives a true and fair view. In preparing the consolidated financial statements, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance were complied with. The Directors believe that they have selected suitable accounting policies and applied them consistently, and made judgments and estimates that are prudent and reasonable and have ensured that the consolidated financial statements are prepared on a going concern basis.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for maintaining sound and effective internal control systems in order to safeguard the Group's assets and shareholders' interests and review and monitor the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that internal control and risk management systems in place are adequate. The Company has established written policies and procedures applicable to all operating units to ensure the effectiveness of internal controls. The Company also has a process for identifying, evaluating and managing the significant risks to the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout the year and up to the date of this report. The day-to-day operation is entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board. The Company carries out reviews on the effectiveness of the internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

To control risks in relation to sanctions laws under the US, the European Union and Australia, the Company endeavours to continuously monitor and evaluate the business and take measures to protect the interest of the Group and shareholders. In particular, the Company have adopted the policies as stated in the section headed "Risk Factors" in the Prospectus.

Russia is one of our shipment destinations of our products. Our revenue generated from the sales of our products shipped to Russia represented less than 0.2% in terms of our total revenue for the year ended 31 March 2019. Following Russia's military intervention in Ukraine in 2014, the United States, the European Union and Australia have put in place certain economic or trade sanctions against, among others, certain named Russian individuals and entities. To control and monitor our business exposure to sanction risk, the Company endeavors to continuously monitor and evaluate our business and take measure to protect the interest of the Group and Shareholders. In particular, the Company has adopted the following policies during the year ended 31 March 2019:

(i) the Company has maintained an updated log on the publicly available sanction lists maintained by the United States, the European Union and Australia (the "**Sanction Lists**") and has disseminated the updated Sanction Lists to all its relevant staff on a regular basis to promote staff awareness in general and to facilitate effective monitoring of sanction laws;

(ii) any existing and/or potential business dealings that become suspected of sanctions risks exposure had been ceased and reported to the Directors immediately, whereupon the Directors has investigated and consulted with legal advisers with necessary expertise and experience in international sanction law matters and taken appropriate actions;

(iii) Mr. Kwok Ming Fai, an executive Director of the Company, has been overseeing our compliance with sanctions laws and has consulted legal advisers with necessary expertise and experience in international sanctions law matters as and when required in respect of our compliance with sanction laws;

(iv) the Company has evaluated the sanctions risks prior to determining whether the Company should embark on new business opportunities. The senior management has conducted relevant customer due diligence including, without limitation, identity and background of customers and their principal business activities and check against the Sanction Lists to identify any possible exposure to sanction risks. Whenever potential sanctions risk is identified, the Company had sought advice from legal advisers with necessary expertise and experience in international sanctions law matters. The Company has also conducted semi-annual review of active customers against the Sanction Lists to ascertain our active customers do not fall under any named entities or individuals under the Sanction Lists; and

(v) the senior management of the Company has reviewed on a semi-annual basis our internal control policies and procedures with respect to sanctions law matters.

With regard to the above policies adopted, the Directors are of the view that such policies have provided a reasonably adequate and effective framework to assist the Company in identifying and monitoring any material risk relating to sanctions laws.

The Company confirms that it has not entered and will not enter into any transaction in Russia that the Company believed would put itself or its investors and Shareholders to risks of being sanctioned.

The Company has not established an internal audit department and the Directors are of the view that given the size, nature and complexity of the business of the Group, it would be more cost effective to appoint an independent internal control review advisor ("**Internal Control Advisor**"), which is independent of the Group's daily operation and consists of professional staff with relevant expertise, to perform the review on risk management and internal control systems of the Group in order to meet its needs.

During the year, the Board itself and through the Audit Committee and the Internal Control Advisor have conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management. External independent internal control consulting company was engaged to assist the Board to perform high-level review of the internal control systems for its business operations and processes. Such review covered the financial, compliance and operational controls as well as risk management mechanisms and assessment which was made by discussions with the management of the Company and its external auditor. The Board believes that the existing internal control system is adequate and effective.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

SHINEWING (HK) CPA Limited ("**SHINEWING**") has resigned as auditor of the Company with effect from 4 June 2019 as the Company and SHINEWING could not reach a mutual agreement in respect to the auditors' remuneration for the financial year ending 31 March 2019.

The Company is incorporated under the laws of Cayman Island and to the knowledge of the Board there is no requirement under the laws of Cayman Island for the resigning auditor to confirm whether or not there is any circumstances connected with their resignation which they consider should be brought to the attention of the shareholders of the Company. SHINEWING has therefore not issued such confirmation.

The Board and Audit Committee confirmed there are not other matters or circumstances in connection with the change of the auditors of the Company that need to be brought to the attention of the shareholders or creditors of the Company.

Audit Committee recommended Elite Partners CPA Limited ("**Elite**") be appointed as the new auditor of the Company with effect from 4 June 2019.

The statement of Elite in respect of its reporting responsibilities and opinion on the Group's consolidated financial statements for the year ended 31 March 2019 is set out in the section headed "Independent Auditor's Report" in this annual report.

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company.

The fees paid/payable to Elite during the year ended 31 March 2019 are set out as follows:

	Fee paid/payable HK$'000
Audit services	950

COMPANY SECRETARY

The Company Secretary is responsible for ensuring that Board procedures are followed and facilitating communications among Directors as well as with shareholders and management.

From 15 August 2017 to 28 February 2019, the chief financial officer and Company Secretary was Mr. Au Yeung Ming Yin Gordon. On 28 February 2019, Mr. Au Yeung resigned as the Company Secretary and Mr. Hui Man Ho Ivan has been appointed as the Company Secretary.

During the year ended 31 March 2019, Mr. Hui Man Ho Ivan had undertaken no less than 15 hours of relevant professional training to update his skill and knowledge.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhance investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public.

The Company updates its shareholders on its latest business developments and financial performance through its quarterly, interim and annual reports. The corporate website of the Company (www.on-real.com) has provided an effective communication platform to the public and the shareholders.

INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT

Each newly appointed director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has continuously provided relevant training materials to the Directors. Directors participated in courses relating to roles, functions and duties of a listed company director or further enhancement of their professional development by the way of attending training courses or reading relevant materials. All Directors had provided the Company their training records for the year under review and the Company will continue to arrange the training in accordance with Code Provision A.6.5 of the CG Code. The Directors and officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in discharge of their duties while holding office as the Directors and officers of the Company. The Directors and officers shall not be indemnified where there is any fraud, breach of duty or breach of trust proven against them.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. The annual general meeting and other general meetings of the Company are primary forums for communication between the Company and its shareholders. The Company provides shareholders with relevant information on the resolution(s) proposed at general meetings in a timely manner in accordance with the GEM Listing Rules. The information provided is reasonably necessary to enable shareholders to make an informed decision on the proposed resolution(s). All the resolutions proposed to be approved at the general meetings will be taken by poll and poll voting results will be published on the websites of the Stock Exchange and the Company after the meetings.

CONSTITUTIONAL DOCUMENTS

The Company has no significant changes in the Company's constitutional documents during the year. A consolidated version of the Company's constitutional documents is available on the Company's website and the website of the Stock Exchange.

MANAGEMENT OF INSIDE INFORMATION

In order to promote transparency, accountability and responsibility in respect of the operation of a listed company, and for the maintenance of good corporate governance, the Company would notify the Stock Exchange and make relevant disclosure to the public as soon as practicable of any inside information of the Company pursuant to the GEM Listing Rules and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, shareholders are requested to follow article 58 of the Articles of Association of the Company which provides that extraordinary general meetings should be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid-up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If the Board fails to proceed to convene an extraordinary general meeting within 21 days of the deposit of the requisition, the requisitionist(s) may convene an extraordinary general meeting himself/themselves, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The provisions for a shareholder to propose a person for election as a director of the Company are laid down in Article 85 of the Company's Articles of Association. No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the principal place of business in Hong Kong or at the Hong Kong Branch Share Registrar. The period for lodgment of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

Shareholders may send written enquiries to the Company, for the attention of company secretary, by email: enquiry@on-real.com, or by post to Office D, 27/F., Billion Plaza 2, 10 Cheung Yue Street, Kowloon, Hong Kong.

INFORMATION DISCLOSURE

The Company discloses information in compliance with the GEM Listing Rules and publishes periodic reports and announcements to the public in accordance with the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling shareholders, investors as well as the public to make rational and informed decisions.

CONCLUSION

The Company believes that good corporate governance could ensure an effective distribution of the resources and shareholders' interests. The senior management will continue endeavors in maintaining, enhancing and increasing the Group's corporate governance level and quality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This Environmental, Social and Governance ("**ESG**") Report published by On Real International Holdings Limited (the "**Company**") highlights the sustainable development initiatives and ESG performance of the Company and its subsidiaries (collectively the "**Group**" or "**we**") from 1 April 2018 to 31 March 2019 (the "**Year**").

Scope of the Report

The ESG report focuses on the Group's production plant (the "**Yunfu Factory**") in the Xincheng Industrial Park in Yunfu, the People's Republic of China (the "**PRC**") and its performance in environmental and social aspects during the Year, and discloses the key performance indicators of the Yunfu Factory for the Year. For details of our corporate governance, please refer to the Corporate Governance Report on pages 17 to 28 of the Company's annual report.

Reporting Framework

The ESG Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 20 to the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited.

Information and Feedback

For more information on the Company's environmental, social and corporate governance, please refer to the official website (http://www.on-real.com/) and the annual report of On Real International Holdings Limited. If you have any opinions or suggestions about this ESG report, please feel free to contact us via email at enquiry@on-real.com.

MANAGEMENT OF ESG RESPONSIBILITIES

To implement sustainable development strategies in an effective manner and offer long-term returns to the stakeholders, the board of directors of the Group (the "**Board**") is responsible for ESG management. It is the responsibility of the Board to oversee the Group's formulation of ESG strategies and ESG reporting matters, as well as to evaluate and determine the Group's ESG risks so as to establish suitable and effective ESG risk management measures and internal control systems. Assisted by internal auditing procedures, the Board arranges regular independent evaluation and analyses of the effectiveness and adequacy of the aforementioned systems in order to perfect the Group's ESG governance.

STAKEHOLDER ENGAGEMENT

The compilation of the ESG report represents the joint effort of the employees from various departments and gives us a better understanding of the Group's current level of development in environmental and social aspects. The information we have collected not only summarises the Group's environmental and social efforts during the Year, but also lays the groundwork for the formulation of short- and long-term sustainable development strategies.

To enhance the relevancy of the ESG report, the Group engaged an independent third-party consultant to help us gather ESG opinions from internal stakeholders for the preparation of the ESG report for the Year. All opinions received by us can help us improve our internal management while enhancing the quality of the ESG report. Therefore, the Group attaches great importance to stakeholders' opinions. To communicate with the stakeholders effectively, we listen and respond to the expectations and requirements of different stakeholders through a wide range of channels.

The Group will continue to strive for higher stakeholder engagement and collect valuable opinions about the Group's business and ESG performance from different stakeholders in a more comprehensive manner.

ENVIRONMENTAL PROTECTION

The Group continues to strictly abide by the relevant laws and regulations, such as the *Law of the PRC on the Prevention and Control of Water Pollution*, the *Law of the PRC on the Prevention and Control of Atmospheric Pollution*, the *Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste* and the *Environmental Protection Law of the PRC*. For better management and control of the environment and compliance with national emission standards, the Group has formulated relevant procedures to involve all departments and units in environmental protection. The Yunfu Factory has obtained GB/T 24001–2016/ISO14001:2015 environmental management system certification.

Although the Group is not a highly-polluting enterprise, we still work with the environmental monitoring authorities to regularly monitor the exhaust gas, wastewater and other pollutants generated from the factory. If any problems are found during the monitoring process, we will take timely corrective actions to ensure that the emissions meet the relevant emission standards. We have also formulated greening plan for the production and living areas, make good use of the open space and roadside space in the production and living areas to plant flowers, lawn and trees for the greening of environment. In order to enhance the staff's environmental awareness, the Yunfu Factory continued to conduct relevant training regarding environmental knowledge for our staff during the Year.

Emission Treatment

The Group's waste falls into three categories, namely recyclable waste, non-recyclable waste and regulated waste. For the recyclable waste, the Group has put forward the notion of effective use of resources. For example, substandard products identified in any production procedure are broken down and reused to the fullest extent until further reuse is impossible, after which the waste will be collected by recyclers. During the Year, the Yunfu Factory recycled 0.17 tonne of non-hazardous waste in aggregate, including waste lead-free solder residue. Non-reusable materials and hazardous waste (such as electronic waste) are transferred to qualified companies for recycling to reduce the pollution caused by waste disposal. The Yunfu Factory generated 30 waste light tubes during the Year. As for the non-recyclable waste, it is segregated at designated locations for central disposal by the environmental hygiene department.

The Group's wastewater includes wastewater discharged from cooling towers and domestic sewage. Cooling water from cooling towers will be recycled for use. Therefore, the amount of effluent from cooling towers is minimal. During the recycling process, the cooling water comes into contact with air and some of the water evaporates. In order to maintain the quality of circulating water, wastewater in the cooling tower is regularly discharged into septic tanks and the water is replenished. Domestic sewage generated by employees and greasy sewage from kitchens constitute the major part of our sewage. Domestic sewage from employees' activities must pass through the septic tanks for basic treatment before being discharged. Regular cleaning of septic tanks is also arranged to ensure the normal operation of the tanks. Greasy sewage from kitchens, on the other hand, must pass through grease traps and filters for basic treatment. After such basic treatments, the domestic sewage from employees' activities and greasy sewage from kitchen are transferred to the sewage plant of the industrial park through sewage pipe for subsequent treatment.

In the Year, the Yunfu Factory engaged a third-party service provider to conduct tests on its domestic sewage, and the results have met the discharge standards under the *Standards of Sewage Treatment and Inlet Water Technology for Xincheng Industrial Park in Xinxing County*. Detailed data on the discharged domestic sewage are as follows:

Name of pollutants	Discharge concentration	Discharge limit of the standard
pH value	6.90	6–9
Total suspended solids (TSS)	75 mg/L	90 mg/L
Chemical oxygen demand (COD)	156 mg/L	250 mg/L
Biochemical oxygen demand (BOD)	46.8 mg/L	110 mg/L
Ammonia nitrogen	19.8 mg/L	25 mg/L

Regarding the exhaust gas and dust generated during the production process, the Group reduces dust emitted from the filling of vessel to the utmost in order to mitigate the adverse environmental impact. All production departments have the responsibilities to ensure that their ventilation systems operate normally and provide a safe working environment for the employees. We also require the installation, regular inspection and maintenance of fumes purification equipment in the canteen to reduce fumes emission. The Group continues to strictly abide by the national provisions on vehicle tailpipe emissions and performs regular maintenance on the vehicles to ensure that their tailpipe emissions meet required standards.

In the Year, the Yunfu Factory engaged a third-party service provider to conduct tests on the air emissions from its production, and the results have met the emission standard under the *Emission Limits of Air Pollutants (DB44/27–2001)* of Guangdong Province. Detailed data on the air emissions from our production are as follows:

Name of pollutants	Discharge concentration	Discharge limit of the standard
Non-methane hydrocarbons	6.64 mg/m^3	120 mg/m^3
Tin and its compounds	0.302 mg/m^3	8.5 mg/m^3

Resource Conservation

The Group has taken various resource conversation measures to improve its resource efficiency. To monitor the use of resources effectively, the Yunfu Factory collects statistics of its electricity, water and paper consumption as well as the amount of waste recycled on a monthly basis to formulate corresponding consumption control measures.

In respect of the materials used in the production process, procurements are made strictly in accordance to our production plans, and regular inventory checks are conducted in order to effectively control the consumption of materials. We also store the materials in a proper manner and check the materials from time to time so as to avoid material being wasted due to improper storage. To maximise the use of every material, the Yunfu Factory even recycled the scraps and wastes generated from the production process.

For efficient use of electricity, we use T5 fluorescent lamps, light-emitting diodes and other energy-efficient lighting fixtures as well as sectional lighting system, and install motion sensors in areas not frequently in use. We also put up notices for energy conservation in offices, encourage employees to turn off unused electronic equipment, air conditioners and lights, and set indoor temperature at 25.5 degrees Celsius to reduce power consumption. Furthermore, the Yunfu Factory minimises the use of, and avoids frequently turning on, production equipment with larger power consumption as far as possible with the aim of reducing wastage of electricity.

In order to avoid wastage of water, notices about water conservation are displayed in toilets to remind employees to turn off the faucet tightly after use. We also regularly check the water pipes and run leakage tests so as to ensure the good condition of our water pipes and prevent leakage. Dripping facilities are repaired in a prompt manner.

To save paper, we encourage employees to reuse or use both sides of paper, and resort to electronic platforms for information dissemination. We have recycling bins to collect paper, such as waste paper, posters and envelopes, which will be sent to a waste paper recycling company for recycling. During the Year, the Yunfu Factory recycled 26 kg of waste paper in total, representing a reduction in greenhouse gas emissions of 126 kg in terms of CO_2 equivalent. As part of its effort in environmental protection, the Group selects printing and tissue paper made of recycled materials, and encourages employees to use video conferencing instead of unnecessary overseas business trip while direct flights are chosen for inevitable business travel to reduce carbon emissions.

VALUE OUR EMPLOYEES

Through our persistent and strict conformity to employment-related laws and regulations, such as the *Labour Law of the PRC* and the *Labour Contract Law of the PRC*, and adamant adherence to the “People-oriented” business philosophy, our employees are entitled to equal treatment at workplace and fair chance of promotion, a transparent remuneration and benefit system, as well as adequate rest time. In order to promote the physical and mental well-being of its employees, the Yunfu Factory continued to hold the annual gala dinner, at which gifts were distributed to the staff, in the Year in recognition of the employees’ contributions and in order to strengthen the sense of belonging across the enterprise.

Employees’ Rights

Annual human resources plans are in place to align manpower with the development need of our business. Following the principles of openness, equal opportunities and fair competition, the Group assigns the Personnel Administration Department to carry out recruitment based on the position requirements of various departments. Candidates who meet the job requirements have equal interview opportunities and are not discriminated on the basis of gender, race, religious belief, age, disability or any other factors. Every staff has the right to work in a working environment free from any harassment. When complaints in relation to harassment and discrimination are received, we will keep the information confidential for the relevant staff and conduct thorough investigation and handling procedures. To prevent the accidental use of child labour, newly recruited employees are required to provide us with the copy of their identity cards to ensure that they have reached the legal age of employment. As part of our commitment against forced labour, we and our employees enter into labour contracts, in which the relevant information of the posts is clearly specified. Acting in accordance with national laws and regulations, the Group provides the employees with social insurance, including retirement insurance, medical insurance, unemployment insurance, maternity insurance and work injury insurance, and ensures that the working hours of the employees complies with local laws and regulations. In principle, the Group does not encourage overtime work. If any employee voluntarily works overtime due to our production and business needs, the Yunfu Factory will offer overtime payment or time off in lieu of payment in accordance with the law. In addition to statutory leaves, employees are also entitled to marriage leave, compassionate leave, maternity leave, paternity leave and annual leave. We regularly assess the employees’ performance as a basis for remuneration adjustment, promotion and year-end bonuses. For resigned employees, payments of outstanding salaries are made on time in accordance with national laws and regulations after the handover of their duties. We also value the opinions and requests of our staff. Therefore, the Yunfu Factory has placed a mailbox for complaint letters at the office. After receiving any complaints, we will conduct investigation and adopt relevant improvement measures.

Training and Development

To build a competent team that can accomplish the business development objectives of the Group, a staff training plan is implemented and subject to annual adjustment to improve the quality and efficiency of our employees. To facilitate a quick adaptation to the working environment, all new employees must attend induction courses organised by the Personnel Administration Department to understand and get acquainted with the rules and regulations, history and overview of the Group. New employees must pass an on-board examination upon completion of the induction courses before they can be formally employed. It is also compulsory for them to participate in the training provided by the relevant departments, which covers the work and responsibilities of their posts. We also provide on-the-job training for our employees. Each department organises relevant training activities in accordance with the annual training plan. For example, the Engineering Department organises annual training on the production technologies, products and technology updates of the Group's products. In addition, the Group also provides relevant professional training for employees according to its business needs. Professional training and seminars conducted by experts and scholars are also available to outstanding employees for the sake of skill enhancement.

Health and Safety

The Group has given much care to the physical and mental health of the employees, insists on the "safety first, prevention-oriented and comprehensive management" safety production approach, and continues to strictly abide by the laws and regulations concerning occupational safety and health, such as the *Safe Production Law of the PRC*, the *Law of the PRC on the Prevention and Control of Occupational Diseases* and the *Regulations on the Safety Management of Hazardous Chemicals*. Keeping the working environment tidy and clean at all times, the Yunfu Factory has completely executed the "7S" management to provide its employees with a safe and comfortable working environment.

According to the safety production management system, we regularly develop safety production targets, identify, assess and control the safety risks in the production process, and ensure the personal safety of our employees. Production safety meetings are held regularly to deal with any major problems in the production safety aspect and monitor the implementation of the production safety targets. In addition, our employees are provided with pre-employment and pre-departure health checks, as well as protective gears, such as protective gloves, earplugs and anti-virus masks to reduce their susceptibility to occupational diseases. We have also established relevant systems for the management of hazardous chemicals in accordance with the requirements of laws and regulations. Designated employees are also assigned to take charge of the management of hazardous chemicals and to inspect the storage and safety conditions of the chemicals to avoid leakage.

For a better understanding of the Group's occupational safety policy and higher occupational health and safety awareness, safety skills and self-protection ability among our employees, we provide safety training for them, launch regular "three-tier" production safety education and promote production safety among them. The contents of safety training include laws and regulations related to safety production, safety management policies, rules and regulations of the Group, safety knowledge for machinery operation and how to use personal protective gears.

No substantial incidents resulted in any work-related deaths or injuries among the employees were recorded by the Yunfu Factory during the Year.

OPERATING PRACTICES

The Group is committed to a client-oriented philosophy during the operation processes ranging from supplier selection, production to the delivery of products to clients. Devoting ourselves to the provision of high quality products to clients flawlessly has always been our goal. For all promotional information available to the public, we place high importance to their truthfulness and therefore thoroughly verify all their contents with the aim of prohibiting the dissemination of fraudulent information and strictly standardising promotional works.

Supplier Management

To make sure that all raw materials procured complies with the Group's requirements, we have developed a supplier management system for a more effective management of our suppliers at source. Lists of qualified suppliers for different major raw materials, components and parts needed in our production process are compiled and regularly reviewed. The supplier selection process involves the consideration of the scale of production, manufacturing capabilities, industry reputation, product quality and possession of any licenses and certificates, such as the Restriction of Hazardous Substances Directive (the "RoHS") certification, of the suppliers. Before entering into cooperation with any new supplier, the new supplier has to provide samples of their raw materials, components and parts for our Product Research and Development Department and Production Department to jointly decide whether the samples provided meet our manufacturing and production requirements. Upon confirmation of cooperation, the new suppliers will be added to the lists of qualified suppliers.

Protection of Customers' Interests

The Group believes that the quality of its products and high satisfaction of the customers are essential for its business to grow sustainably. Therefore, the Group emphasises product quality and endeavours to provide the customers with high quality products. To this end, we have taken a number of testing procedures to ensure our product quality, and the Yunfu Factory has also obtained IATF16949:2016 international automotive industry quality management system certification. We continue to strictly abide by the relevant laws and regulations, such as the *Product Quality Law of the PRC*, to ensure that the products meet quality requirements. Also, we comply with laws and regulations in relation to intellectual properties, such as the *Copyright Law of the PRC*, the *Patent Law of the PRC* and the *Trademark Law of the PRC*.

In order to ensure that the raw materials procured meet the requirements of the Group and to prevent any adverse impact of the raw materials on the Group's products, our inspectors conduct random sampling tests before the receipt of raw materials. The raw materials that passed the sampling tests are then transferred to the warehouses; those unqualified raw materials identified in the sampling tests will be returned to the suppliers. During the production process, we also conduct a number of quality control checks. For example, injection molded plastic parts and welded circuit boards need to pass the quality control inspection before being put into use. Contractors who are in charge of certain casing assembly processes are also required to comply with the Group's quality requirements. The assembled products need to pass functional tests to ensure their normal operation. Customers can also send inspectors to inspect our products if necessary according to their needs. Any unqualified products will be sent back to the production line for comprehensive screening or re-processing to ensure that the product specifications are in line with the customer's product requirements.

The Group also provides high quality after-sales service to maintain the quality and sustainability of the products. We are committed to maintaining close relationship with our customers, adjusting and developing products to meet market needs with reference to the customer's preferences and demands. After delivery of the finished products, the customers are responsible for the complaints and product returns from the final consumers. After receiving any complaints, we will consider remedial measures for individual cases in which the damage to the product is related to the product design or manufacturing.

Data Confidentiality

The Group has always respected the privacy of its customers and spared no effort to protect customer information and internal confidential documents against leakage. Therefore, employees are required to sign confidentiality agreements and maintain the privacy and confidentiality of all the business information of the Group. Employees are provided with a code of conduct on the use of computers and are required to keep their computers and materials properly to avoid loss of data. Employees also have to use copyrighted software to respect intellectual property. In addition, since some of the casing assembly processes are handled by contractors, the contractors need to comply with the outsourcing agreement and strictly refrain from disclosing any confidential information of the Group's or the customers' products to ensure information security.

Anti-Corruption

The Group strictly abides by the relevant laws and regulations, such as the *Criminal Law of the PRC*, and prohibits all kinds of bribery, corruption and money-laundering. We adopt a "zero tolerant" approach towards abuse of power, corruption, embezzlement or misappropriation of the Group's assets, and engagement in malpractice or bribery are not tolerated. We also require our employees to sign a statement of conflict of interest and undertake to inform us of any potential conflicts of interest with the Group. The Yunfu Factory also stresses workplace integrity through organising anti-corruption and anti-bribery related training to its employees. Committed to the highest standard of openness, integrity and accountability, we encourage employees to report any suspected misconduct or malpractice. Upon receipt of a report, we will conduct an investigation to take follow-up actions. The identity of the whistle-blower will be kept strictly confidential to avoid unfair treatment.

No cases of corruption were recorded and no internal reports were received by the Yunfu Factory during the Year.

COMMUNITY ENGAGEMENT

In the pursuit of business development, the Group also encourages its employees to actively participate in charitable activities to help the disadvantaged and make contribution to the community.

In the Year, the Yunfu Factory engaged in "Entrepreneurship-Innovation (雙創)" works in Xinxing County, Yunfu, which targets at creating a hygienic and civilized city. It took up the responsibility to ensure and monitor the hygiene, produce promotional posters and maintain daily order in one of the residential areas in the county. Meanwhile, the Yunfu Factory sent children-specified donations to schools in the region where it locates on Children's Day to subsidise the purchase of learning materials by children at school.

MAJOR KEY PERFORMANCE INDICATORS

The data of Yunfu Factory's key performance indicators for the Year are as follows:

Environmental Indicators	2019	2018
Emissions from vehicles		
Nitrogen oxides (in kg)	**499**	179
Sulphur dioxides (in kg)	**1**	1
Particulate matters (in kg)	**43**	11
Greenhouse gases		
Greenhouse gas emissions in total (in tonnes of CO_2 equivalent)	**760**	795
Scope 1: Direct emissions (in tonnes of CO_2 equivalent)	**115**	172
Scope 2: Energy indirect emissions (in tonnes of CO_2 equivalent)	**630**	612
Scope 3: Other indirect emissions (in tonnes of CO_2 equivalent)	**15**	11
Greenhouse gas emissions per production line (in tonnes of CO_2 equivalent/production line)	**127**	79.54
Waste		
Non-hazardous waste produced (in tonnes)	**16**	33
Non-hazardous waste produced per production line (in tonnes/production line)	**2.75**	3.33
Use of Resources		
Energy consumption in total (in MWh)	**1,629**	1,483
Energy consumption from the use of gasoline (in MWh)	**65**	69.92
Energy consumption from the use of diesel oil (in MWh)	**368**	251.69
Energy consumption from the use of electricity (in MWh)	**1,196**	1,161.76
Energy consumption per production line (in MWh/production line)	**271.47**	148.34
Water consumption in total (in m^3)	**10,291**	11,866
Water consumption per production line (in m^3/production line)	**1,715**	1,186.57
Packaging Material Used		
Paper product consumption in total (in tonnes)	**433**	274
Paper product consumption per production line (in tonnes/production line)	**72.09**	27.38
Plastic consumption in total (in tonnes)	**42**	46
Plastic consumption per production line (in tonnes/production line)	**6.99**	4.58

REPORT OF THE DIRECTORS

The Board has the pleasure in presenting the annual report of the Company together with the audited consolidated financial statements of the Group for the year ended 31 March 2019.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 38 to the consolidated financial statements. An analysis of the Group's performance for the year by operating segment is set out in Note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2019 are set out in the consolidated financial statements on pages 48 to 113 of this annual report.

The Board does not recommend payment of a dividend in respect of the year ended 31 March 2019.

SHARE CAPITAL

Details of the shares capital of the Company for the year ended 31 March 2019 are set out in Note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 March 2019, calculated under Companies Law, Cap. 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands, amounted to approximately HK$15,212,000 (2018: approximately HK$23,408,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four years is set out on page 114 of the annual report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

SHARE OPTION SCHEME

The share option scheme of the Company (the "**Scheme**") was adopted pursuant to a resolution passed by the Company's shareholders on 16 September 2015 for the primary purpose is to attract, retain and motivate talented participants, to strive for future developments and expansion of the Group. Eligible participants of the Scheme include any employees, any executives, Non-executive Directors (including Independent Non-executive Directors), advisors, consultants of the Company or any of its subsidiaries.

The Scheme will remain valid and effective for a period of 10 years commencing on the date on which the Scheme is adopted, after which period no further share options will be granted but the provisions of the Scheme shall in all other respects remain in full force and effect and share options which are granted during the life of the Scheme may continue to be exercisable in accordance with their terms of issue. The principal terms of which were summarised in the paragraph headed "Share Option Scheme" in Appendix IV to the Prospectus. No share options have been granted under the Scheme since its adoption.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 16 to the consolidated financial statement.

DIRECTORS

The directors of the Company (the "**Director(s)**") during the year and up to the date of this report were:

Executive Directors:
Mr. Tam Wing Ki *(Chief Executive Officer)*
Mr. Gao Hong *(Vice chairman, retired on 25 July 2018)*
Mr. Fu Yan Ming
Mr. Kwok Ming Fai

Non-executive Directors:
Mr. Chan Chung Yin Victor *(Appointed on 16 January 2019)*

Independent Non-executive Directors:
Mr. Chan Shiu Man
Mr. Fung Chan Man Alex
Mr. Wong Ching Wan

In accordance with Article 84 of the Company's Articles of Association, Mr. Fu Yan Ming, Mr. Kwok Ming Fai and Mr. Chan Chung Yin Victor retire by rotation at the forthcoming Annual General Meeting but, being eligible, offer themselves for re-election.

Mr. Fung Chan Man Alex is Independent Non-Executive Directors and was appointed for a three-year term expiring on 30 July 2020. Mr. Wong Ching Wan was re-appointed as Independent Non-Executive Director on 31 March 2019 for a three-year term expiring on 30 March 2022. Mr. Chan Shiu Man was appointed as Independent Non-Executive Director on 31 August 2016 for a three-year term expiring on 30 August 2019.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS' AND SENIOR MANAGEMENT

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 14 to 16 of this annual report.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 March 2019, none of the directors or the chief executive of the Company had, nor were they taken to or deemed to have under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "**Model Code**") in the Listing Rules.

As at 31 March 2019, none of the Directors or chief executive of the Company or their associates had any interests and short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them has taken or deemed to have taken under the provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (iii) which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange. There were no debt securities issued by the Group during the year ended 31 March 2019.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

At 31 March 2019, so far as known to the Directors, the following shareholders had, or were deemed to have, interests or short positions, in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of shares	Percentage of shareholding
Solution Smart Holdings Limited ("**Solution Smart**") *(Note 1)*	Beneficial owner	1,125,896,000	29.32%
Mr. Chung Wai Sum ("**Mr. Chung**") *(Note 1)*	Interest in a controlled corporation	1,125,896,000	29.32%
SMK Investment Company Limited ("**SMK**") *(Note 2)*	Beneficial owner	1,054,476,000	27.46%
Mr. Kor Sing Mung Michael *(Note 2)*	Interest in a controlled corporation	1,054,476,000	27.46%

Notes:

1. Mr. Chung Wai Sum is the sole beneficial shareholder of Solution Smart. Therefore, Mr. Chung is deemed to be interested in 1,125,896,000 shares of the Company held by Solution Smart under the SFO.

2. Mr. Kor Sing Mung Michael, is the sole beneficial shareholder of SMK. Therefore, Mr. Kor Sing Mung Michael is deemed to be interested in 1,054,476,000 shares of the Company held by SMK under the SFO.

3. All interests stated above represent long positions.

Save as disclosed above, the Directors are not aware of any other person who has an interest or short position in the shares or underlying shares (including interest in options, if any) of the Company as recorded in the register required to be kept under section 336 of the SFO as at 31 March 2019.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

	Percentage of the Group's total purchases
The largest supplier	17.9%
Five largest suppliers in aggregate	43.8%

	Percentage of the Group's total sales
The largest customer	45.5%
Five largest customers in aggregate	79.5%

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in these major supplier and customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Board has pleased to present the Environmental, Social and Governance ("**ESG**") report for the year ended 31 March 2019. This report has been prepared with reference to ESG Reporting Guide issued by the Stock Exchange and is set out in the section headed "Environmental, Social and Governance report" in this annual report.

CONNECTED TRANSACTIONS

A summary of the related transactions entered into by the Group during the year ended 31 March 2019 is contained in Note 35 to the consolidated financial statements. Certain related party transactions also constituted continuing connected transactions, but are exempted from the reporting, announcement or independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is a sufficient public float of at least 25% of the Company's issued shares at the latest practicable date prior to issue of this report under the GEM Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS

Apart from the transactions disclosed under the heading "Related Party Transactions" as set out in note 35 of this annual report, there were no other contracts of significance in relation to the Group's business to which the Group was a party and which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year and up to the date of this report, the Directors are not aware of any business or interest of the Directors, the management of the Company and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Lego Corporate Finance Limited ("**Lego**"), the compliance adviser of the Company, except for the compliance adviser agreement entered into between the Company and Lego dated 26 January 2016, neither Lego nor its directors, employees and associates (as defined under the GEM Listing Rules) is materially interested in any contract or arrangement or had any interest in the securities of the Company for the period from 26 January 2016 to 31 July 2019, being the date on which the Company complies with Rules 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the date of listing, had been completed in full compliance of the relevant GEM Listing Rules requirements.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Company's Articles of Association 164(1) provides that every Director, Company Secretary and other officers of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against any actions, cost, charges, losses, damages and expenses, as a result of any act done, concurred in or omitted in or about the execution of their duty. The Company has also maintained the Directors and officers liability insurance during the year.

AUDITOR

The consolidated financial statements have been audited by Elite and a resolution for the re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

By the order of Board
Kwok Ming Fai
Executive Director

28 June 2019

TO THE MEMBERS OF ON REAL INTERNATIONAL HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of On Real International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 113, which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

VALUATION OF INVENTORIES

Refer to note 19 to the consolidated financial statements.

The key audit matter

The Group had carrying value of inventories amounted to approximately HK$42,466,000 as at 31 March 2019.

Inventories are valued at the lower of cost or net realisable value.

We have identified the valuation of inventories as a key audit matter since the allowance for inventories involved significant degree of judgements and estimates made by the management on the calculation of allowance for inventories

How the matter was addressed in our audit

Our audit procedures were designed to challenge the adequacy of the Group's provisions against inventories included the following:

We corroborated on a sample basis that items on the inventories ageing listing were classified in the appropriate ageing bracket;

We challenged the assumptions made by the management on the extent to inventories can be sold;

We considered the historical information obtained as evidence for evaluating the appropriateness of the assumptions made in the current year including how these compare to the experience in previous years; and

When considering management's assessment on the valuation for inventories, we had also taken into account the most recent prices achieved on sales of different products and the level of inventories to be utilised after the year end.

IMPAIRMENT ASSESSMENT OF TRADE AND OTHER RECEIVABLES AND LOAN RECEIVABLE

Refer to note 20, 21 and 31 to the consolidated financial statements.

The key audit matter

We identified impairment assessment of trade and other receivables and loan receivable as a key audit matter due to its significance to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of these accounts at the end of the reporting period.

As disclosed in note 4(d) to the consolidated financial statements, ECL in relation of trade and other receivables and loan receivable is assessed individually for the customers/debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

The Group engaged an independent professional valuer in the assessment of ECL, which is based on historical observed default rates and adjusted by forward-looking information that is reasonable and supportable available without undue costs or effort.

At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL of the Group's trade and other receivables and loan receivable, are disclosed in notes 20, 21 and 31.

How the matter was addressed in our audit

Our audit procedures relating to the impairment assessment of trade and other receivables and loan receivable included the following:

We understood key controls on how the management estimates the loss allowance for trade and other receivables and loan receivable;

We tested the integrity of information used by the management to develop the matrix, including aging analysis as at 31 March 2019, on a sample basis, by comparing individual items in the analysis with the relevant supporting documents;

We evaluated the management's judgement in assessing the valuation methodology;

We challenged management's basis and judgement in determining credit loss allowance on these accounts as at 31 March 2019, including their identification and evaluation of individually assessed customers/debtors, the reasonableness of management's grouping of the remaining customers/debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); and

We evaluated the disclosures regarding the impairment assessment of trade and other receivables and loan receivable in notes 20, 21 and 31 to the consolidated financial statements.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND OUR AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Yip Kai Yin with Practising Certificate Number P05131.

Elite Partners CPA Limited
Certified Public Accountants
10/F, 8 Observatory Road,
Tsim Sha Tsui, Kowloon
Hong Kong

28 June 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	5	**323,506**	297,131
Cost of sales		**(299,090)**	(266,817)
Gross profit		**24,416**	30,314
Other income	7	**6,587**	8,060
Other gains and losses	8	**(1,637)**	2,350
Impairment loss of financial assets at amortised cost	9	**(4,257)**	—
Selling and distribution expenses		**(4,118)**	(3,940)
Administrative expenses		**(27,397)**	(32,639)
Finance costs	10	**(1,921)**	(927)
(Loss)/Profit before tax		**(8,327)**	3,218
Income tax expense	11	**(1,386)**	(2,333)
(Loss)/Profit for the year	12	**(9,713)**	885
(Loss)/Profit for the year attributable to:			
Owners of the Company		**(9,789)**	890
Non-controlling interests		**76**	(5)
		(9,713)	885
Other comprehensive (expense)/income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(375)**	1,448
Total comprehensive (expense)/income for the year		**(10,088)**	2,333
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(10,164)**	2,338
Non-controlling interests		**76**	(5)
		(10,088)	2,333
(Loss)/Earnings per share (HK cents)	13		
Basic and diluted		**(0.25)**	0.02

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	16	**3,583**	6,387
Intangible assets	17	**4,015**	5,020
Financial asset at fair value through profit or loss	18	**12,597**	14,132
Deposits	20	**318**	954
Deferred tax assets	26	**—**	1,194
		20,513	27,687
Current assets			
Inventories	19	**42,466**	46,405
Trade and other receivables	20	**108,493**	94,394
Loan receivable	21	**1,041**	—
Tax recoverable		**5,928**	1,180
Pledged bank deposits	22	**1,128**	2,381
Bank balances and cash	22	**24,619**	29,734
		183,675	174,094
Current liabilities			
Trade and other payables	23	**84,070**	79,946
Amount due to a related company	25	**499**	387
Borrowings	24	**54,207**	36,551
Bond payables	36	**—**	839
Income tax payables		**2,060**	2,147
		140,836	119,870
Net current assets		**42,839**	54,224
Total assets less current liabilities		**63,352**	81,911

As at 31 March 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
Non-current liabilities			
Bond payables	36	**–**	7,934
Net assets		**63,352**	73,977
Capital and reserves			
Share capital	27	**4,800**	4,800
Reserves		**58,481**	69,182
Equity attributable to owners of the Company		**63,281**	73,982
Non-controlling interests		**71**	(5)
Total equity		**63,352**	73,977

The consolidated financial statements on pages 48 to 113 were approved and authorised for issue by the board of directors on 28 June 2019 and are signed on its behalf by:

Mr. Tam Wing Ki
Director

Mr. Kwok Ming Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	PRC statutory reserve HK$'000 (Note)	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 April 2017	4,800	75,468	(5,826)	4,472	1,303	(8,573)	71,644	–	71,644
Profit for the year	–	–	–	–	–	890	890	(5)	885
Other comprehensive expense for the year									
Exchange difference arising on translation of foreign operations	–	–	–	–	1,448	–	1,448	–	1,448
Total comprehensive income for the year	–	–	–	–	1,448	890	2,338	(5)	2,333
Appropriation to PRC statutory reserve	–	–	–	718	–	(718)	–	–	–
At 31 March 2018	4,800	75,468	(5,826)	5,190	2,751	(8,401)	73,982	(5)	73,977
Effect on initial application of HKFRS 9	–	–	–	–	–	(537)	(537)	–	(537)
Adjusted balance at 1 April 2018	4,800	75,468	(5,826)	5,190	2,751	(8,938)	73,445	(5)	73,440
Loss for the year	–	–	–	–	–	(9,789)	(9,789)	76	(9,713)
Other comprehensive expense for the year									
Exchange difference arising on translation of foreign operations	–	–	–	–	(375)	–	(375)	–	(375)
Total comprehensive expense for the year	–	–	–	–	(375)	(9,789)	(10,164)	76	(10,088)
Appropriation to PRC statutory reserve	–	–	–	156	–	(156)	–	–	–
At 31 March 2019	4,800	75,468	(5,826)	5,346	2,376	(18,883)	63,281	71	63,352

Note: According to the People's Republic of China (the "PRC") Company Law, companies in the PRC are required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The statutory reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
(Loss)/Profit before tax	**(8,327)**	3,218
Adjustments for:		
Bank interest income	**(120)**	(66)
Interest income from financial asset at fair value through profit or loss	**—**	(370)
Interest income charged to customers	**—**	(13)
Finance costs	**1,921**	927
Depreciation of property, plant and equipment	**6,446**	3,534
Amortisation of intangible assets	**2,654**	2,774
Gain on disposal of property, plant and equipment	**(626)**	(1,559)
Administrative expenses for financial asset at fair value through profit or loss	**—**	127
Fair value losses (gains) on financial asset at fair value through profit or loss	**1,535**	(267)
Government grants	**—**	(150)
Gain on early repayment of bond payables	**(514)**	(3,121)
Impairment loss on trade receivables	**2,129**	—
Impairment loss on other receivables	**169**	—
Impairment loss on loan receivable	**1,959**	—
Loan interest income	**(233)**	—
Allowance for inventories	**—**	146
Operating cash flows before movements in working capital	**6,993**	5,180
Decrease in inventories	**3,939**	833
Increase in trade and other receivables	**(16,065)**	(10,244)
Increase in trade and other payables	**3,422**	502
Cash used in operation	**(1,711)**	(3,729)
Hong Kong Profits Tax paid	**—**	(1,181)
PRC income tax paid	**(5,027)**	(430)
NET CASH USED IN OPERATING ACTIVITIES	**(6,738)**	(5,340)

For the year ended 31 March 2019

	2019 HK$'000	2018 HK$'000
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	**(8,084)**	(4,154)
Additions of intangible asset	**(1,901)**	(4,466)
Proceeds from disposal of property, plant and equipment	**2,305**	3,172
Increase in loan receivable	**(3,000)**	—
Repayment from a related company	**—**	383
Interest received	**120**	79
NET CASH USED IN INVESTING ACTIVITIES	**(10,560)**	(4,986)
FINANCING ACTIVITIES		
Interest paid	**(1,219)**	(927)
Proceeds from borrowings	**204,767**	203,774
Repayment of borrowings	**(187,111)**	(212,387)
Proceeds from bond payables	**12,301**	113,654
Early repayment of bond payables	**(20,560)**	(101,760)
Advance from a (repayment to) related company	**106**	(1,920)
Decrease in pledged bank deposits	**1,253**	—
Government grants received	**—**	150
NET CASH FROM FINANCING ACTIVITIES	**9,537**	584
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(7,761)**	(9,742)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**29,734**	36,584
EFFECT ON FOREIGN EXCHANGE RATES CHANGES	**2,646**	2,892
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**24,619**	29,734

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

On Real International Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The Company acts as an investment holding company and the principal activities of its subsidiaries are set out in note 38, which are designing, trading and manufacturing of two-way radios, baby monitors, other communication devices and servicing business of the above products.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company is Hong Kong dollars ("HK$"). The consolidated financial statements are presented in Hong Kong dollars as the directors of the Company consider that HK$ is appropriate presentation currency for the users of the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and amended HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("Int(s)") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers and the related amendments
HK(IFRIC) interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts
Amendments to HKAS 28	As part of the Annual Improvement to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of investment property

Application of HKFRS 9

HKFRS 9 and the amendments to HKFRS 9 have replaced HKAS 39 *Financial Instruments: Recognition and Measurement*. HKFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. In accordance with the specific transitional provisions set out in HKFRS 9, the Group has applied the classification and measurement requirements (including requirements relating to impairment) to items that existed as of the date of initial application (i.e. 1 April 2018) on a retrospective basis based on the facts and circumstances and business models that existed as at 1 April 2018. However, the Group has decided not to restate the comparative figures. Accordingly, the comparative information continues to be presented based on the requirements of HKAS 39 and hence may not be comparable with the current year information. The cumulative effect of initial application of HKFRS 9 has been recognised as adjustments to the opening equity as of 1 April 2018.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Application of HKFRS 9 (Continued)

(I) Classification and measurement of financial assets

In general, HKFRS 9 categories financial assets into the following three classification categories:

- amortised cost;
- fair value through other comprehensive income (FVTOCI); and
- fair value through profit or loss (FVTPL).

These classification categories are different from those set out in HKAS 39 which included held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Details about the Group's accounting policies for its financial assets and financial liabilities are disclosed in Notes 3 to the consolidated financial statements. The Group did not designate or de-designate any financial asset at FVTPL at 1 April 2018.

The following table shows a reconciliation from how the Group's financial assets existed as of 1 April 2018 were classified and measured under HKAS 39 to how they are classified and measured under HKFRS 9:

	Old classification under HKAS 39	New classification under HKFRS 9	Carrying amount under HKAS 39 HK$'000	Reclassification HK$'000	Remeasurement HK$'000	Note	Carrying amount under HKFRS 9 HK$'000
Financial asset at fair value through profit or loss	FVTPL	FVTPL	14,132	–	–	Note 1	14,132
Trade and other receivables	Loans and receivables	Amortised cost	94,394	–	(537)	Note 2	93,857

Notes:

1. All standalone derivatives (which the Group has not applied hedge accounting) continue to be measured at FVTPL.
2. The amount represented additional impairment loss based on the new expected loss model under HKFRS 9. Please also see details disclosed in (II) below.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Application of HKFRS 9 (Continued)

(II) Impairment

HKFRS 9 has introduced the "expected credit loss model" to replace the "incurred loss" model under HKAS 39. The "expected credit loss model" requires an ongoing measurement of credit risk associated with a financial asset. The Group has applied the "expected loss model" to the following types of financial assets:

- financial assets that are subsequently measured at amortised cost (including cash and cash equivalents, trade receivables and loans receivables);
- contract assets as defined in HKFRS 15; and
- investments in debt securities that are subsequently measured at FVTOCI;

Please see Note 3 for the Group's accounting policies relating to impairment.

The following table is a reconciliation that shows how the closing loss allowance as at 31 March 2018 determined in accordance with HKAS 39 can be reconciled to the opening loss allowance as at 1 April 2018 determined in accordance with HKFRS 9.

	HK$'000
Loss allowance recognised as at 31 March 2018 under HKAS 39	—
Additional loss allowance as a result of the application of the "expected loss model" under HKFRS 9	
— Trade receivables and other receivables	537
Loss allowance recognised as at 1 April 2018 under HKFRS 9	537

(III) Classification and measurement of financial liabilities

Under HKFRS 9, for a financial liability designated as at FVTPL, 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 required to be presented in other comprehensive income, with the remaining amount of change in the fair value of the liability being presented in profit or loss (unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss and in which case all gains or loss on that liability are presented in profit or loss).

The application of HKFRS 9 in respect of financial liabilities' classification and measurement requirements has had no impact on the consolidated financial statements.

(IV) Hedge accounting

The Group has not applied any hedge accounting and hence the new general hedge accounting model set out in HKFRS 9 has not had any impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Application of HKFRS 9 (Continued)

(V) Effect on the Group's accumulated losses as of 1 April 2018

The following table shows the impact of the application of HKFRS 9 on the Group's accumulated losses as of 1 April 2018:

	Increase in the Group's accumulated losses HK$'000
Recognition of additional expected credit losses relating to:	
Trade and other receivables	(537)

Application of HKFRS 15

HKFRS 15 has replaced HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and other revenue-related interpretations. Under HKAS 11 and HKAS 18, revenue arising from construction contracts and provision of services was recognised over time whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 has introduced additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Considering the nature of the Group's principal activities, the adoption of HKFRS 15 does not impact the Group's revenue recognition. Accordingly, HKFRS 15 had no impact on amounts and/or disclosures reported in the consolidated financial statements

Application of HK (IFRIC) Interpretation 22

HK (IFRIC) interpretation 22 provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency. The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The application of HK (IFRIC) interpretation 22 has not had any material impact on the consolidated financial position and the consolidated financial result.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised HKFRSs issued but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[5]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interest in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle
HK(IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted

HKFRS 16 Leases

HKFRS 16 will supersede the current lease guidance including HKAS 17 *Leases* and the related interpretations when it becomes effective.

With regards to lessee accounting, the distinction of operating leases and finance leases, as required by HKAS 17, has been replaced by a model which requires a right-of-use asset and a corresponding liability to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

Specifically, the right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas, under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

With regards to lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, HKFRS 16 requires extensive disclosures in the financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

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

The amendments to HKFRS 10 and HKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of 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, 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 re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value 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 Group did not enter into these transactions in the current year. The Directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to HKAS 28

The amendments require an entity to apply HKFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, from part of the entity's net investment in an associate or joint venture. An entity applies HKFRS 9 to such long-term interests before it applies paragraph 38 and paragraphs 40–43 HKAS 28.

The Directors of the Company do not anticipate that the application of the Interpretation will have a material impact on the Group's consolidated financial statements.

HK(IFRIC) Interpretation 23 Uncertainty over Income Tax Treatments

This Interpretation clarifies how to apply the recognition and measurement requirements in HKAS 12 when there is uncertainty over income tax treatments.

The Directors of the Company do not anticipate that the application of the Interpretation will have a material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis except for financial instruments (key-management insurance), which are measured at fair values, as explained in the accounting policies set out 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 in the principal market at the measurement date under current market condition (i.e. an exit price), regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries 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 of subsidiaries 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods and services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulate impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Internally-generated intangible assets — research and development expenditure

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, amortisation for internally-generated intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Other financial assets

Classification of financial assets

Accounting policy prior to 1 April 2018

All financial assets are initially measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets held for trading and those designated at fair value through profit or loss) (FVTPL) are added to the fair value of the financial assets on initial recognition. Transaction costs directly attributable to the acquisition of held for trading and FVTPL investments are recognised in profit or loss immediately.

Financial assets that are classified as “loans and receivables” or “held-to-maturity investments” are subsequently measured at amortised cost using an effective interest rate, less impairment.

Available-for-sale (AFS) equity investments are subsequently measured at fair value with changes in fair value being recognised in other comprehensive income accumulated under “AFS investment revaluation reserve”. Amounts previously recognised in “AFS investment revaluation reserve” are reclassified to profit or loss upon impairment or disposal.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are subsequently measured at cost less impairment.

Dividends from AFS equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established.

Available-for-debt investments are subsequently measured at fair value with changes in fair value being recognised in other comprehensive income accumulated under “AFS investment revaluation reserve” except for (a) interest income measured using the effective interest method and (b) foreign exchange gains or losses determined based on the amortised cost of debt investments are recognised in profit or loss.

Held-for-trading investments and FVTPL assets are subsequently measured at fair value, with changes in fair value being recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other financial assets (Continued)

Classification of financial assets (Continued)

Accounting policy from 1 April 2018

Investments in equity securities (other than investments in subsidiaries, associates and joint ventures)

An investment in equity securities is measured fair value on initial recognition. An investment in equity securities is subsequently measured at FVTPL unless the investment is designated as at fair value through other comprehensive income (FVTOCI) on initial recognition of the investment. Under HKFRS 9, an investment in equity securities can be designated as at FVTOCI on an instrument-by-instrument basis provided that the investment is neither held-for-trading nor contingent consideration recognised by the Group in a business combination to which HKFRS 3 applies.

For investments in equity securities designated as at FVTOCI (as described above), fair value changes are recognised in other comprehensive income and accumulated in the “FVTOCI (equity investment) reserve”. Such fair value changes will not be reclassified to profit or loss when the investments are derecognised. However, they will be transferred to the Group’s retained earnings when the investments are derecognised.

For investments in equity securities that are held-for-trading or not designated as at FVTOCI (as described above), they are subsequently measured at fair value through profit or loss (FVTPL) such that changes in fair value are recognised in profit or loss.

An investment is equity securities is derecognised when the Group sells the investment.

Investments in debt securities

An investment in debt securities is classified as follows depending on the instruments’ contractual cash flow characteristics and the Group’s business model for managing the investment:

- Amortised cost when (a) the contractual terms of the asset give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding and (b) the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows.

- FVTOCI when (a) the contractual terms of the asset give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding and (b) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset.

- FVTPL when either (a) the contractual terms of the asset give rise on specified dates to cash flows that are not solely payment of principal and interest on the principal amount outstanding or (b) the financial asset is held within a business whose objective is neither (i) collecting contractual cash flows nor (ii) collecting contractual cash flows and selling the financial asset.

For investments in debt securities subsequently measured at FVTOCI, fair value changes are recognised in other comprehensive income and accumulated in the “FVTOCI (debt investment) reserve” except for impairment loss (see below) and foreign exchange gains or losses. Interest income is calculated using the effective interest method and is recognised in profit or loss. When an investment in debt securities is derecognised, the fair value changes previously recognised in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

An investment in debt securities is derecognised when the Group sells the investment or when the contractual rights to the cash flows from the asset expire.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other financial assets (Continued)

Classification of financial assets (Continued)

Accounting policy from 1 April 2018 (Continued)

Transaction costs

Transaction costs directly attributable for the acquisition of financial assets (other than those classified or designated as at FVTPL) are included in the initial measurement of the financial assets. For financial assets subsequently measured at amortised cost, such transaction costs are included in the calculation of amortised cost using the effective interest method (i.e. in effect amortised through profit or loss over the lives of the financial assets). For investments in equity securities at FVTOCI, such transaction costs are recognised in other comprehensive income as part of change in fair value at the next remeasurement. For investments in debt securities classified as FVTOCI, such transaction costs are amortised to profit or loss using the effective interest method (i.e. in effect amortised through profit or loss over the lives of the financial assets).

Impairment on financial assets

Accounting policy prior to 1 April 2018

Prior to 1 April 2018, the Group had adopted "incurred loss model" in assessing and measuring impairment losses on financial assets. Under the "incurred loss model", an impairment loss was recognised when there was objective indicators of impairment which included:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technology, market, economic or legal environment that have an adverse effect on the debtor.

Accounting policy from 1 April 2018

The Group has applied the expected credit loss model under HKFRS 9 to the following types of financial assets:

- financial assets that are subsequently measured at amortised cost (including cash and cash equivalents and accounts receivables);
- contract assets as defined in HKFRS 15; and
- investments in debt securities that are subsequently measured at FVTOCI;

Expected credit loss (ECL) of a financial asset is measured based on an unbiased and probability-weighted amount. It also reflects the time value of money and reasonable and supportable information that is available to the Group without undue cost or effect at the reporting date about past events, current conditions and forecasts of future economic conditions. The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other financial assets (Continued)

Impairment on financial assets (Continued)

Accounting policy from 1 April 2018 (Continued)

ECL is measured on either of the following bases:

- 12-month expected credit loss when, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition; and

- Lifetime expected credit loss when (a) at the reporting date, the credit risk on a financial asset has increased significantly since initial recognition; or (b) at the reporting date, the financial asset has become credit-impaired.

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers quantitative and qualitative reasonable and supportable information that is available to the Group without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

Specifically, the following information has been taken into account in assessing whether the credit risk on a financial asset has significantly increased since initial recognition:

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception.

- Significant changes in terms of existing financial assets if the asset was newly originated or issued at the reporting date.

- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life.

- An actual or expected significant change in the financial instrument's external credit rating.

- An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally.

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations (e.g. actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates).

- Actual or expected significant change in the operating results of the borrower.

- Significant change in the quality of guarantee provided.

- Contractual cash flows are more than 30s past due.

In making the abovementioned assessment, the Group considers that a default occurs when (a) it is unlikely that the borrower will be able to settle his/her debts in full and (b) the financial asset is more than 90 days past due.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other financial assets (Continued)

Impairment on financial assets (Continued)

Accounting policy from 1 April 2018 (Continued)

ECL is remeasured at the end of each reporting period to reflect changes in financial asset's credit risk since initial recognition. Changes in ECL are recognised in profit or loss with the corresponding adjustment to the carrying amount of the asset through a loss allowance account, except for investments in debt securities that are subsequently measured at FVTOCI for which the corresponding adjustment is recognised in other comprehensive income and accumulated in "FVTOCI (debt investment) reserve".

For accounts receivables and contract assets without significant financing component, ECL is always measured at an amount equal to lifetime expected credit losses.

At the end of each of the reporting period, the Group assesses whether its financial assets have become credit impaired.

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the time when the Group assesses and concludes that the debtor is unable to settle the debts in full or part of the.

Financial liabilities

Accounting policy prior to 1 April 2018

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

Accounting policy prior to 1 April 2018 (Continued)

Derecognition

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

Accounting policy from 1 April 2018

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

Accounting policy from 1 April 2018 (Continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

Accounts and other receivables

Accounting policy prior to 1 April 2018

A provision for impairment of accounts and other receivables is established when there is objective evidence that the Group will not be able to collect the amounts due.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts and other receivables (Continued)

Accounting policy from 1 April 2018

Accounts receivables are recognised when the Group has an unconditional right to receive consideration. The Group has an unconditional right to receive consideration when only the passage of time is required before payment of the consideration is due.

For the Group's accounts receivables, ECL is always measured at an amount equal to lifetime expected credit losses. In particular, ECL is estimated using a provision of matrix based on the Group's historical credit loss experience, adjusted for (a) information that is specific to particular debtors and (b) forward-looking information based on the current and forecast general economic conditions available to the Group without undue cost or effort at the reporting date. ECL is recognised in profit or loss with the corresponding adjustment to the carrying amount of the accounts receivables through a loss allowance account.

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This is generally the time when the Group assesses and concludes that the debtor is unable to settle the debts in full or part of the debts (e.g future for a debt to make contractual payments of more than 90 days).

Contract assets and contract liabilities

Accounting policy from 1 April 2018

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration rom the customer.

For a single contract with a customer, either a net contract asset or a net contract liability is presented. Contracts assets and contract liabilities arising from unrelated multiple contracts are not presented on a net basis.

As mentioned in above, the Group has applied HKFRS 15 for the first time for the current year using the cumulative effect transition method. Adjustments were made as at 1 April 2018 to reclassify certain amounts from "trade and other receivables" and "gross amount due from customers" to "contract assets" and certain amounts from "trade and other payables" and "gross amount due to customers" to "contract liabilities".

For the Group's contract assets, ECL is always measured at an amount equal to lifetime expected credit losses. In particular, ECL is estimated using a provision of matrix based on the Group's historical credit loss experience, adjusted for (a) information that is specific to particular customers available and (b) forward-looking information based on the current and forecast general economic conditions at the reporting date. ECL is recognised in profit or loss with the corresponding adjustment to the carrying amount of the contract assets through a loss allowance account.

The Group directly reduces the gross carrying amount of a contract asset when the Group has no reasonable expectations of recovering a contract asset in its entirety or a portion thereof. This is generally the time when the Group assesses and concludes that the Group is unable to recover the costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at bank and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalent consist of bank balances and cash as defined above.

Impairment of tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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 to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

(i) Sale of goods

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of discounts, sales returns and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits received from customers prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

(ii) Servicing income

Servicing income including servicing business income is recognised when such services are rendered.

(iii) Repair and maintenance income

Repair and maintenance income is recognised when such services are rendered.

(iv) Rental income

Rental income is recognised in a straight-line basis over the term of the lease.

(v) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Retirement benefit costs and termination benefits

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF Scheme") are charged as an expense when employees have rendered services entitling them to the contribution.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

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 "loss before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 the 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 assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition 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, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

***Deferred tax** (Continued)*

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 is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end 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 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 is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the 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 (where the effect of the time value of money is material).

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of the 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 measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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$) using exchange rates prevailing at the end of each reporting period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Useful lives and residual value of property, plant and equipment

The Group's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions. They could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated. As at 31 March 2019, the carrying values of property, plant and equipment was approximately HK$3,583,000 (2018: HK$6,387,000). No impairment loss was recognised during the years ended 31 March 2019 and 2018.

(b) Impairment of property, plant and equipment and intangible assets

The Group assesses annually whether property, plant and equipment and intangible assets have any indication of impairment, in accordance with relevant accounting policies. The recoverable amounts of property, plant and equipment and intangible assets have been determined based on value in use calculations. These calculations and valuations require the use of judgment and estimates on future operating cash flows and discount rates adopted. As at 31 March 2019, the carrying values of property, plant and equipment was approximately HK$3,583,000 (2018: HK$6,387,000) and the carrying values intangible assets was approximately HK$4,015,000 (2018: HK$5,020,000). As at 31 March 2019 and 2018, no impairment loss of property, plant and equipment and intangible assets were recognised.

(c) Estimated allowance for inventories

The management of the Group reviews an ageing analysis of inventories at the end of each of the period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions. As at 31 March 2019, the carrying amount of inventories was approximately HK$42,466,000 (2018: HK$46,405,000). As at 31 March 2019, the allowance for inventories were approximately HK$ Nil (2018: HK$1,500,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(d) Impairment on trade and other receivables and loan receivable

The Group's trade and other receivables and loan receivable are assessed for impairment based on the expected loss model required by HKFRS 9. The assessment made by management has taken into account relevant historical information adjusted for forward looking information available to management at the date of assessment (to the extent that such information is reasonable and supportable without undue cost or effort). Additional impairment losses have been recognised as at 1 April 2018 on the Group's trade and other receivables and loan receivable to reflect the adoption of the expected loss model (see Note 20 and 21). Impairment losses are also recognised for the current year (please see Notes 20 and 21). Management has exercised judgment in estimating the amount of expected credit loss. If the actual outcome is different from management's estimate, an additional impairment loss or reversal of impairment loss may arise.

(e) Income taxes

As at 31 March 2019, deferred tax asset of HK$Nil (2018: HK$1,220,000) has been recognised in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. No deferred tax asset had been recognised in respect of remaining tax losses of approximately HK$31,034,000 (2018: HK$11,744,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

(f) Fair value estimate of certain assets

Some of the Group's assets (e.g. financial assets and financial liabilities) are measured at fair value at the end of the reporting period. In determining the fair value of these assets and liabilities at the end of reporting period, various inputs that reflect current market conditions, including both observable and unobservable data, are used. When there are material changes to those inputs, there will be a material change in the fair value of these assets. Please see Note 18 for details.

5. REVENUE

Revenue represents revenue from sales of two-way radios, sales of baby monitors, servicing business and sales of other products, net of sales related tax where applicable. An analysis of the Group's revenue for the year is as follows:

	2019 **HK$'000**	2018 HK$'000
Revenue comprises:		
Two-way radios	**211,486**	225,866
Baby monitors	**17,141**	29,356
Other products	**85,187**	34,815
Servicing business	**9,692**	7,094
	323,506	297,131

6. SEGMENT INFORMATION

Information reported to the executive directors and senior management of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Operating segments are reported in a manner consistent with the internal reporting periods to the chief operating decision maker who is responsible to allocating resources and assessing performance of the operating segments. Information relating to segment assets and liability is not disclosed as such information is not regularly reported to the chief operating decision maker.

The Group is principally engaged in the trading and manufacturing of two-way radios, baby monitors, other communicating devices and servicing business of the above products.

The executive directors and senior management have been identified as the chief operating decision makers. The executive directors and senior management have determined the operating segments based on the reports reviewed by them that are used to make strategic decisions.

Management considers the business from a product perspective whereby management assesses the performance of two-way radios, baby monitors, servicing business and other communication devices based on gross profit arising in the course of the ordinary activities of a recurring nature.

6. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 March 2019

	Two-way radios HK$'000	Baby monitors HK$'000	Servicing business HK$'000	Other products HK$'000	Total HK$'000
Revenue	**211,486**	**17,141**	**9,692**	**85,187**	**323,506**
Timing of revenue recognition					
At a point in time	**211,486**	**17,141**	**9,692**	**85,187**	**323,506**
Segment profit/(loss)	**19,496**	**(716)**	**1,699**	**3,937**	**24,416**
Unallocated operating income and other gain or loss					**4,950**
Impairment loss of financial assets at amortised cost					**(4,257)**
Selling and distribution expenses					**(4,118)**
Administrative expenses					**(27,397)**
Finance costs					**(1,921)**
Loss before tax					**(8,327)**

For the year ended 31 March 2018

	Two-way radios HK$'000	Baby monitors HK$'000	Servicing business HK$'000	Other products HK$'000	Total HK$'000
Revenue	225,866	29,356	7,094	34,815	297,131
Segment profit	26,640	2,882	380	1,240	31,142
Unallocated operating income					8,851
Selling and distribution expenses					(3,940)
Administrative expenses					(31,908)
Finance costs					(927)
Profit before tax					3,218

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit earned by or the loss from each segment without allocation of bank interest income, selling and distribution expenses, central administrative costs, directors' emoluments, certain other income and gains and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

6. SEGMENT INFORMATION (CONTINUED)

(b) Other segment information

For the year ended 31 March 2019

	Two-way radios HK$'000	Baby monitors HK$'000	Servicing business HK$'000	Other products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit						
Addition to non-current assets *(Note (i))*	9,985	–	–	–	–	9,985
Amortisation of intangible assets	663	1,991	–	–	–	2,654
Depreciation of property, plant and equipment	4,120	1,700	–	826	–	6,646
Gain on disposal of property, plant and equipment	(626)	–	–	–	–	(626)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit						
Income tax expense	1,075	–	94	217	–	1,386
Bank interest income	–	–	–	–	(120)	(120)
Gain on early repayment of bond payables	–	–	–	–	(514)	(514)
Finance costs	–	–	–	–	1,921	1,921

6. SEGMENT INFORMATION (CONTINUED)

(b) Other segment information (Continued)

For the year ended 31 March 2018

	Two-way radios HK$'000	Baby monitors HK$'000	Servicing business HK$'000	Other products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit						
Addition to non-current assets *(Note (i))*	6,480	992	–	1,148	–	8,620
Amortisation of intangible assets	693	2,081	–	–	–	2,774
Depreciation of property, plant and equipment	2,191	904	–	439	–	3,534
Gain on disposal of property, plant and equipment	(1,528)	(19)	–	(12)	–	(1,559)
Allowance for inventories	146	–	–	–	–	146
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit						
Income tax expense	1,828	231	–	157	117	2,333
Bank interest income	–	–	–	–	(66)	(66)
Interest income from financial asset at fair value through profit or loss	–	–	–	–	(370)	(370)
Interest income charged to customers	–	–	–	–	(13)	(13)
Government grants	–	–	–	–	(150)	(150)
Gain on early repayment of bond payables	–	–	–	–	(3,121)	(3,121)
Finance costs	–	–	–	–	927	927

Note (i): Addition to non-current assets represents addition of property, plant and equipment and intangible assets.

6. SEGMENT INFORMATION (CONTINUED)

(c) Geographic segment

The Group operates in six (2018: six) principal geographical areas — the United States of America, Germany, Europe, Asia, the Netherlands and the United Kingdom.

All analysis of revenue by geographical location is set below:

	Revenue from external customers	
	2019	2018
	HK$'000	HK$'000
The United States of America	**101,753**	123,922
Germany	**80,760**	47,712
Europe *(Note (i))*	**75,817**	26,666
Asia *(Note (ii))*	**25,450**	44,394
The Netherlands	**7,597**	24,269
The United Kingdom ("UK")	**10,696**	14,608
Others *(Note (iii))*	**21,433**	15,560
	323,506	297,131

Note (i): Europe includes but is not limited to France, Italy and Belgium but excludes the UK, Germany and the Netherlands.

Note (ii): Asia includes but is not limited to the PRC and Hong Kong.

Note (iii): Others include but is not limited to Brazil, Canada and Russia. Revenue is allocated based on the shipping destination.

Non-current assets are located in the PRC and Hong Kong.

Information about major customers

Details of the customers accounting for 10% or more of aggregate revenue of the Group during the years are as follows:

	2019	2018
	HK$'000	HK$'000
Customer A[1]	**150,076**	112,908
Customer B[2]	**39,907**	—

1 Revenue from two-way radios segment.

2 Revenue from other products segment.

7. OTHER INCOME

	2019 HK$'000	2018 HK$'000
Bank interest income	120	66
Interest income from financial asset at fair value through profit or loss	—	370
Interest income charged to customers	—	13
Loan interest income	233	—
Government grants *(Note 1)*	—	150
Gain on disposals of property, plant and equipment	626	1,559
Gain on early repayment of bond payables *(Note 2)*	514	3,121
Rental income	799	643
Repair and maintenance income	181	757
Sales of scrap materials	791	1,065
Sundry income	3,323	316
	6,587	8,060

Note 1:

Government grants recognised as other income are awarded to the Group by the PRC government as incentives primarily to encourage the development of the Group and the contribution to the local economic development. The government grants are one-off with no specific condition attached.

Note 2:

Gain on early repayment of bond payables recognised during the year, see Note 36 for details.

8. OTHER GAINS AND LOSSES

	2019 HK$'000	2018 HK$'000
Exchange (loss)/gains, net	(102)	2,083
Fair value (losses)/gains on financial asset at fair value through profit or loss	(1,535)	267
	(1,637)	2,350

9. IMPAIRMENT LOSS OF FINANCIAL ASSETS AT AMORTISED COST

	2019 HK$'000	2018 HK$'000
Impairment loss on trade receivables	2,129	—
Impairment loss on other receivables	169	—
Impairment loss on loan receivable	1,959	—
	4,257	—

10. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interests on:		
— bank and other borrowings	**1,909**	921
— amount due to a related company	**12**	6
	1,921	927

11. INCOME TAX EXPENSE

	2019 HK$'000	2018 HK$'000
Current tax:		
PRC Enterprise Income Tax (the "EIT")	**192**	2,093
Deferred tax *(Note 26)*	**1,194**	240
	1,386	2,333

i) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as the Company did not have any assessable profits subject to Hong Kong Profits Tax for the year ended 31 March 2019 and 2018.

ii) Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

iii) Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The income tax expense can be reconciled to the (loss)/profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 HK$'000	2018 HK$'000
(Loss)/Profit before tax	**(8,327)**	3,218
Tax at the applicable tax rate at 25% (2018: 25%)	**(2,081)**	805
Tax effect of expense not deductible for tax purposes	**1,444**	712
Tax effect of income not taxable for tax purpose	**(302)**	(186)
Tax effect of temporary differences not recognised	**(26)**	173
Tax effect of tax loss not recognised	**1,963**	912
Effect of different tax rates of subsidiaries operate in other jurisdictions	**388**	(83)
Income tax expense for the year	**1,386**	2,333

Details of the deferred taxation are set out in Note 26.

Note: The domestic tax rate (which is PRC EIT) in the jurisdiction where the operation of the Group is substantially based is used.

12. (LOSS)/PROFIT FOR THE YEAR

	2019 HK$'000	2018 HK$'000
(Loss)/Profit for the year has been arrived at after charging:		
Directors' emoluments *(Note 14)*	2,388	4,421
Salaries and allowances (excluding directors' emoluments)	19,883	29,178
Retirement benefit scheme contributions (excluding directors)	5,265	5,432
Total staff costs	27,536	39,031
Auditor's remuneration	950	750
Depreciation of property, plant and equipment	6,466	3,534
Amortisation of intangible assets (included in cost of sales)	2,654	2,774
Allowance for inventories (included in cost of sales)	–	146
Cost of inventories recognised as an expense	229,026	178,164
Research and development costs recognised as an expense	2,385	336
Minimum lease payments in respect of operating lease for office premises, staff quarters and factories	3,878	4,211

13. (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during each of the year ended 31 March 2019 and 2018.

	2019	2018
Loss/(Profit) for the year attributable to owners of the Company (HK$'000)	(9,789)	890
Weighted average number of ordinary shares in issue ('000)	3,840,000	3,840,000
Basic (loss)/earnings per share (HK cents per share)	(0.25)	0.02

(b) Diluted

Diluted (loss)/earnings per share were the same as the basic (loss)/earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 March 2019 and 2018.

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 8 (2018: 9) directors and the chief executive were as follows:

	Year ended 31 March 2019				
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings:					
Executive directors:					
Mr. Tam Wing Ki *(Chief Executive Officer and Chairman) (resigned as Chairman on 1 April 2019)*	–	974	140	18	1,132
Mr. Kwok Ming Fai	–	360	–	18	378
Mr. Fu Yan Ming	–	360	–	18	378
Mr. Gao Hong *(retired on 27 July 2018)*	–	115	–	–	115
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings:					
Non-executive director:					
Mr. Chan Chung Yin Victor *(appointed on 16 January 2019)*	25	–	–	–	25
Independent non-executive directors:					
Mr. Chan Shiu Man	120	–	–	–	120
Mr. Wong Ching Wan	120	–	–	–	120
Mr. Fung Chan Man, Alex *(appointed on 31 July 2017)*	120	–	–	–	120
	385	1,809	140	54	2,388

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

	Year ended 31 March 2018				
	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings:					
Executive directors:					
Mr. Tam Wing Ki *(Chief Executive Officer and Chairman)*	–	1,980	165	18	2,163
Mr. Tao Hong Ming *(resigned on 1 September 2017)*	–	650	130	8	788
Mr. Kwok Ming Fai	–	360	–	18	378
Mr. Fu Yan Ming	–	360	–	18	378
Mr. Gao Hong *(appointed on 7 April 2017)*	–	354	–	–	354
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings:					
Independent non-executive directors:					
Mr. Cheng Yuk Kin *(resigned on 31 July 2017)*	40	–	–	–	40
Mr. Chan Shiu Man	120	–	–	–	120
Mr. Wong Ching Wan	120	–	–	–	120
Mr. Fung Chan Man, Alex *(appointed on 31 July 2017)*	80	–	–	–	80
	360	3,704	295	62	4,421

Notes:

(i) Mr. Tam Wing Ki is also the chief executive officer of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive officer.

(ii) None of the directors waived or agreed to waive any emoluments during the years ended 31 March 2019 and 2018.

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2018: two) were directors of the Company for the year ended 31 March 2019. The emoluments of the directors are included in the disclosures in Note 14(a) above. The emoluments of the remaining two (2018: three) individuals were as follows:

	2019 HK$'000	2018 HK$'000
Salaries and other allowances	910	1,312
Retirement benefit scheme contributions	28	35
	938	1,347

Their emoluments were within the following bands:

	Number of individuals 2019	 2018
Nil to HK$1,000,000	2	3

During the years ended 31 March 2019 and 2018, no emoluments were paid or payable by the Group to the directors or the five highest paid individuals as inducements to join or upon joining the Group or as a compensation for loss of office.

15. DIVIDENDS

No dividend has been declared by the Company for the year ended 31 March 2019, nor has any dividend been proposed since the end of the reporting period (2018: nil).

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 April 2017	3,220	30	2,110	50,310	1,822	57,492
Additions	52	–	134	3,361	607	4,154
Disposal	(529)	–	(7)	(10,111)	(471)	(11,118)
Exchange realignment	285	3	219	4,365	56	4,928
At 31 March 2018	3,028	33	2,456	47,925	2,014	55,456
Additions	305	–	769	6,424	586	8,084
Disposal	–	–	–	(1,877)	(90)	(1,967)
Exchange realignment	(220)	(4)	(211)	(4,765)	(192)	(5,392)
At 31 March 2019	**3,113**	**29**	**3,014**	**47,707**	**2,318**	**56,181**
ACCUMULATED DEPRECIATION						
At 1 April 2017	2,229	24	1,749	45,021	1,371	50,394
Provided for the year	318	5	198	2,690	323	3,534
Eliminated on disposal	(310)	–	(4)	(8,764)	(427)	(9,505)
Exchange realignment	230	3	200	4,162	51	4,646
At 31 March 2018	2,467	32	2,143	43,109	1,318	49,069
Provided for the year	352	1	754	4,720	619	6,446
Eliminated on disposal	–	–	–	(220)	(68)	(288)
Exchange realignment	(139)	(4)	(133)	(2,292)	(61)	(2,629)
At 31 March 2019	**2,680**	**29**	**2,764**	**45,317**	**1,808**	**52,598**
CARRYING VALUES						
At 31 March 2019	**433**	**–**	**250**	**2,390**	**510**	**3,583**
At 31 March 2018	561	1	313	4,816	696	6,387

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvement	Over the shorter of term of the lease or 5 years
Furniture and fixtures	20%
Office equipment	20%
Plant and machinery	20% to 33%
Motor vehicles	20%

17. INTANGIBLE ASSETS

	Product development costs HK$'000
COST	
At 1 April 2017	10,159
Addition	4,466
Exchange realignment	133
At 31 March 2018	14,758
Addition	1,901
Exchange realignment	(337)
At 31 March 2019	16,322
ACCUMULATED AMORTISATION	
At 1 April 2017	6,834
Provided for the year	2,774
Exchange realignment	130
At 31 March 2018	9,738
Provided for the year	2,654
Exchange realignment	(85)
At 31 March 2019	**12,307**
CARRYING VALUES	
At 31 March 2019	**4,015**
At 31 March 2018	5,020

Development costs are internally generated.

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over three years.

18. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 **HK$'000**	2018 HK$'000
Key-management insurance, at fair value	**12,597**	14,132

The financial asset at fair value through profit or loss represents key-management insurance purchased for a director of the Company, which is denominated in United States dollars ("USD"). The premium of the insurance is approximately HK$7,740,000. The sum insured is approximately HK$41,693,000.

The valuation of key-management insurance is determined and provided by an independent valuer, using the discounted cash flow approach. The discounted cash flow approach focuses on the economic benefits generated by the income producing capability of an asset. The underlying theory of this approach is that the value of an asset can be measured by the present worth of the economic benefits to be received over its economic life. This approach needs to estimate the future cash flows and then discounts these cash flows to its present value using a discount rate appropriate for the risks associated with realising those cash flows.

Management has assessed the credit quality of the financial institution and considered the credit risk to be not significant.

The financial asset at fair value through profit or loss is pledged as security for the banking facilities of the Group as at 31 March 2018 (Notes 24 and 33).

The fair value gains or losses is included in "other gains and losses" in consolidated statement of profit or loss and other comprehensive income (Note 8).

The valuation was determined using discounted cash flow projections based on unobservable inputs. These inputs include:

Future cash inflows:	Based on the interest income derived from the first premium paid under the insurance policy, interest credited into the account and the expected death benefit based on mortality
Future cash outflows:	Based on policy expense charge, policy premium charge and cost of insurance
Discount rates:	Reflecting current market assessments of the uncertainty in the amount and timing of cash flows
Future crediting rate:	Based on the current rate of interest credit to the insurance policy

There were no changes to the valuation techniques during the years ended 31 March 2019 and 2018.

18. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The valuation technique and inputs used in the fair value measurements of the financial instruments on a recurring basis is set out below:

Description	Fair value hierarchy	Significant unobservable inputs	**Significant unobservable inputs as at 31 March 2019**	Significant unobservable inputs as at 31 March 2018	Relationship of significant unobservable inputs to fair value
Financial asset at fair value through profit or loss	Level 3	Discount rate	**3.97%**	3.96%	The higher the discount rate, the lower the fair value
		Future crediting rate	**4.60%**	4.40%	The higher the future crediting rate, the higher the fair value

There was no transfer of fair value hierarchy during the reporting period.

The sensitivity of the financial asset at fair value through profit or loss to changes in the weighted principal assumption is:

		Impact on financial asset at fair value through profit or loss	
Year ended 31 March 2019	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**0.1%**	**Decrease by HK$204,000**	**Increase by HK$208,000**
Future crediting rate	**0.1%**	**Increase by HK$744,000**	**Decrease by HK$690,000**

		Impact on financial asset at fair value through profit or loss	
Year ended 31 March 2018	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.1%	Decrease by HK$304,000	Increase by HK$314,000
Future crediting rate	0.1%	Increase by HK$492,000	Decrease by HK$440,000

18. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the financial asset at fair value through profit or loss to significant actuarial assumptions, the same method (present value of the financial asset at fair value through profit or loss calculated with discounted cash flow approach at the end of the reporting period) has been applied.

Reconciliation of Level 3 fair value measurements of financial asset on recurring basis:

	Financial asset at fair value through profit or loss HK$'000
At 1 April 2017	13,622
Total gains recognised in profit or loss	510
At 31 March 2018	14,132
Total losses recognised in profit or loss	(1,535)
At 31 March 2019	**12,597**

19. INVENTORIES

	2019 **HK$'000**	2018 HK$'000
Raw materials	**30,506**	27,925
Work in progress	**10,556**	12,448
Finished goods	**1,404**	6,032
	42,466	46,405

20. TRADE AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**74,656**	58,504
Less: Impairment of trade receivables	**(2,632)**	—
	72,024	58,504
Prepayments	**11,185**	8,597
Value-added tax receivables	**23,457**	26,505
Deposits *(Note)*	**732**	1,339
Other receivables	**1,616**	403
Less: Impairment of other receivable	**(203)**	—
	36,787	36,844
Total trade and other receivables	**108,811**	95,348
Less: Non-current portion-deposits	**(318)**	(954)
Current portion	**108,493**	94,394

The Group does not hold any collateral over these balances.

Note: Included in the balance of deposits, are of approximately HK$318,000 (2018: HK$954,000) rental deposits as at 31 March 2019 and are shown as non-current assets.

The Group normally grants credit terms to its customers ranging from 0 to 90 days. At 31 March 2019 and 2018, the ageing analysis of the trade receivables based on invoice date which approximates the respective revenue recognition dates were as follows:

	2019 HK$'000	2018 HK$'000
1 to 30 days	**20,201**	27,407
31 to 60 days	**24,735**	12,180
61 to 90 days	**9,122**	13,254
91 to 180 days	**47**	3,407
Over 180 days	**17,919**	2,256
	72,024	58,504

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. 64% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group.

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

As of 31 March 2019, trade receivables of approximately HK$26,014,000 (2018: HK$16,514,000) were past due but not impaired. These relate to a number of independent customers, of which approximately HK$18,678,000 (2018: HK$6,239,000) were due from the top five customers for the year ended 31 March 2019, for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables based on due date is as follows:

	2019 HK$'000	2018 HK$'000
1 to 30 days	7,792	5,616
31 to 60 days	646	8,076
61 to 90 days	17	945
91 to 180 days	133	710
Over 180 days	17,426	1,167
	26,014	16,514

Trade receivables that were past due but not impaired were related to a number of individual customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances that are still considered fully recoverable.

The movement in impairment of trade receivables are as follow:

	2019 HK$'000	2018 HK$'000
At 1 April (1 April 2018 amount has been restated)	503	—
Impairment loss recognised	2,129	—
At 31 March	2,632	—

The movement in impairment of other receivables are as follow:

	2019 HK$'000	2018 HK$'000
At 1 April (1 April 2018 amount has been restated)	34	—
Impairment loss recognised	169	—
At 31 March	203	—

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of relevant group entities:

	2019 HK$'000	2018 HK$'000
USD	**64,766**	58,729

At 31 March 2019, the carrying amount of the short-term receivables which have been pledged as security for the borrowing, is HK$50,609,000 (2018: HK$27,556,000). The carrying amount of the associated liability is approximately HK$47,364,000 (2018: HK$20,879,000). Details are shown in Notes 24 and 33.

21. LOAN RECEIVABLE

	2019 HK$'000	2018 HK$'000
Unsecured fixed-rate loan receivable	**3,000**	—
Less: Impairment	**(1,959)**	—
At 31 March	**1,041**	—

The loan receivable had contractual maturity date with one year. The interest rate for the fixed-rate loan receivable was 10% per annum.

22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances represented short-term deposits with a maturity of three months or less. At 31 March 2019, bank balances carried at prevailing market rates range from 0.001% to 0.35% per annum (2018: 0.001% to 0.35% per annum). At 31 March 2019, the pledged bank deposits carry fixed interest rate range from 1.65% to 2.5% per annum (2018: 1.65% to 2.5% per annum). The pledged bank deposits will be released upon the settlement of relevant bank borrowing and facilities.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group and have been pledged to secure short-term bank borrowing and undrawn facilities and are therefore classified as current assets.

Included in the pledged bank deposits and bank balances and cash are the following amounts denominated in a currency other than the functional currency of relevant group entities:

	2019 HK$'000	2018 HK$'000
USD	**11,482**	4,908
Renminbi ("RMB")	**1,191**	2,595
Euro ("EUR")	**9**	9

23. TRADE AND OTHER PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	**60,142**	58,918
Other payables and accruals		
Accrued expenses	**13,305**	12,783
Other payables	**5,688**	3,649
Receipt in advance (Note)	**—**	4,596
Contract liabilities	**4,935**	—
	23,928	21,028
Trade and other payables	**84,070**	79,946

Note: Receipt in advance represented advance payments of related sales of goods from customers pursuant to the respective sales contracts.

The following is an aged analysis of trade payables presented based on invoice dates at the end of the reporting period.

	2019 HK$'000	2018 HK$'000
Within 30 days	**20,799**	14,157
31 to 60 days	**19,895**	16,750
61 to 90 days	**7,461**	17,923
More than 90 days	**11,987**	10,088
Total	**60,142**	58,918

The credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The Group's trade and other payables that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	2019 HK$'000	2018 HK$'000
RMB	**15**	2,380
USD	**14,953**	13,341

24. BORROWINGS

	2019 HK$'000	2018 HK$'000
Secured bank borrowings	**44,625**	36,551
Secured other borrowings	**5,663**	–
Unsecured other borrowings	**3,919**	–
Total borrowings	**54,207**	36,551

Carrying amount repayable (based on scheduled repayment dates set out in loan agreements):

	2019 HK$'000	2018 HK$'000
Within one year	**54,207**	36,551
Carrying amount of borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**–**	–
Amount shown under current liabilities	**54,207**	36,551

(a) Secured bank borrowings of the Group as at 31 March 2019 and 2018 were secured by the Group's financial asset at fair value through profit or loss, trade receivables, a corporate guarantee from the Company and pledged bank deposits. Details are shown in Note 33.

(b) The secured other borrowing was secured by the Group's trade receivables with amount of HK$17,025,000 and the interest rate was 24% per annum.

The unsecured other borrowing was with the interest rate 4% per annum.

(c) The weighted average effective interest rates (per annum) at the end of the respective reporting periods are as follows:

	2019 HK$'000	2018 HK$'000
Variable-rate borrowings effective interest rate	**0.21% to 5.8%**	0.45% to 3.4%

24. BORROWINGS (CONTINUED)

(d) The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2019 **HK$'000**	2018 HK$'000
Borrowings		
— USD	**44,625**	36,551

(e) The Group has the following undrawn borrowing facilities:

	2019 **HK$'000**	2018 HK$'000
Variable-rate borrowings	**33,375**	22,466

25. AMOUNT DUE TO A RELATED COMPANY

Name of company	*Note*	**2019** **HK$'000**	2018 HK$'000
Xinxing On Time Electronics Limited	(i)	**499**	387

The amount is unsecured, interest free and repayable on demand.

Note:

(i) Mr. Tam Wing Ki, the director and chairman of the Company, has direct interest in the relevant party.

26. DEFERRED TAXATION

The movement in deferred tax assets during the year are as follows:

	Decelerated/ (accelerated) tax depreciation HK$'000	Provisions HK$'000	Tax losses HK$'000	Total HK$'000
At 1 April 2017	(43)	185	1,292	1,434
Credited (Charged) to profit or loss	62	(230)	(72)	(240)
At 31 March 2018 and 1 April 2018	19	(45)	1,220	1,194
Credited (Charged) to profit or loss	(19)	45	(1,220)	(1,194)
At 31 March 2019	**–**	**–**	**–**	**–**

At 31 March 2019, the Group has unused tax losses of approximately HK$31,034,000 (2018: HK$19,138,000). Included in unrecognised tax losses are loss of the Group of approximately HK$3,648,000 for the year ended 31 March 2019 (2018: 3,648,000) which will be expired in 2023. As at 31 March 2018, a deferred tax asset has been recognised in respect of approximately HK$Nil (2018: HK$7,394,000) of such losses. No deferred tax asset had been recognised in respect of remaining tax losses of approximately HK$31,034,000 (2018: HK$11,744,000) due to the unpredictability of future profit streams.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

27. SHARE CAPITAL

	Number of shares		Share capital	
	2019 '000	2018 '000	**2019 HK$'000**	2018 HK$'000
Ordinary shares of HK$0.00125 each (2018: HK$0.00125 each)				
Authorised				
At the beginning and at the end of the financial year	**3,840,000**	3,840,000	**4,800**	4,800
Issued and fully paid				
At the beginning and at the end of the financial year	**3,840,000**	3,840,000	**4,800**	4,800

All the ordinary shares issued during the year ended 31 March 2019 and 2018 rank pari passu with the then existing shares in all respects.

28. RETIREMENT BENEFIT SCHEMES

The Group participates in the MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution plan and the assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant costs to the scheme, which contribution is matched by employees, subject to a cap of monthly relevant income of HK$30,000. Contributions to the MPF Scheme vest immediately and there were no forfeited contributions of the MPF Scheme during both years.

The employees of the Company's subsidiaries established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries is required to contribute certain percentage of its payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the scheme.

The Group made contributions to the retirement benefits schemes of approximately HK$5,265,000 for the year ended 31 March 2019 (2018: HK$5,494,000).

29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts which include bank and other borrowings, net of cash and cash equivalents and equity attributable to the owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of the review, the directors of the Company consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to adjust the Group's capital structure. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through the issue of new debt or the redemption of existing debts and new share issues.

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2019 **HK$'000**	2018 HK$'000
Financial assets		
Financial asset at FVTPL	**12,597**	14,132
Loans and receivables (including bank balances and cash)	**—**	92,361
Financial assets at amortised cost	**100,957**	—
	113,554	106,493
Financial liabilities		
Financial liabilities at amortised cost	**133,841**	121,061

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include financial asset at FVTPL, trade and other receivables, loan receivable, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to a related company, borrowings and bond payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no material change to the Group's exposure to financial risk or the manner in which it manages and measures the risk.

Market risk

Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence, exposures to exchange rate fluctuation arise. The Group's assets are mainly HK$-denominated assets. In addition, the Group has certain assets denominated in RMB, USD and EUR. In this respect, the Group considers its exposure to foreign currency risk is primarily in the fluctuation of HK$ against RMB/EUR.

The HK$ is pegged to USD and thus foreign currency exposure is considerate as minimal and is not hedged.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting date are as follows:

	Assets		Liabilities	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
RMB	**1,191**	2,595	**15**	2,380
USD	**88,845**	77,769	**59,578**	49,892
EUR	**9**	9	**—**	—

The Group currently does not have a foreign currency hedging policy. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currency risk of RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in exchange rates of the relevant foreign currencies against the respective reporting entity's functional currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit/a decrease in post-tax loss where the respective functional currencies of the reporting entity strengthen 5% against the relevant foreign currencies. For a 5% weakening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the profit/loss, and the balances below would be negative. The analysis is performed on the same basis for the year ended 31 March 2019 and 2018.

	RMB	
	2019	2018
	HK$'000	HK$'000
RMB	**(49)**	(8)

The result of sensitivity analysis on RMB is mainly attributable to the exposure on outstanding bank balances and cash and other payables denominated in RMB at the end of the reporting period.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to loan receivable, pledged bank deposits, bank balances (Note 22), amounts due to a related company, fixed-rate borrowings and bond payables. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings (see Note 24 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of the prevailing market rates on bank balances and variable-rate borrowings.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 March 2019 would increase/decrease by approximately HK$223,000 (2018: decrease/increase in profit for the year HK$183,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate borrowings.

Credit risk

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

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue trade receivables. In addition, the Group reviews the recoverability of each individual trade receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the funds are deposited in banks with high credit ratings assigned by international credit rating agencies.

The Group has concentration of credit risk as 50% (2018: 50%) and 88% (2018: 77%) of the total receivables was due from the Group's largest customer and five largest customers respectively.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

The Group applied the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and loan receivables. To measure the expected credit losses, trade receivables and loan receivable have been grouped based on shared credit risk characteristics and the days past due. The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables, loans to investees and loans receivables as at 31 March 2019:

		Trade receivables	
	Expected loss	**Gross carrying amount**	**Loss allowance**
	%	HK$'000	HK$'000
Current (not past due)	0.88	46,418	408
1 to 30 days past due	0.88	7,861	69
31 to 60 days past due	1.11	653	7
61 to 90 days past due	1.40	18	1
91 to 180 days past due	2.80	137	4
Over 180 days past due	10.95	19,569	2,143
		72,024	2,632

		Loan receivable	
	Expected loss	**Gross carrying amount**	**Loss allowance**
	%	HK$'000	HK$'000
Current (not past due)	65.29	3,000	1,959

Expected loss rates are based on actual loss experience over the past 3 years. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The following table shows reconciliation of loss allowance for other receivables under HKFRS 9, with allowance HK$203,000.

	12m ECL	**Credit impaired**	**Total**
	HK$'000	HK$'000	HK$'000
At as 1 April	34	—	34
ECL recognised	169	—	169
As at 31 March	203	—	203

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

In management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted cashflows on interest are estimated based on interest rates at the end of the reporting period, and therefore subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

	At 31 March 2019					
	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities						
Trade and other payables	79,135	–	–	–	79,135	79,135
Borrowings	54,931	–	–	–	54,931	54,207
Amount due to a related company	499	–	–	–	499	499
	134,565	–	–	–	134,565	133,841

	At 31 March 2018					
	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities						
Trade and other payables	75,350	–	–	–	75,350	75,350
Borrowings	36,649	–	–	–	36,649	36,551
Bond payables	1,498	1,498	4,494	4,494	11,984	8,773
Amount due to a related company	387	–	–	–	387	387
	113,884	1,498	4,494	4,494	124,370	121,061

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Borrowings with a repayment on demand clause are included in the "within one year or on demand" time band in the above maturity analysis. As at 31 March 2019 and 2018, the aggregate undiscounted principal amounts of these borrowings amounted to approximately HK$54,207,000 and HK$36,551,000 respectively. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to approximately HK$54,931,000 (2018: HK$36,649,000).

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of current financial assets and current financial liabilities recorded at amortised cost approximate their fair values.

32. OPERATING LEASE COMMITMENT

The Group leases certain of its factory premises, offices and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years and rentals are fixed. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

At the end of the reporting period, the Group had future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2019 **HK$'000**	2018 HK$'000
Within one year	**608**	455
In the second to fifth year inclusive	**469**	176
	1,077	631

33. PLEDGE OF ASSETS

At the end of the reporting period, the Group's banking facilities were secured by:

(i) certain of the Group's trade receivables with an aggregate amount of approximately HK$33,584,000 (2018: HK$27,556,000);

(ii) pledged bank deposits with an aggregate amount of approximately HK$1,128,000 (2018: HK$2,381,000);

(iii) pledge of key-management insurance with an aggregate amount of approximately HK$14,132,000 in year ended 31 March 2018; and

(iv) a corporate guarantee from the Company with an aggregate amount of approximately HK$65,000,000 (2018: HK$65,000,000).

34. CAPITAL COMMITMENT

	2019 HK$'000	2018 HK$'000
Contracted but not provided for — Property, plant and equipment	**219**	1,223

35. RELATED PARTY TRANSACTIONS

The Group has entered into the following significant transactions with related parties during the year.

(a) Compensation of key management personnel

The remuneration of key management personnel during the years ended 31 March 2019 and 2018 are as follows:

	2019 HK$'000	2018 HK$'000
Short-term employee benefits	**5,458**	6,123
Post-employment benefits	**190**	214
	5,648	6,337

The remuneration of the directors and key management personnel is determined by the board of directors regarding to the performance of individuals and market trends.

(b) In addition to the balances detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

Name of company	Nature of transactions	*Note*	2019 HK$'000	2018 HK$'000
Xinxing On Time Electronics Limited	Rental expenses charged	(i)	**1,614**	1,672
	Interest expenses paid		**12**	14

Note:

(i) Mr. Tam Wing Ki, the director and chairman of the Company, has direct interest in the relevant party.

36. BOND PAYABLES

Bonds with total amount of approximately HK$15,000,000 (2018: HK$137,900,000) at par value were issued during the year. The net amount of the bonds after deducting issuance fee of approximately HK$2,699,000 (2018: HK$24,246,000) was HK$12,301,000 (2018: HK$113,654,000). The bonds bear interest at a rate of 14% per annum for the first eight years and are paid annually after 1 year of issuance date. From the ninth year, the interest rate is changed to 0.001% per annum. The effective interest rate is 7.50% (2018: ranged from 6.57% to 7.50%). The bonds have no fixed expiry date and may be redeemed by the Group after eight years from issuance date at HK$1. The interest payments are deferred at the Group's discretion, if the Group does not (a) pay interest to the bondholders within 6 months prior to the scheduled interest payment date or (b) cancel or reduce their share capitals within 6 months period prior to the scheduled interest payment date. As a result of the holder's protection clause, the Group is required to repay the remaining interest in the first eight years if the majority of assets of any of the Company or major subsidiaries were held in custody for more than 10 days or there is a similar event. Therefore, the bonds are treated as liabilities.

During the year, the Group has early repaid certain bonds at a discounted interest rate of 10% per annum for the first 8 years, totally 80% of the principal amount, amounting to approximately HK$20,560,000 (2018: HK$101,760,000) of bond with a total par value of HK$25,700,000 (2018: HK$127,200,000). The effective interest rate of those early repaid bonds is 7.5% (2018: ranged from 6.57% to 7.5%). The net amount of the early repaid bonds after deducting issuance fee was approximately HK$21,074,000 (2018: HK$104,881,000). The early repayment of the bond payables for the first eight years incurred a gain on early repayment of approximately HK$514,000 (2018: HK$3,121,000).

Issuance fee comprised brokerage fee and consultancy fee paid to the broker and two consultants of approximately HK$750,000 (2018: HK$4,506,000), HK$750,000 (2018: HK$9,284,000) and HK$1,200,000 (2018: HK$10,456,000) respectively. Both the broker and the consultants are independent third parties of the Group.

During the year, the movement of the bonds is as follow:

	2019 **HK$'000**	2018 HK$'000
At the beginning of the year	**8,773**	—
Principal	**15,000**	137,900
Issuance fee	**(2,699)**	(24,246)
Net amount	**12,301**	113,654
Early repayment	**(20,560)**	(101,760)
Gain on early repayment *(Note 7)*	**(514)**	(3,121)
Carrying amount	**—**	8,773

36. BOND PAYABLES (CONTINUED)

Carrying amount repayable (based on scheduled repayment dates set out in the bond agreement):

	2019 HK$'000	2018 HK$'000
Unsecured bond payables	–	8,773
Within one year	–	839
After one year but within two years	–	903
After two years but within five years	–	3,136
After five years	–	3,895
	–	8,773
Amount shown under current liabilities	–	839
Amount shown under non-current liabilities	–	7,934
	–	8,773

A bond with amount of approximately HK$10,700,000 at par value was not early repaid during the year ended 31 March 2018. The net amount of the bond after deducting issuance fee of HK$1,927,000 was HK$8,773,000. The bond bears interest at a rate of 14% per annum for the first eight years and are paid annually from 11 March 2019. From the ninth year, the interest rate is changed to 0.001% per annum. The effective interest rate was 7.50%. The bond has no fixed expiry date and may be redeemed by the Group on or after 21 March 2026 at HK$1.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Statement of financial position of the Company at the end of the reporting period is as follows:

	Notes	**2019 HK$'000**	2018 HK$'000
Non-current asset			
Investment in a subsidiary		**22,126**	22,126
Current assets			
Trade receivables		**15,502**	—
Prepayments		**195**	176
Loan receivable		**1,041**	—
Amounts due from subsidiaries	(a)	**3,256**	5,375
Bank balances and cash		**—**	13,239
		19,994	18,790
Current liabilities			
Trade payables		**10,287**	265
Other payables and accruals		**2,239**	1,399
Amounts due to subsidiaries	(b)	**—**	2,271
Bond payables		**—**	839
Other borrowings		**9,582**	—
		22,108	4,774
Net current (liabilities)/assets		**(2,114)**	14,016
Total assets less current liabilities		**20,012**	36,142
Non-current liabilities			
Bond payables		**—**	7,934
Net assets		**20,012**	28,208
Capital and reserves			
Share capital		**4,800**	4,800
Reserves	(c)	**15,212**	23,408
Total equity		**20,012**	28,208

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Notes:

(a) The amounts are unsecured, non-interest bearing and repayable on demand.

(b) The amounts due to subsidiaries are non-trade, unsecured, non-interest bearing and repayable on demand.

(c) Reserves

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2017	75,468	(48,906)	26,562
Loss for the year and total comprehensive expense for the year	–	(3,154)	(3,154)
At 31 March 2018	75,468	(52,060)	23,408
Loss for the year and total comprehensive expense for the year	–	(8,196)	(8,196)
At 31 March 2019	**75,468**	**(60,256)**	**15,212**

38. SUBSIDIARIES OF THE COMPANY

At the end of the reporting period, the Company has the following subsidiaries at 31 March.

Name of Company	Place of incorporation or establishment/operation	Issued and fully paid share capital/registered capital	Percentage of equity interest attributable to the Company				Principal activities
			Direct		Indirect		
			2019	2018	2019	2018	
On Real (BVI) Limited	BVI/BVI	Ordinary shares USD2	100%	100%	–	–	Investment holding
On Real Limited	Hong Kong/PRC	Ordinary shares HK$2,000,000	–	–	100%	100%	Trading of two-way radios and servicing business
On Real Electronics (Shenzhen) Limited*	PRC/PRC	Paid up capital HK$5,000,000	–	–	100%	100%	Design and manufacture of two-way radios and baby monitors
Onward Technology Development Limited	Hong Kong/PRC	Ordinary shares HK$10,000	–	–	100%	100%	Trading of plastic covers to On Real Limited and its subsidiaries
Starian Caring Limited	Hong Kong/PRC	Ordinary shares HK$10,000	–	–	100%	100%	Trading of baby monitors
Xinxing Great Success Plastic Limited*	PRC/PRC	Paid up capital HK$8,000,000	–	–	100%	100%	Design and manufacture of two-way radios and baby monitors
Shenzhen On Real Innovate Electronics Technology Limited*	PRC/PRC	Paid up capital HK$1,000,000	–	–	100%	100%	Technology development
On Real I.O.T Group Limited *(Note)*	Hong Kong/PRC	Paid up capital HK$100	–	–	51%	51%	Technology development

All companies now comprising the Group, except for On Real Electronics (Shenzhen) Limited*, Xinxing Great Success Plastic Limited* and Shenzhen On Real Innovate Electronics Technology Limited* which have adopted 31 December as the financial year end date, have adopted 31 March as the financial year end date.

None of the subsidiaries had any debt securities issued subsisting at the end of both years and any time during both years.

* *For identification only*

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those 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.

			Non-cash changes		
	1 April 2018 HK$'000	**Financing cash flows** HK$'000	**Foreign exchange movements** HK$'000	**Gain on early repayment of bond payables** HK$'000	**31 March 2019** HK$'000
Borrowings	36,551	17,673	—	—	54,224
Bond payables	8,773	(8,259)	—	(514)	—
Amounts due to a related	387	106	6	—	499
	45,711	9,520	6	(514)	54,723

40. EVENTS AFTER THE REPORTING PERIOD

On 20 June 2019, Mr. Tam Wing Ki ("**Mr. Tam**"), the executive directors of the Company and On Real Limited ("**the Vendor**"), an indirect wholly-owned subsidiary of the Company entered into the Agreement, pursuant to which Mr. Tam has conditionally agreed to purchase, and the Vendor has agreed to sell, the asset of the life insurance plan "Jade Global Select Universal Life Plan" insured by HSBC Life (International) Limited on the life of Mr. Tam at a consideration of HK$9,500,000 to be settled by cash.

Details were set out in the Company's announcement dated 20 June 2019.

Apart from the transactions disclosed on the above, there was no other events after the reporting period which need to be disclosed.

FINANCIAL SUMMARY

The results, assets and liabilities of the Group for each of the last four financial years are as follows:

RESULTS

	Year ended 31 March				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**323,506**	297,131	327,637	261,844	346,191
(Loss)/profit before income tax	**(8,327)**	3,218	7,673	(16,462)	14,918
Income tax (expense)/credit	**(1,386)**	(2,333)	(3,390)	1,612	(4,382)
(Loss)/profit for the year	**(9,713)**	885	4,283	(14,850)	10,536
Attributable to:					
Owners of the Company	**(9,789)**	890	4,283	(14,850)	10,536
Non-controlling interest	**76**	(5)	—	—	—
	(9,713)	885	4,283	(14,850)	10,536

ASSETS, EQUITY AND LIABILITIES

	As at 31 March				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS					
Non-current assets	**20,513**	27,687	27,069	35,402	35,564
Current assets	**183,675**	174,094	176,111	117,504	115,314
Total assets	**204,188**	201,781	203,180	152,906	150,878
EQUITY AND LIABILITIES					
Total equity	**63,352**	73,977	71,644	70,444	26,260
Non-current liabilities	**—**	7,934	—	—	32
Current liabilities	**140,836**	119,870	131,536	82,862	124,586
Total liabilities	**140,836**	127,804	131,536	82,862	124,618
Total equity and liabilities	**204,188**	201,781	203,180	152,906	150,878