高鋭中國物聯網國際有限公司

# HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED

(於百慕達註冊成立之有限公司)

(Incorporated in Bermuda with limited liability)

股份代號 Stock Code :1682

# 2017

年報

Annual Report

# CONTENTS

# Corporate Information

## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS#

Mr. Gao Zhiyin *(Chairman)*
Mr. Gao Zhiping *(Chief Executive Officer)*
Mr. Feng Chen *(Chief Operating Officer)*
*(appointed on 31 May 2017)*
Mr. Lam Kai Yeung *(Chief Financial Officer)*^
*(appointed on 30 June 2017)*

### INDEPENDENT NON-EXECUTIVE DIRECTORS^

Mr. Lau Chi Kit
Mr. Ma Ming
Mr. Li Hui *(appointed on 17 May 2017)*

### NON-EXECUTIVE DIRECTOR*

Mr. Chan Kin *(appointed on 12 June 2017)*

## COMPANY SECRETARY

Ms. Sze Suet Ling *ACIS ACS*

## AUDIT COMMITTEE

Mr. Lau Chi Kit *(chairman)*
Mr. Ma Ming
Mr. Li Hui

## REMUNERATION COMMITTEE

Mr. Ma Ming *(chairman)*
Mr. Gao Zhiyin
Mr. Lau Chi Kit

## NOMINATION COMMITTEE

Mr. Gao Zhiyin *(chairman)*
Mr. Lau Chi Kit
Mr. Ma Ming

## AUTHORISED REPRESENTATIVES

Mr. Gao Zhiyin
Ms. Sze Suet Ling *ACIS ACS*

## LEGAL ADVISERS AS TO HONG KONG LAW

Paul Hastings

## AUDITOR+

Deloitte Touche Tohmatsu

\# Mr. Shi Jiguo resigned on 31 May 2017.

^ Mr. Lam Kai Yeung resigned as an independent non-executive Director on 1 May 2017 and re-designated as the chief financial officer of the Company on the same day. He was appointed as an executive Director on 30 June 2017.

* Mr. Shum Ngok Wa was appointed on 12 July 2016 and resigned on 14 June 2017.

+ Messrs. Deloitte Touche Tohmatsu acted as auditor of the Company until its retirement on 28 August 2014 (the date of annual general meeting in 2014). Messrs. Grant Thornton Hong Kong Limited was appointed as auditor of the Company on the same day (i.e. 28 August 2014) and resigned on 18 May 2015. Messrs. Deloitte Touche Tohmatsu was appointed as auditor of the Company on 5 June 2015.

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
OCBC Wing Hang Bank Limited

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 4114-4119, 41st Floor
Sun Hung Kai Centre
No. 30 Harbour Road
Wanchai, Hong Kong

## STOCK CODE

1682

## COMPANY WEBSITE

www.highlightiot.com

# Financial Summary

**Results**

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2013<br>HK$'000 | 2014<br>HK$'000<br>(restated) | 2015<br>HK$'000 | 2016<br>HK$'000 | **2017**<br>HK$'000 |
| Revenue | 1,071,162 | 282,089 | 365,690 | 164,589 | **80,992** |
| Profit (loss) before taxation | 17,776 | 8,586 | (454) | (24,777) | **(11,443)** |
| Income tax (expense) credit | (10,507) | (1,980) | (902) | 20 | **–** |
| Profit (loss) for the year from continuing operation | 7,269 | 6,606 | (1,356) | (24,757) | **(11,443)** |
| Profit (loss) for the year from discontinued operations | – | 4,972 | (5,074) | – | **–** |
| Profit (loss) for the year | 7,269 | 11,578 | (6,430) | (24,757) | **(11,443)** |
| Attributable to: | | | | | |
| Owners of the Company | 11,178 | 18,961 | (6,833) | (24,757) | **(11,443)** |
| Non-controlling interests | (3,909) | (7,383) | 403 | – | **–** |
| | 7,269 | 11,578 | (6,430) | (24,757) | **(11,443)** |

**Assets And Liabilities**

| | At 31 March | | | | |
|---|---|---|---|---|---|
| | 2013<br>HK$'000 | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | **2017**<br>HK$'000 |
| Total assets | 632,594 | 592,803 | 134,009 | 66,022 | **40,230** |
| Total liabilities | (272,318) | (214,543) | (91,929) | (48,699) | **(34,350)** |
| | 360,276 | 378,260 | 42,080 | 17,323 | **5,880** |
| Equity attributable to: | | | | | |
| Owners of the Company | 354,613 | 379,978 | 42,080 | 17,323 | **5,880** |
| Non-controlling interests | 5,663 | (1,718) | – | – | **–** |
| | 360,276 | 378,260 | 42,080 | 17,323 | **5,880** |

On behalf of the Board, I am pleased to present the Group's annual report for the year ended 31 March 2017.

## BUSINESS REVIEW

During the year ended 31 March 2017, the garment industry had operated in an environment full of challenges. The Group's customised out-sourcing capabilities continued to face tremendous global macro-economic pressure in an unfavourable consumer spending environment and vigorous competition. The export market was difficult overall with the stagnant retail markets of Canada and Eurozone compounded by the weak demands of the United States of America ("US" or "USA"), the Group's major export destination.

According to the Major Shippers Report released by the US Department of Commerce, imports of apparel decreased by approximately 5% to approximately US$81 billion in the year ended 31 December 2016 as compared to 2015. With the uncertain political and economic outlook, retailers have become increasingly cautious in placing orders.

### GARMENT SOURCING BUSINESS

For the year ended 31 March 2017, the Group's revenue decreased by approximately 51% on a year-on-year basis to approximately HK$81 million (2016: approximately HK$165 million). The decrease was mainly attributable to the sluggish retail demand in the USA, Canada and Europe that still has weighed on buyers' confidence and made retailers particularly cautious in placing orders.

Gross profit decreased by approximately 61% to approximately HK$5 million (2016: approximately HK$13 million) with gross profit margin decreased from approximately 7.8% to approximately 6.2% due to slow demand and keen competition.

Loss and total comprehensive expense for the year attributable to owners of the Company recorded approximately HK$11 million (2016: approximately HK$25 million).

Total comprehensive expense for the year ended 31 March 2017 amounted to approximately HK$11 million (2016: approximately HK$25 million), representing a decrease of approximately 54%. The decrease was primarily due to the decrease in selling and distribution costs and administrative expenses resulted from the reduction in headcounts and sample making, that compensated the decrease in gross profit.

## PROSPECTS AND DEVELOPMENT PLAN

The development of the Group's current business as a garment sourcing management supplier in providing value-added services such as material sourcing, product design and development, sample making and logistics arrangement, has fallen short of expectations and failed to bring forth significant breakthroughs. Affected by unfavorable factors including the slowdown in global investment, weak growth in trade, subdued production growth, intense competition within the industry, increased operational costs and decreased product demand, the Group's revenue and profit generated from its businesses have been unsatisfactory.

The Company's management has been providing comprehensive solutions and relevant products in the television and broadcasting industry for over 20 years and has in-depth knowledge of the industry's current situation as well as sufficient understanding and insight into the needs of its clients and residents. Therefore, for maximizing the interests of the Shareholders and with the experience and connections of the management of the Company in relevant fields, the Group is planning to shift its business direction and establish subsidiaries in the PRC for the purposes of developing and operating the integrated information service platform on broadcasting networks, including, but not limited to, provision of comprehensive town management, market supervision, comprehensive law enforcement, public convenience and other services.

The notice on publishing the promotion plan of tri-network integration by the General Office of the State Council of the PRC* (中國國務院辦公廳關於印發三網融合推廣方案的通知) was issued in August 2015 to fully advance the tri-network integration, conclude on the experiences of the pilot program, expand both the television and broadcasting and telecommunication businesses to a national level, and commence such implementation.

Smart city developments based on broadcasting networks, especially those based on terminals in the form of DVB+OTT ("Digital Video Broadcasting + Over The Top"), is especially beneficial to the development of smart cities. Its advantages include development and programming, convenient installation, easy upgrading and maintenance and short evolutionary iteration cycles, and is able to develop smart cities of all types and forms. The developed smart cities encompass different age and culture groups, from children, students, teenagers, to middle-aged and senior citizens, meeting their different demands in work, entertainment and living. The interactive education, family security, smart homes, life circles and internet finance businesses of the smart cities of Zhejiang Chuangjia Digital Co., Ltd.* (浙江創佳數位技術有限公司) (Mr. Gao Zhiping has served as the legal representative since 2007) have been extremely popular with customers. Therefore, smart city developments based on broadcasting networks, especially those based on terminals in the form of DVB+OTT, are highly prospective with potentially stronger market demands. Following the cooperation agreement (details of which were disclosed in the Company's announcement dated 18 May 2017) entered into between Hangzhou Haoyu Yunshi Network and Technology Co., Ltd.* (杭州浩毓云勢網路科技有限公司) ("Hangzhou Haoyu"), an indirectly wholly-owned subsidiary of the Company, and Shangrao branch of Jiangxi Province Broadcasting and Television Network Communication Co., Ltd.* (江西省廣播電視網絡傳輸有限公司) ("Jiangxi Broadcasting"), we believe that there will be tremendous business opportunities within the field of smart cities for the Group.

The notice on the commencement of the Pilot Work Plan of Public Standardisation and Regularisation in Grassroots Government Affairs by the General Office of the State Council of the PRC* (中國國務院辦公廳關於印發開展基層政務公開標準化規範化試點工作方案的通知) was issued in May 2017. It is a practical measure to advance "The Five Publicisation", and is of great significance to deepening the publicisation of grassroots government affairs, improving administrative efficiency, as well as accelerating the establishment of nomocracy and a service-oriented government. In view of this, the Group is actively planning to develop the smart government affairs business, with the signing of the Pingyang cooperation agreement (details of which were disclosed in the Company's announcement dated 22 May 2017) being a good start.

Lastly, I would like to express my sincere gratitude to the management team and all employees on behalf of the Board for their immeasurable contribution and efforts to the Group. The Group will continue to face challenges and expand together hand in hand diligently and dutifully in the difficult and struggling business environment. Meanwhile, I would like to express my gratitude to the Shareholders for their support for the Group. We will continue to do our best and strive to improve our profitability and generate more satisfactory return for our Shareholders.

## IMPORTANT EVENTS AFFECTING THE GROUP AFTER THE REPORTING PERIOD

On 18 May 2017, the Company through its indirect wholly owned subsidiary, Hangzhou Haoyu, entered into the cooperation agreement with Jiangxi Broadcasting, pursuant to which the parties agreed to cooperate to develop and operate the integrated information service platform on the network of Jiangxi Broadcasting. Please refer to announcement of the Company dated 18 May 2017 for more details.

On 22 May 2017, the Company through its indirect wholly owned subsidiary, Hangzhou Haoyu, entered into the cooperation agreement with Pingyang Wasu Broadcasting and Television Network Co., Ltd.* (平陽華數廣電網絡有限公司), pursuant to which the parties agreed to cooperate to develop and operate the platform for the provision of comprehensive town management, market supervision, comprehensive law enforcement, public convenience and other services in Pingyang County. Please refer to announcement of the Company dated 22 May 2017 for more details.

Save as disclosed above, no important events affecting the Group have taken place since 31 March 2017 and up to the date of this report.

**Gao Zhiyin**
*Chairman*

Hong Kong, 29 June 2017

* *for identification purposes only*

# Management Discussion and Analysis

## FINANCIAL REVIEW

### LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy financial position for the year ended 31 March 2017 with cash and cash equivalents amounted to approximately HK$2.5 million as at 31 March 2017.

As at 31 March 2017, the Group's gearing ratio, being net debt (represented by bank borrowings net of cash and cash equivalents) divided by shareholders' equity, was zero (2016: zero), as the Group did not have any bank borrowings as at 31 March 2017. The Group's current ratio, being total current assets divided by total current liabilities, was approximately 1.2 (2016: 1.4).

The Group did not have any bank borrowings as at 31 March 2017 and throughout the year ended 31 March 2017.

### FOREIGN EXCHANGE AND RISK MANAGEMENT

The Group's working capital is mainly financed through internal generated cash flows. The management of the Group regularly monitors the funding requirements of the Group to support its normal operations and its development plans. Most of the Group's cash balances were deposits in US$ and HK$ with major global financial institutions and most of the Group's monetary assets, revenues, monetary liabilities and payments were held in US$ and HK$.

Foreign exchange risks arising from sales and purchases transacted in different currencies may be managed by the Group through the use of foreign exchange forward contracts. Pursuant to the Group's policy in place, foreign exchange forward contracts or any other financial derivative contracts may be entered into by the Group for hedging purpose. The Group had not entered into any financial derivative contracts throughout the year ended 31 March 2017 and had no outstanding financial derivative contracts as at 31 March 2017.

### CAPITAL EXPENDITURE AND COMMITMENTS

During the year ended 31 March 2017, the Group did not have any material investment in plant and equipment.

As at 31 March 2017, the Group had no commitment (as at 31 March 2016: Nil) in respect of acquisition of new machineries and no significant capital commitments.

As at the date of this report, the Group had no plan for any material investment or capital assets.

### CHARGES ON ASSETS

As at 31 March 2017, the Group had no pledged assets.

### DIVIDENDS

The Board has resolved not to declare any final dividend for the year ended 31 March 2017 (for the year ended 31 March 2016: Nil).

## EMPLOYEE INFORMATION

As at 31 March 2017, the Group employed approximately 10 employees (excluding Directors). The Group offers its employees competitive remuneration schemes which are generally structured with reference to market terms and individual qualifications. Salaries and wages are normally reviewed annually based on performance appraisals and other relevant factors. In addition, bonuses are normally paid to those eligible based on the Group's and individual's performance.

The Company maintains the Share Option Scheme, pursuant to which share options may be granted to selected eligible participants including employees of the Group, with a view to providing those eligible participants with appropriate incentive to contribute to the success of the Group.

There was no outstanding share option throughout the year ended 31 March 2017 and as at 31 March 2017.

# Biographical Details of Directors

## EXECUTIVE DIRECTORS

**Mr. Gao Zhiyin**, aged 46, was appointed as an executive Director on 26 July 2014 and the chairman of the Board on 16 August 2014. He is one of the founders of Unitech Enterprises Group Limited (卓科企業集團有限公司), being the controlling Shareholder. Since 2010, he has served as the chairman of the board of directors and the chief executive officer of Highlight Vision Limited (高鋭視訊有限公司) ("Highlight Vision PRC"), a subsidiary of Unitech Enterprises Group Limited which is an integrated service provider for IoT ("Internet of Things"), tri-network integration, smart city and internet new media industries in the PRC. He has also served as the legal representative of Zhejiang Chuangyi Optical Transmission Co., Ltd.* (浙江創億光電設備有限公司) (formerly known as Zhejiang Quzhou Chuangyi Optical Transmission Co., Ltd.* (浙江衢州創億光電設備有限公司)) since 2002. He has many years of experience in the industry of broadcasting and television communication and has thorough understanding of the Internet and IoT industries as well as the related upstream and downstream industries.

Mr. Gao graduated with a certificate from the chief executive enhancement class in financial investment and capital operation of the continuing education department of Zhejiang University (浙江大學金融投資與資本運作總裁提高班) in May 2010. He has served as a director of Enablence Technologies Inc., a Canadian-based company listed on the TSX Venture Exchange (TSX.V:ENA), since September 2013.

Mr. Gao Zhiyin is the elder brother of Mr. Gao Zhiping, the chief executive officer of the Company and an executive Director.

**Mr. Gao Zhiping**, aged 45, was appointed as an executive Director on 26 July 2014 and the chief executive officer of the Company on 16 August 2014. He is one of the co-founders of Unitech Enterprises Group Limited (卓科企業集團有限公司), being the controlling Shareholder. He has served as the general manager of Highlight Vision PRC since 2010. He has served as the legal representative of Zhejiang Chuangjia Digital Co., Ltd.* (浙江創佳數字技術有限公司) (formerly known as Zhejiang Tongfang Digital TV Equipment Co., Ltd.* (浙江同方數字電視設備有限公司)) since 2007. He has many years of experience in the industry of broadcasting and television communication and has in-depth understanding of the Internet and IoT industries.

Mr. Gao obtained his associate degree in administrative management from China Central Radio and TV University (中央廣播電視大學), now known as The Open University of China (國家開放大學), in July 2006. He subsequently graduated from the EMBA chief executive enhancement class of the management training centre of Zhejiang University (浙江大學高級工商管理總裁研修班) with a certificate in March 2007.

Mr. Gao Zhiping is the younger brother of Mr. Gao Zhiyin, the chairman of the Board and an executive Director.

## EXECUTIVE DIRECTORS (continued)

**Mr. Feng Chen**, aged 45, was appointed as an executive Director and the chief operating officer of the Company on 31 May 2017.

Mr. Feng graduated from Southwest China Normal University* (西南師範大學) with a bachelor degree in public service administration. He also completed a diploma programme for Executive Master of Business Administration from Huazhong University of Science and Technology* (華中科技大學). During 1989 to 1993, he worked for Hangzhou Wushan sub-branch of China Construction Bank. During 1999 to 2003, he served as a manager of Credit Department of Wulin sub-branch of Hangzhou branch of Shenzhen Development Bank. During 2003 to 2011, he acted as deputy general manager of business department and the general manager of corporate finance department of Hangzhou sub-branch of China Minsheng Bank. Since 2012, he was appointed as a director of Zhejiang Futeng Finance Leasing Co., Ltd.* (浙江富滕融資租賃有限公司), a company established in the PRC. Since 2016, he was also appointed as a director of Hangzhou Fengchen Technology Co., Ltd.* (杭州烽辰科技有限公司), a company incorporated in the PRC.

**Mr. Lam Kai Yeung**, aged 48, was appointed as an executive Director on 30 June 2017. He served as an independent non-executive Director from 16 August 2014 to 1 May 2017, and was redesignated as the chief financial officer of the Company on the day of his resignation as an independent non-executive Director on 1 May 2017.

Mr. Lam is an independent non-executive director of Finsoft Financial Investment Holdings Limited (stock code: 8018) (formerly known as "Finsoft Corporation 匯財軟件公司") and Kong Shum Union Property Management (Holding) Limited (stock code: 8181), both companies are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange. He is also an independent non-executive director of Silverman Holdings Limited (stock code: 1616), Sunway International Holdings Limited (stock code: 58), Holly Futures Co., Limited (弘業期貨股份有限公司) (stock code: 3678) and Kin Shing Holdings Limited (stock code: 1630), those companies are listed on the Main Board of the Stock Exchange.

Mr. Lam was an independent non-executive director of Northeast Tiger Pharmaceutical Co., Ltd. (stock code: 8197), a company listed on the GEM, from August 2008 to June 2015. He was a non-executive director of Ping Shan Tea Group Limited (stock code: 364) (formerly known as "Huafeng Group Holdings Limited"), a company listed on the Main Board of the Stock Exchange, from December 2014 to May 2015.

Mr. Lam is a fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a licensed person for type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. He has more than 20 years' experience in finance and auditing. He obtained a bachelor degree in accounting from Xiamen University (廈門大學) in July 1990 and a master degree in business administration from Oxford Brookes University in the United Kingdom in July 2010.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Lau Chi Kit**, aged 72, was appointed as an independent non-executive Director on 8 September 2010 and resigned and re-appointed as an independent non-executive Director with effect from 16 August 2014. He retired from The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in December 2000 after more than 35 years of service. Among the major positions in HSBC, he was the assistant general manager and head of Personal Banking Hong Kong and assistant general manager and head of Strategic Implementation, Asia-Pacific Region.

Mr. Lau is currently a fellow of the Hong Kong Institute of Bankers ("Institute") and the honorary advisor of the Institute's Executive Committee. He was the chairman of the Institute's Executive Committee (from January 1999 to December 2000).

Mr. Lau served as a member on a number of committees appointed by the Government of the Hong Kong Special Administrative Region, including the Advisory Council on the Environment (from October 1998 to December 2001), the Advisory Committee on Human Resources Development in the Financial Services Sector (from June 2000 to May 2001), the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption (from January 2000 to December 2003), the Environment and Conservation Fund Committee (from August 2000 to October 2006), the Innovation and Technology Fund (Environment) Projects Vetting Committee (from January 2000 to December 2004) and the Law Reform Commission's Privacy Sub-committee (from February 1990 to March 2006). He also served as chairman of the Business Environment Council Limited (from September 1998 to December 2001).

Currently, Mr. Lau is an executive director of Chinlink International Holdings Limited (stock code: 997) (formerly known as "Decca Holdings Limited"). He is an independent non-executive director of Royale Furniture Holdings Limited (stock code: 1198), Century Sunshine Group Holdings Limited (stock code: 509) and Leoch International Technology Limited (stock code: 842). All of those companies are listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of Janco Holdings Limited (駿高控股有限公司) (stock code: 8035), a company listed on the GEM of the Stock Exchange.

**Mr. Ma Ming**, aged 68, was appointed as an independent non-executive Director on 8 July 2015. He has over 25 years of experience in the television and broadcasting industry.

Mr. Ma has been the deputy director and secretary of Chinese Institute of Electronics (Broadcasting Technology Branch)* (中國電子學會廣播電視技術分會) since May 2008. Before his retirement from the State Administration of Radio Film and Television* (國家廣播電影電視總局) (now known as the State Administration of Press, Publication, Radio, Film and Television of The People's Republic of China* (中華人民共和國國家新聞出版廣電總局)) in March 2009, he had held various positions there, including serving as (i) a director of the design department from March 1982 to May 1997, (ii) a deputy director of the network center from May 1997 to July 2007, and (iii) a consultant of the institute of broadcasting science from July 2007 to March 2009.

## INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. Ma is currently an independent director of each of the following companies listed on the Shenzhen Stock Exchange: (i) Sichuan Jiuzhou Electrical Appliance Co., Ltd.* (四川九洲電器股份有限公司) (stock code: 000801) (since May 2011), and (ii) Beijing Jetsen Technology Co., Ltd.* (北京捷成世紀科技股份有限公司) (stock code: 300182) (since August 2013).

Since November 2012, Mr. Ma has also been an independent director of Guangxi Radio and Television Information Network Corporation Limited* (廣西廣播電視信息網絡股份有限公司).

Mr. Ma was an independent director of Hangzhou CNCR-IT Co., Ltd. (杭州初靈信息技術股份有限公司) (stock code: 300250) from March 2010 to April 2016, a company listed on the Shenzhen Stock Exchange.

Prior to his career in television and broadcasting industry, Mr. Ma had served as a performer in Central Radio Symphony Orchestra* (中央廣播交響樂團) from December 1975 to March 1978 and in Shanxi Local Opera Troupe* (山西省晉劇院) from May 1971 to December 1975.

Mr. Ma graduated with a bachelor's degree in engineering from the Beijing Institute of Iron and Steel Technology* (北京鋼鐵學院) (now known as University of Science and Technology Beijing* (北京科技大學)), majoring in electrification and automation for metallurgical industrial and mining enterprises in automation in April 1982.

**Mr. Li Hui**, aged 48, was appointed as an independent non-executive Director on 17 May 2017.

Mr. Li graduated from Henan University with a Master of Arts in English Language and Literature in 1995 and from Royal Melbourne Institute of Technology University of Australia with a master degree of Business Administration (International Management) in 2004. He has been working for Henan Hong Kong (Holdings) Limited since 1995 and has been the managing director since 2006. From January 2005 to March 2006, he worked for Bright Star Resources (Holding) Pte Ltd. in Singapore as executive general manager. He has extensive experience in corporate management, investment, financing and merger and acquisition in electricity, nonferrous metals, automobiles and biopharmaceuticals businesses.

Since March 2017, Mr. Li has been an independent non-executive director of China Smarter Energy Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1004).

## NON-EXECUTIVE DIRECTOR

**Mr. Chan Kin**, aged 53, was appointed as a non-executive Director on 12 June 2017.

Mr. Chan graduated from Shanghai Institute of Foreign Trade* (上海外貿職工大學) in 1980s and immigrated to Hong Kong in 1990s. He engaged in international trade, marketing, finance and investment risk management and other industries. Since 1993, he has been self-employed and founded Fong Shing Investment Limited. With the practical working experience accumulated in Hong Kong and China in the past 30 years, he has been engaged in the project investment research, operation planning and business evaluation of the project as well as the provision of advice regarding corporate strategic management, investment management and capital operation management and risk.

* *for identification purposes only*

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 March 2017.

## PRINCIPAL ACTIVITIES

The Company acts an investment holding company. The principal activities of its principal subsidiaries are set out in Note 26 to the consolidated financial statements.

## SEGMENT INFORMATION

An analysis of the Group's revenue by geographical areas of operations for the year ended 31 March 2017 is set out in Note 6 to the consolidated financial statements.

## BUSINESS REVIEW

Details of the business review of the Group are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 5 to 9 of this report. Description of the principal risks and uncertainties facing the Company can also be found throughout this report particularly in Note 4 to the consolidated financial statements.

The Group has reported its financial conditions in due compliance with procedures stipulated under the Listing Rules. For details of the financial risks, please refer to the section headed "Financial Review" in "Management Discussion and Analysis" set out in page 8 of this report.

The key financial and business performance indicators of the Group included revenue, gross profit, profit attributable to equity holders of the Company, shareholders' funds and debt to equity ratio. Details of these indicators are provided in "Financial Summary" and "Management Discussion and Analysis" and as set out on page 4 and pages 8 to 9 of this report respectively.

## RESULTS

The results of the Group for the year ended 31 March 2017 and the Group's financial position at that date are set out on pages 42 and 43.

The Board has resolved not to declare any final dividend for the year ended 31 March 2017 (for the year ended 31 March 2016: Nil).

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to Shareholders as at 31 March 2017, represented by its special reserve and net of accumulated losses was HK$1,328,000 (2016: HK$12,888,000).

## SHARE CAPITAL

Details of share capital of the Company during the year are set out in Note 18 to the consolidated financial statements.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the Group's published results and the Group's assets and liabilities for the last five financial years is set on page 4 of this report.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## DIRECTORS

The Directors during the financial year and up to the date of this report were:

### EXECUTIVE DIRECTORS:

| | |
|---|---|
| Mr. Gao Zhiyin *(Chairman)* | |
| Mr. Gao Zhiping *(Chief Executive Officer)* | |
| Mr. Feng Chen *(Chief Operating Officer)* | *(appointed on 31 May 2017)* |
| Mr. Lam Kai Yeung**(Chief Financial Officer)* | *(appointed on 30 June 2017)* |
| Mr. Shi Jiguo | *(resigned on 31 May 2017)* |

### INDEPENDENT NON-EXECUTIVE DIRECTORS:

| | |
|---|---|
| Mr. Lau Chi Kit | |
| Mr. Ma Ming | |
| Mr. Li Hui | *(appointed on 17 May 2017)* |
| Mr. Lam Kai Yeung* | *(resigned on 1 May 2017)* |

### NON-EXECUTIVE DIRECTORS:

| | |
|---|---|
| Mr. Chan Kin | *(appointed on 12 June 2017)* |
| Mr. Shum Ngok Wa | *(appointed on 12 July 2016 and resigned on 14 June 2017)* |

* Mr. Lam Kai Yeung resigned as an independent non-executive Director with effect from 1 May 2017 and re-designated as the chief financial officer of the Company on the same day. He was appointed as an executive Director with effect from 30 June 2017.

Mr. Lam Kai Yeung resigned as an independent non-executive Director with effect from 1 May 2017 due to his other business commitments. Mr. Shi Jiguo resigned as an executive Director with effect from 31 May 2017 and Mr. Shum Ngok Wa resigned as a non-executive Director with effect from 14 June 2017 due to their decisions to focus their time and effort on other business. Details of which were disclosed in the Company's announcement dated 1 May 2017, 31 May 2017 and 14 June 2017, respectively.

Each of them confirmed that he had no disagreement with the Board and he was not aware of any other matter relating to his resignation that needed to be brought to the attention of the Shareholders.

In accordance with Bye-Law 108(A), Mr. Gao Zhiping and Mr. Lau Chi Kit shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Bye-Law 112, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board 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. Each of Mr. Feng Chen and Mr. Li Hui appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and be subject to re-election at such meeting. Each of Mr. Chan Kin and Mr. Lam Kai Yeung appointed by the Board as an addition to the existing Board shall hold office only until the forthcoming annual general meeting of the Company and shall retire and be eligible for re-election at the forthcoming annual general meeting of the Company. All other remaining Directors continue in office.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## COOPERATION AGREEMENTS

Details of cooperation agreements entered by the Group subsequent to 31 March 2017 are set out in Note 27 to the consolidated financial statements.

## CHANGE IN INFORMATION OF DIRECTORS

Upon specific enquiry by the Company and following confirmations from the Directors, save as otherwise set out below, there is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### MR. LAU CHI KIT

Mr. Lau Chi Kit has been appointed as an independent non-executive director, a member of each of the audit committee, the remuneration committee and the nomination committee of Janco Holdings Limited (駿高控股有限公司) (stock code: 8035), a company listed on the Main Board of the Stock Exchange, in March 2017.

### MR. LAM KAI YEUNG

Mr. Lam Kai Yeung has been appointed as an independent non-executive director of Kin Shing Holdings Limited (建成控股有限公司) (stock code: 1630), a company listed on the Main Board of the Stock Exchange, in June 2017.

Mr. Lam resigned as an independent non-executive director of the Company with effect from 1 May 2017 and re-designated as the chief financial officer of the Company on the same day. He was appointed as an executive director of the Company with effect from 30 June 2017.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contract of significance, to which the Company, its holding company, or any of its subsidiaries was a party and in which a Director or a connected entity of a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## COMPETING BUSINESS INTERESTS OF DIRECTORS

None of the Directors or their respective associates has any interests in a business which competes or may compete with the business of the Company.

## (CONTINUING) CONNECTED TRANSACTION

During the year ended 31 March 2017, there was no transaction which is required to be disclosed as (continuing) connected transaction in accordance with Chapter 14A of the Listing Rules.

## RELATED PARTY TRANSACTION

During the year ended 31 March 2017, there was no connected transaction as defined in Chapter 14A of the Listing Rules.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and the US while the Company itself is listed on the Stock Exchange.

To the best of our knowledge and save for disclosed below, during the year ended 31 March 2017, there was no material breach of or non-compliance by the Group with the applicable laws and regulations that have a significant impact on the business and operation of the Group.

Mr. Lam Kai Yeung resigned as an independent non-executive Director with effect from 1 May 2017, details of which were disclosed in the Company's announcement dated 1 May 2017.

Following the resignation of Mr. Lam Kai Yeung, the number of independent non-executive Directors fell below the minimum number as required under Rule 3.10(1) of the Listing Rules and the number of members of the Audit Committee fell short of the requirement under Rule 3.21 of the Listing Rules.

Following the appointment of Mr. Li Hui as an independent non-executive Director and a member of the Audit Committee with effect from 17 May 2017, the Company has recompiled with the requirements of Rule 3.10(1) and Rule 3.21 of the Listing Rules, details of which were disclosed in the Company's announcement dated 17 May 2017.

## CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Save as disclosed above, the Company considers all the independent non-executive Directors are independent.

## BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors are set out on pages 10 to 14 of this report.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2017, the interests and short positions of the Directors or chief executive of the Company in the Shares and underlying shares of the Company and its 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 and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

| Name of Director | Name of Group member | Capacity | Number of shares held and class of securities (note 1) | Approximate percentage of shareholding |
|---|---|---|---|---|
| Mr. Gao Zhiyin | Highlight China IoT International Limited | Interest of controlled corporation | 322,326,500 Shares (L) (note 2) | 62.01%* |
| Mr. Gao Zhiping | Highlight China IoT International Limited | Interest of controlled corporation | 322,326,500 Shares (L) (note 2) | 62.01%* |

* *The percentage has been calculated based on 519,777,000 Shares in issue as at 31 March 2017.*

notes:

1. The letter "L" denotes the Directors' long position in the Shares.
2. These Shares were held by Unitech Enterprises Group Limited which was owned as to 60% by Mr. Gao Zhiyin and was owned as to 40% by Mr. Gao Zhiping.

Save as disclosed above in this report, as at 31 March 2017, none of the Directors nor the chief executive of the Company had any interest or short position in the Shares and underlying shares of the Company or its 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 the provisions of Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2017, according to the register kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than Directors and the chief executive of the Company) had interests or short positions in the Shares and/or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name of Shareholder | Capacity | Number of shares held and class of securities (note 1) | Approximate percentage of shareholding |
|---|---|---|---|
| Unitech Enterprises Group Limited | Beneficial owner | 322,326,500 Shares (L) (note 2) | 62.01%* |
| Mr. Ng Tsze Lun | Beneficial owner | 50,173,000 Shares (L) | 9.65%* |
| Ms. Yau Yuk Chun Carole (note 3) | Interest of spouse | 50,173,000 Shares (L) | 9.65%* |

* *The percentage has been calculated based on 519,777,000 Shares in issue as at 31 March 2017.*

notes:

1. The letter "L" denotes the individual's or the corporation's long position in the Shares.
2. Unitech Enterprises Group Limited was owned as to 60% by Mr. Gao Zhiyin and was owned as to 40% by Mr. Gao Zhiping, both of them are Directors.
3. Ms. Yau Yuk Chun Carole is the wife of Mr. Ng Tsze Lun.

Save as disclosed above, as at 31 March 2017, there was no other person who was recorded in the register of the Company as having interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all the circumstances at general meetings of members of the Group other than the Company, or which were required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

## SHARE OPTION SCHEME

The Company conditionally adopted the Share Option Scheme on 2 June 2010 which became effective upon the Company's shares were listed on the Stock Exchange on 5 October 2010. The purpose of the Share Option Scheme is to provide incentives and rewards to eligible participants, including eligible Directors, eligible employees and any other eligible persons, for their contributions to the Group.

The Share Option Scheme will remain in force for a period of ten years from the date of its adoption (i.e. 2 June 2010).

All share options with the exercise prices of HK$0.6 and HK$0.844 granted under the Share Option Scheme had been exercised in full during the six months ended 30 September 2014. There was no outstanding share option throughout the year ended 31 March 2017 and as at 31 March 2017.

## ARRANGEMENTS TO PURCHASE SHARES OF DEBENTURES

Save as disclosed in the paragraph headed "Share Option Scheme" above, at no time during the year was the Company, its holding company, nor any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors and management of the Group are reviewed and recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees. Details of the Share Option Scheme are set out in Note 20 to the consolidated financial statements.

## KEY RELATIONSHIP WITH EMPLOYEES

The Group recognises the employees as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate on-the-job training and providing opportunities within the Group for career advancement.

## MANAGEMENT CONTRACTS

The Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company for the year ended 31 March 2017.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Bye-Laws or the laws of Bermuda which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year under review, sales to the five largest customers accounted for 100% of the total revenue of the Group and sales to the largest customer included therein accounted for approximately 80.3% of the total revenue of the Group.

For the year under review, purchases from the five largest suppliers accounted for approximately 94.7% of the total purchases of the Group and purchases from the largest supplier included therein accounted for approximately 52.0%.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

## RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

### CUSTOMERS

The Group is committed to offering high-quality services to customers. It values the opinions and feedback of all customers through various means and channels, including the usage of telephone, direct mail and after-sale return visit. This is to ensure that the Group is well aware of all customers' requirements or feedbacks on a timely basis and provides high quality services to its customers. In addition, the Group continues to proactively manage customer relations, expand its customer base and enhance customer loyalty.

### SUPPLIERS

The Group establishes working relationships with suppliers to meet customers' needs in an effective and efficient manner. The Group's requirements and standards are well-communicated to suppliers before placing orders in order to ensure the deliverance of high-quality samples. All key suppliers have a close and long term relationship with the Group.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed public float pursuant to the Listing Rules as at the date of this report.

## PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance and Bye-Law 191) for the benefit of the Directors is currently in force and was in force throughout the year ended 31 March 2017.

The Company had taken out and maintained appropriate corporate liability insurance coverage for the Directors and officers of the Company throughout the year ended 31 March 2017.

## CORPORATE GOVERNANCE REPORT

The Company's corporate governance principles and practices are set out in the section headed "Corporate Governance Report" in this annual report.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company's environmental principles and practices are set out in the section headed "Environmental, Social and Governance Report" in this annual report.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognises the importance of environmental sustainability against modern ecological challenges. As a responsible corporate citizen, the Group has been actively taking steps to minimise the negative environmental impacts, reduce wastage and maximise energy efficiency which in turn provides a green and eco-friendly environment to the community. Green office practices such as double-sided printing and copying, promoting using recycled papers and reducing energy consumption by switching off idle lighting are encouraged in the operation of the Group's businesses. The Group will review its environmental practices from time to time and will consider implementing further practicable measures and practices to enhance environmental sustainability.

## AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

**Gao Zhiyin**
*Chairman*

Hong Kong
29 June 2017

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company had complied with all the code provisions ("Code Provisions") under the Corporate Governance Code throughout the year ended 31 March 2017, except for the following deviations:

Code Provision C.1.2 provides that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. During the year ended 31 March 2017, the management of the Company had not provided regular monthly updates to the members of the Board but the management had provided information and updates to the members of the Board as and when appropriate.

Under Code Provision C.2.5, the Group should have an internal audit function. However, due to the size of the Group and for cost effectiveness consideration, the Group currently does not have an internal audit function. Instead, the Audit Committee has a review on the internal control system annually. The review covers major financial, operational controls in rotation basis and also the risk management functions. No significant deficiency was identified under current year's review and the systems were operating effectively and adequately. The Group continues to review the need for an internal audit function annually.

Code Provision E.1.2 requires that the chairman of the board of the company should attend the annual general meeting. The chairman of the Board, Mr. Gao Zhiyin, was unable to attend 2016 AGM due to his other business engagements. Mr. Shi Jiguo, a former executive Director who resigned on 31 May 2017, acted as the chairman of 2016 AGM in accordance with the Bye-Laws. The chairperson of the Audit Committee and Remuneration Committee, and the external auditor of the Company were present to be available to answer any question to ensure effective communication with the Shareholders.

## COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has established a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiries to the Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 March 2017.

## BOARD OF DIRECTORS

The Board currently comprises eight Directors, including four executive Directors, namely Mr. Gao Zhiyin (chairman), Mr. Gao Zhiping (chief executive officer), Mr. Feng Chen (chief operating officer) and Mr. Lam Kai Yeung (chief financial officer); three independent non-executive Directors, namely Mr. Lau Chi Kit, Mr. Ma Ming and Mr. Li Hui; and one non-executive Director, namely Mr. Chan Kin.

The relationship among members of the Board and biographical details of the Directors who are currently serving on the Board are set out on pages 10 to 14 of this annual report. To the best knowledge of the Company and save as disclosed under the section headed "Biographical Details of Directors" of this report and interests set out in the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares" and "Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares" of this report, there is no financial, business, family or other material or relevant relationship(s) among members of the Board.

All Directors are subject to retirement by rotation and if eligible, may offer themselves for re-election at the annual general meeting of the Company in accordance with the provisions of the Bye-Laws.

The Board collectively monitors performance and the related risks and controls in pursuit of the strategic objectives of the Company. Day-to-day management of the Company is delegated to executive Directors and management of the Company in charge of the Group's business.

To implement the strategies and plans effectively, executive Directors and the management meet on a regular basis to review the performance of the business of the Group, co-ordinate overall resources and make financial and operational decisions.

## BOARD MEETINGS

Apart from the regular board meetings, the Board met on other occasions when a board-level decision on a particular matter was required.

The Board meets regularly to review and determine the corporate strategies and overall strategic policies. Each of the Directors of the Board has full access to relevant information at the meetings. The Board has met four times during the year ended 31 March 2017 and conducted the following activities at such regular meetings:

(a) approved the interim and final results, interim and annual report, and matters to be considered at the annual general meeting of the Company;

(b) discussed corporate strategies of the Group for the financial year ending 31 March 2018;

(c) reviewed the performance and financial position of the Group;

(d) reviewed, discussed and approved the matters in relation to the appointment of a non-executive Director; and

(e) reviewed, discussed and approved the remuneration packages of the employees of the Group and Directors and bonus payment for the year 2016.

## CORPORATE GOVERNANCE FUNCTIONS

Pursuant to the Board Committees' terms of reference, the Board shall keep the effectiveness of the corporate governance and system of internal non-financial controls of the Group. The Board shall introduce and propose relevant principles concerning corporate governance and to review and determine the corporate governance policy, so as to effect a high standard of corporate governance practices in the Group. The duties of the Board and the Board Committees, as the case may be, shall include the following aspects:

(a) to develop and review the Group's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous development of the Directors and the management;

(c) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;

(d) to review and approve the annual corporate governance report and related disclosures in annual and interim reports of the Group and ensure compliance with relevant requirements under the Listing Rules or the rules of any other stock exchange in respect of which the securities of the Company are listed or quoted, or other laws, regulations, rules and codes as may be applicable to the Group (the "Applicable Laws");

(e) to make sure that appropriate monitoring systems are in place to ensure compliance against the relevant internal control systems, processes and policies, and in particular to monitor the implementation of the Group's plans to maintain a high level of compliance with its own risk management standard;

(f) to monitor if each of the Audit Committee, Remuneration Committee and Nomination Committee (or such other Board committee(s) from time to time established) has duly discharged their respective duties and obligations in accordance with their respective terms of reference, the Listing Rules and any Applicable Laws; and

(g) to review the Group's compliance with the Corporate Governance Code from time to time adopted by the Group and the disclosure in the corporate governance report to be contained in the Company's annual reports.

## CHAIRMAN AND CHIEF EXECUTIVE

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of the chairman of the Board and the chief executive officer of the Company are separate and performed by Mr. Gao Zhiyin and Mr. Gao Zhiping respectively since 16 August 2014. The Board believes that such arrangement is in the best interest of the Company and the Shareholders as a whole.

## TERMS OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS AND NON-EXECUTIVE DIRECTOR

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a fixed term of three years. The term of each of the independent non-executive Directors shall be renewable automatically for a successive term of three years each commencing from the next day after the expiry of their then current term of appointment, subject to retirement by rotation and re-election at an annual general meeting pursuant to the Bye-Laws unless terminated by not less than one month notice in writing.

A non-executive Director has entered into a letter of appointment with the Company for a term of one year commencing on 12 June 2017 and the term of non-executive Director shall be renewable for successive term of one year each commencing from the next day after the expiry of his then current term of appointment, subject to, amongst other things, retirement by rotation and reelection at an annual general meeting pursuant to the Bye-Laws unless terminated by not less than one month notice in writing.

Save as disclosed in the section headed "Compliance with Laws and Regulations" on page 18 in this report, during the year under review, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received annual written confirmation of independence from all independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board considers them to be independent in accordance with the Listing Rules.

## BOARD COMMITTEES

The Board has established three Board Committees including the Nomination Committee, the Remuneration Committee and the Audit Committee.

The Board has delegated some of its functions to the Board Committees, the details of which are discussed below.

### NOMINATION COMMITTEE

The Nomination Committee currently comprises one executive Director, namely Mr. Gao Zhiyin (chairman) and two independent non-executive Directors, namely Mr. Lau Chi Kit and Mr. Ma Ming. It was established on 19 March 2012 and its duties are clearly defined in its revised written terms of reference which have been prepared and adopted according to the Code Provisions. The revised terms of reference of Nomination Committee can be found in the websites of the Stock Exchange and the Company.

The duties of the Nomination Committee are, but not limited to, to review, formulate and consider the nomination procedures as regards the appointment, reappointment and removal of Directors and to make recommendations to the Board regarding candidates to fill vacancies on the Board. No director takes part in any discussions and decisions about his own appointment.

Proposals for the appointment of a new director, if any, will be considered and reviewed by the Nomination Committee prior to recommending them to the Board for approval. All candidates to be selected and qualified to be members of the Board must also meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

The Board will also seek legal advice on the requirements of Rule 3.13 of the Listing Rules prior to the appointment of any independent non-executive Director as appropriate.

Two meetings of the Nomination Committee were held during the financial year ended 31 March 2017 (with individual member's attendance as set out on page 30 of this report under the section of "Number of Meetings and Directors' Attendance"). The Nomination Committee conducted the following major work during the year ended 31 March 2017, amongst other things:

- reviewed the size, structure and the composition of the Board;
- reviewed the independence of independent non-executive Directors;
- made recommendations to the Board on the nomination and appointment of a new non-executive Director; and
- made recommendations to the Board on the nomination of Directors for re-election at 2016 AGM.

## BOARD DIVERSITY POLICY

The Company is dedicated to having a diverse Board which can enable corporate issues be considered from different perspectives and appropriate level of examination and evaluation be conducted. On 29 August 2013, the Board adopted a board diversity policy which sets out the approach to achieve diversity on the Board. The Company aims to achieve diversity of its board members through consideration of a number of factors, including but not limited to gender, age, cultural and educational background and professional and industry experience. The Nomination Committee will discuss and agree annually measurable objectives for implementing diversity on the Board and recommend them to the Board for adoption to ensure its continued effectiveness.

## REMUNERATION COMMITTEE

The Remuneration Committee currently comprises two independent non-executive Directors, namely Mr. Ma Ming (chairman) and Mr. Lau Chi Kit and one executive Director, namely Mr. Gao Zhiyin. It was established by the Board on 8 September 2010 and its duties are clearly defined in its revised written terms of reference which have been prepared and adopted according to the Code Provisions. The revised terms of reference of Remuneration Committee can be found in the websites of the Stock Exchange and the Company.

The Remuneration Committee is primarily responsible for making recommendations to the Board regarding the Group's policy and structure for remuneration of Directors and senior management and the specific remuneration packages of individual Director and senior management of the Company. The remuneration of Directors will be determined by the Board with reference to the individual's experience duties and responsibilities with the Company, and the prevailing market conditions.

Two meetings of the Remuneration Committee were held during the financial year ended 31 March 2017 (with individual member's attendance as set out on page 30 of this report under the section of "Number of Meetings and Directors' Attendance") and conducted the following major work:

– reviewed the appropriateness of appointment letter of a non-executive Director;

– made recommendations to the Board on the remuneration package of a non-executive Director who was newly appointed during the year ended 31 March 2017;

– reviewed the remuneration packages of employees of the Group and Directors; and

– reviewed the bonus payment to employees of the Group for the year 2016.

No Director took part in any discussions and decisions about his own remuneration during the year ended 31 March 2017.

Pursuant to Code Provision B.1.5, a company should disclose details of any remuneration payable to members of the senior management by band for the year ended 31 March 2017 in its annual report. In the opinion of the Board, the Company has no senior management after completion of the disposal took place in July 2014 and up to the date of this annual report and no members of senior management would be included in this annual report.

## AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Lau Chi Kit (chairman), Mr. Ma Ming and Mr. Li Hui. It was established by the Board on 8 September 2010 and its duties are clearly defined in its revised written terms of reference which have been prepared and adopted according to the Code Provisions. The revised terms of reference of Audit Committee can be found in the websites of the Stock Exchange and the Company.

Save as disclosed in the section headed "Compliance with Laws and Regulations" on page 18 in this report, the Board had complied with the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of a minimum of three independent non-executive Directors and at least one independent non-executive Director, the chairman of the Audit Committee, having appropriate professional accounting or financial management experience.

The Audit Committee provides an important link between the Board and the Company's external auditor in matters coming within the scope of the Group's audit. It also reviews the annual and interim results of the Company prior to recommending them to the Board for approval, the effectiveness of the external and internal audit and of internal controls and risk evaluation.

During the year ended 31 March 2017, the Audit Committee has convened two meetings (with individual member's attendance as set out on page 30 of this report under the section of "Number of Meetings and Directors' Attendance") and conducted the following major work:

- reviewed the interim and annual reports of the Company together with the external auditor and management of the Company;
- reviewed the audit plans and findings of the external auditor of the Company as well as development in accounting standards and its effects on the Group;
- reviewed the effectiveness of the internal control system together with the external auditor of the Company; and
- made recommendations to the Board on the appointment and re-appointment of the external auditor.

There was no disagreement between the Board's and the Audit Committee's view on the selection, appointment and resignation of external auditor.

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 March 2017 with the management and the external auditor of the Company and recommended its adoption by the Board.

## NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

Attendance records of the Directors at Board Meetings (BM), Audit Committee Meetings (ACM), Remuneration Committee Meetings (RCM), Nomination Committee Meetings (NCM) and Annual General Meeting (AGM) held for the year ended 31 March 2017 are set out below:

| | Meetings attended/Eligible to attend For the year ended 31 March 2017 | | | | |
|---|---|---|---|---|---|
| | BM | ACM | RCM | NCM | AGM |
| **Executive Directors** | | | | | |
| Mr. Gao Zhiyin (chairman) | 2/4 | N/A | 2/2 | 1/2 | 0/1 |
| Mr. Gao Zhiping (chief executive officer) | 2/4 | N/A | N/A | N/A | 0/1 |
| Mr. Lam Kai Yeung* (chief financial officer) | 4/4 | 2/2 | 2/2 | 2/2 | 1/1 |
| Mr. Shi Jiguo (resigned on 31 May 2017) | 3/4 | N/A | N/A | N/A | 1/1 |
| **Independent Non-executive Directors** | | | | | |
| Mr. Lau Chi Kit | 4/4 | 2/2 | 2/2 | 2/2 | 1/1 |
| Mr. Ma Ming | 4/4 | 2/2 | N/A | N/A | 1/1 |
| **Non-executive Director** | | | | | |
| Mr. Shum Ngok Wa (appointed on 12 July 2016 and resigned on 14 June 2017) | 2/2 | N/A | N/A | N/A | 1/1 |

* Mr. Lam Kai Yeung resigned as an independent non-executive Director on 1 May 2017 and re-designated as the chief financial officer of the Company on the same day. He was appointed as an executive Director on 30 June 2017.

notes:

1. Mr. Chen Feng was appointed as an executive Director on 31 May 2017.
2. Mr. Li Hui was appointed as an independent non-executive Director on 17 May 2017.
3. Mr. Chan Kin was appointed as a non-executive Director on 12 June 2017.

## DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate corporate insurance cover in respect of potential legal actions against its Directors and officers.

## DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Each newly appointed Director receives a necessary induction and information to ensure that he has a proper understanding of the Company's business and operations. In addition, our external legal adviser conducts training for new Director(s) on the first occasion of his appointment, so that he is aware of Director's responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by reading regulatory updates provided by the company secretary of the Company to refresh their knowledge in corporate governance matters, as follows:

| | Reading materials |
|---|---|
| **Executive Directors** | |
| Mr. Gao Zhiyin (chairman) | ✓ |
| Mr. Gao Zhiping (chief executive officer) | ✓ |
| Mr. Lam Kai Yeung* (chief financial officer) | ✓ |
| Mr. Shi Jiguo (resigned on 31 May 2017) | ✓ |
| **Independent Non-executive Directors** | |
| Mr. Lau Chi Kit | ✓ |
| Mr. Ma Ming | ✓ |
| **Non-executive Director** | |
| Mr. Shum Ngok Wa (appointed on 12 July 2016 and resigned on 14 June 2017) | ✓ |

* Mr. Lam Kai Yeung resigned as an independent non-executive Director on 1 May 2017 and re-designated as the chief financial officer of the Company on the same day. He was appointed as an executive Director on 30 June 2017.

notes:

1. Mr. Chen Feng was appointed as an executive Director on 31 May 2017.

2. Mr. Li Hui was appointed as an independent non-executive Director on 17 May 2017.

3. Mr. Chan Kin was appointed as a non-executive Director on 12 June 2017.

## AUDITOR'S REMUNERATION

During the year, the nature of the audit and non-audit services provided by Deloitte Touche Tohmatsu, the existing auditor of the Company, and the relevant fee paid by the Company for such services are as follows:

Audit services of HK$1,168,000 for the Group; Non-audit services of HK$375,500 including:

– participating the interim results works;

– taxation services for the Group including profits tax returns filing; and

– agreed-upon procedures on the Group's annual results announcement.

## DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND INTERNAL CONTROLS

The Directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 March 2017, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for overseeing and ensuring that a sound and effective internal control system is maintained within the Group in order to safeguard the Group's assets and the interests of the Shareholders. The management reviews and evaluates the control process and monitors any risk factors on a regular basis, and reports to the Board and the Audit Committee on any findings and measures to address the variances and identified risks.

For the year under review, the Board conducted an annual review of the effectiveness of the Group's internal control system. The Board is satisfied that the existing internal control system of the Group is effective and adequate for its present requirement.

## COMPANY SECRETARY

The Company Secretary, Ms. Sze Suet Ling who is an employee of the Company, met the requirements on professional training under the Rule 3.29 of the Listing Rules during the financial year ended 31 March 2017.

## SHAREHOLDERS' RIGHTS

### CONVENING A SPECIAL GENERAL MEETING ON REQUISITION

1.1 Shareholders have the right to call for a special general meeting on requisition in the manner prescribed by and set out in the Bye-Laws and the Companies Act.

1.2 Bye-Law 65 provides that "The Directors may, whenever they think fit, convene a special general meeting, and special general meetings shall also be convened on requisition, as provided by the Companies Act, and, in default, may be convened by the requisitionists."

1.3 Pursuant to section 74 of the Companies Act, Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "General Meeting Requisitionists") may by written requisition (the "General Meeting Requisition") to the Board or the secretary of the Company (the "Company Secretary"), require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

1.4 The General Meeting Requisition must state the purpose of the meeting, and must be signed by the General Meeting Requisitionists; the General Meeting Requisition may consist of several documents in like form each signed by one or more General Meeting Requisitionists.

1.5 The General Meeting Requisition shall be deposited at the registered office of the Company at *Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda* and copied to the head office and principal place of business of the Company at *Rooms 4114 – 4119, 41st Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong* and marked for the attention of the Board or the Company Secretary.

1.6 If the Board fails to proceed to convene such meeting within 21 days from the date of the deposit of General Meeting Requisition as set out in the paragraph 1.2 above, the General Meeting Requisitionists, or any of them representing more than one half of their total voting rights, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the General Meeting Requisition.

1.7 Any reasonable expenses incurred by the General Meeting Requisitionists by reason of the failure of the directors of the Company to duly convene a meeting shall be repaid to the General Meeting Requisitionists by the Company.

## PROCEDURES FOR RAISING ENQUIRIES

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar in Hong Kong, details of which are as follows:

Tricor Secretaries Limited
Address: Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong
Email: is-enquiries@hk.tricorglobal.com
Tel: (852) 2980 1333
Fax: (852) 2861 1465

Shareholders may at any time raise any enquiry in respect of the Company at the following designated contacts, correspondence addresses, email addresses and enquiry hotlines of the Company:

Address: Rooms 4114 – 4119, 41st Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong
Email: info@highlightiot.com
Tel: (852) 3950 6800
Fax: (852) 3429 0037
Attention: Board of Directors/Company Secretary

Shareholders are encouraged to make enquiries via the online enquiry form available on the Company's website at www.highlightiot.com.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

## PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETING

1. Subject to paragraph 2 below, pursuant to in sections 79 and 80 of the Companies Act, Resolution Requisitionists (as defined in paragraph 2 below) may, by requisition in writing (the "Resolution Requisition"), request the Company to give to or circulate to (as the case may be) the Shareholders (i) notice of any resolution which may properly be moved and is intended to be moved at the next annual general meeting of the Company (the "Forthcoming AGM") (and such notice shall be given to Shareholders who are entitled to receive notice of the Forthcoming AGM); or (ii) any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at any general meeting (and such notice shall be circulated to members entitled to have notice of any general meeting sent to them), at the expense of the Resolution Requisitionists.

2. "Resolution Requisitionists" means Shareholders making a requisition under paragraph 1 above and shall constitute either:

   (a) any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or

   (b) not less than one hundred Shareholders.

3. A copy of the Resolution Requisition signed by the Resolution Requisitionists with their detailed contact information, or two or more copies containing the signatures of all the Resolution Requisitionists, shall be deposited at the registered office and copied to the head office and principal place of business of the Company at their respective address specified in above headed "convening a special general meeting on requisition":

   (a) in the case of Resolution Requisition requiring notice of a resolution, not less than six weeks before the Forthcoming AGM; and

   (b) in the case of any other requisition, not less than one week before the general meeting.

4. Resolution Requisitionists shall deposit or tender with the Resolution Requisition a sum reasonably sufficient to meet the Company's expenses in giving notice of any resolution or to circulate any statement as provided under the Companies Act.

## CONSTITUTIONAL DOCUMENT

There was no change in the Company's constitutional documents during the year ended 31 March 2017.

This report has followed the Environmental, Social and Governance ("ESG") Reporting Guide in Appendix 27 of the Listing Rules.

| Subject Areas, Aspects, General Disclosures | | Statement |
|---|---|---|
| **A. ENVIRONMENT** | | |
| **Aspect A1**<br>General Disclosure | **Emissions**<br>Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous waste. | The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group during the reporting period. |
| **Aspect A2**<br>General Disclosure | **Use of Resources**<br>Policies on the efficient use of resources, including energy, water and other raw materials. | The Group's direct environmental impact is immaterial as we are primarily an office based company with relatively low energy, power and water consumption. |
| **Aspect A3**<br>General Disclosure | **The Environment and Natural Resources**<br>Policies on minimising the issuer's significant impact on the environment and natural resources. | This aspect is not applicable to the Company's operations, as the Company's environmental impact and use of natural resources is minimal. |
| **B. SOCIAL** | | |
| **Employment and Labour Practices** | | |
| **Aspect B1**<br>General Disclosure | **Employment**<br>Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare. | The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group during the reporting period. |
| **Aspect B2**<br>General Disclosure | **Health and Safety**<br>Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group during the reporting period. |

| Subject Areas, Aspects, General Disclosures | | Statement |
|---|---|---|
| **Aspect B3**<br>General Disclosure | **Development and Training**<br>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | The Group recognizes the employees as the most important and valuable assets of the Group. The Group promotes career development and progression by appropriate on-the-job training and providing opportunities within the Group for career advancement. |
| **Aspect B4**<br>General Disclosure | **Labour Standards**<br>Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child or forced labour. | The Group is not aware of any non-compliance with relevant rules and regulations on preventing child or forced labour. |
| **Operating Practices** | | |
| **Aspect B5**<br>General Disclosure | **Supply Chain Management**<br>Policies on managing environmental and social risks of supply chain. | Not applicable |
| **Aspect B6**<br>General Disclosure | **Product Responsibility**<br>Information on: (a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group during the reporting period. |
| **Aspect B7**<br>General Disclosure | **Anti-corruption**<br>Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | The Group is not aware of any material non-compliance with the relevant laws and regulations that have a significant impact on the Group during the reporting period. |
| **Community** | | |
| **Aspect B8**<br>General Disclosure | **Community Investment**<br>Policies on community engagement to understand the community's needs where it operates and to ensure its activities take into consideration communities' interests. | Understanding and responding to the requests and expectation of stakeholders in a timely manner is an important basis for the Company's sustainable development. For Shareholders, we disclose information in time through various channel according to the disclosure requirements of Company Listing. |

Deloitte. 德勤

**TO THE MEMBERS OF HIGHLIGHT CHINA IOT INTERNATIONAL LIMITED**
**高銳中國物聯網國際有限公司**
(incorporated in Bermuda with limited liability)

## OPINION

We have audited the consolidated financial statements of Highlight China IoT International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 82, which comprise the consolidated statement of financial position as at 31 March 2017, 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 2017, 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"). Our responsibilities under those standards are further described in the Auditor's 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 MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment on deposits paid for purchases of garment products*** | |
| We identified the impairment assessment on deposits paid for purchases of garment products as a key audit matter due to the significance of the balance to the consolidated statement of financial position as well as significant degree of management judgment involved in assessing the recoverability of the deposits.<br><br>As explained in note 4 to the consolidated financial statements, the impairment assessment on the deposits is based on evaluation of the recoverability of the deposits by considering market demand, expected volume of transactions with the supplier and ability of the supplier to settle the deposits. As at 31 March 2017, the carrying amount of deposits paid for purchases of garment products is HK$28,526,000, without any impairment recognised. | Our procedures in relation to impairment assessment on deposits paid on purchases of garment products included:<br><br>• Obtaining an understanding of the assessment on impairment of deposits performed by management;<br><br>• Assessing the reasonableness of the assessment on impairment of deposits performed by management with reference to market demand, expected volume of transactions with the supplier and ability of the supplier to settle the deposits; and<br><br>• Checking a selection of subsequent utilisation and subsequent settlements of the deposits to the supporting documents. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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 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 and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors 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 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 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 Section 90 of the Bermuda Companies Act, 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.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism 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.

- Conclude on the appropriateness of the 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.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 the independent auditor's report is Ip Chiu Yin.

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong
29 June 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2017

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | **80,992** | 164,589 |
| Cost of sales | | **(75,968)** | (151,689) |
| **Gross profit** | | **5,024** | 12,900 |
| Other income | | **606** | 158 |
| Net foreign exchange (losses) gain | | **(45)** | 103 |
| Impairment loss recognised in respect of plant and equipment | | **–** | (1,081) |
| Selling and distribution costs | | **(1,164)** | (14,161) |
| Administrative expenses | | **(15,864)** | (18,252) |
| Other expense | | **–** | (4,444) |
| Loss before taxation | | **(11,443)** | (24,777) |
| Income tax credit | 7 | **–** | 20 |
| Loss and total comprehensive expense for the year attributable to owners of the Company | 8 | **(11,443)** | (24,757) |
| **Loss per share** | 10 | | |
| Basic (HK cents) | | **(2.20)** | (4.76) |

# Consolidated Statement of Financial Position

At 31 March 2017

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Plant and equipment | 11 | – | – |
| **Current assets** | | | |
| Inventories | 12 | – | 4,140 |
| Trade receivables | 13 | 3,037 | 19,840 |
| Deposits, prepayments and other receivables | 14 | 30,699 | 30,244 |
| Amount due from a former subsidiary | 15 | 3,105 | – |
| Tax recoverable | | 880 | – |
| Bank balances and cash | 16 | 2,509 | 11,798 |
| | | 40,230 | 66,022 |
| **Current liabilities** | | | |
| Trade payables | 17 | 2,801 | 24,302 |
| Accruals | | 1,230 | 2,185 |
| Amount due to immediate holding company | 15 | 20,462 | 10,000 |
| Amounts due to directors | 15 | 8,657 | 5,553 |
| Amount due to a former subsidiary | 15 | – | 4,869 |
| Tax payable | | 1,200 | 1,790 |
| | | 34,350 | 48,699 |
| **Net current assets** | | 5,880 | 17,323 |
| **Total assets less current liabilities** | | 5,880 | 17,323 |
| **Capital and reserves** | | | |
| Share capital | 18 | 5,198 | 5,198 |
| Reserves | | 682 | 12,125 |
| **Total equity** | | 5,880 | 17,323 |

The consolidated financial statements on pages 42 to 82 were approved and authorised for issue by the Board of Directors (the "Board") on 29 June 2017 and are signed on its behalf by:

**Gao Zhiyin**
*DIRECTOR*

**Gao Zhiping**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

| | Attributable to owners of the Company | | | | |
|---|---|---|---|---|---|
| | Share capital HK$'000 (Note 18) | Special reserve HK$'000 (note i) | Foreign currency translation reserve HK$'000 | Accumulated profits (losses) HK$'000 | Total HK$'000 |
| At 1 April 2015 | 5,198 | 18,787 | (3) | 18,098 | 42,080 |
| Loss and total comprehensive expense for the year | – | – | – | (24,757) | (24,757) |
| At 31 March 2016 | 5,198 | 18,787 | (3) | (6,659) | 17,323 |
| Loss and total comprehensive expense for the year | – | – | – | (11,443) | (11,443) |
| At 31 March 2017 | **5,198** | **18,787** | **(3)** | **(18,102)** | **5,880** |

note (i): The special reserve represents (a) the reserve arising from a previous group reorganisation; and (b) cancellation of share premium, less special dividend of HK$374,239,000, in prior year.

# Consolidated Statement of Cash Flows

For the year ended 31 March 2017

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss before taxation | (11,443) | (24,777) |
| Adjustments for: | | |
| Depreciation of plant and equipment | – | 230 |
| Impairment loss recognised in respect of plant and equipment | – | 1,081 |
| Interest income | (114) | (158) |
| Operating cash flows before movements in working capital | (11,557) | (23,624) |
| Decrease (increase) in inventories | 4,140 | (331) |
| Decrease in trade receivables | 16,803 | 63,471 |
| (Increase) decrease in deposits, prepayments and other receivables | (455) | 6,479 |
| Increase in amount due from a former subsidiary | (3,105) | – |
| Decrease in trade payables | (21,501) | (22,899) |
| Decrease in accruals | (955) | (4,529) |
| Increase in amounts due to directors | 3,104 | 3,084 |
| Cash (used in) from operations | (13,526) | 21,651 |
| Income tax (paid) refunded | (1,470) | 311 |
| **NET CASH (USED IN) FROM OPERATING ACTIVITIES** | (14,996) | 21,962 |
| **INVESTING ACTIVITIES** | | |
| Interest received | 114 | 158 |
| Purchase of plant and equipment | – | (58) |
| **NET CASH FROM INVESTING ACTIVITIES** | 114 | 100 |
| **FINANCING ACTIVITIES** | | |
| Advance from immediate holding company | 10,462 | 4,000 |
| Repayment to a former subsidiary | (4,869) | (23,177) |
| **NET CASH FROM (USED IN) FINANCING ACTIVITIES** | 5,593 | (19,177) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (9,289) | 2,885 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | 11,798 | 8,913 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR**, representing by bank balances and cash | 2,509 | 11,798 |

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

## 1. GENERAL

The Company is an exempted company with limited liability incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's immediate and ultimate holding company is Unitech Enterprises Group Limited ("Unitech"), a company incorporated in the British Virgin Islands (the "BVI") with limited liability, which is 60% and 40% owned by Mr. Gao Zhiyin and Mr. Gao Zhiping, directors of the Company, respectively. The Company's registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is located at Rooms 4114 – 4119, 41st Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wanchai, Hong Kong.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in Note 26 to the consolidated financial statements.

The functional currency of the Company is United States dollars ("US$"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") because the Company's shares are listed on the Stock Exchange and most of its potential investors are located in Hong Kong.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

| | |
|---|---|
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interest in Joint Operations |
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012 – 2014 Cycle |

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

### Amendments to HKAS 1 "Disclosure Initiative"

The Group has applied the amendments to HKAS 1 "Disclosure Initiative" for the first time in the current year. The amendments to HKAS 1 clarify that an entity needs not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. The grouping and ordering of certain notes have been revised to give prominence to the areas of the Group's activities that management considers to be the most relevant to an understanding of the Group's financial performance and financial position. Specifically, information relating to capital risk management and financial instruments was reordered. The application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

### New and amendments to HKFRSs in issue but not yet effective

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments[1] |
| HKFRS 16 | Leases[2] |
| HK(IFRIC) - Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 7 | Disclosure Initiative[4] |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[4] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2014 – 2016 Cycle[5] |

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

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

### HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported in respect of the Group's garment sourcing activities that are currently recognised on a gross basis as the Group is acting as a principal. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors completed a detailed review.

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

### HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

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

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 remeasurement 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, as well as the impact of lease modifications, amongst others. For the classification of cash flows, operating lease payments are presented as operating cash flows. Upon the application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

In contrast to lessee 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, extensive disclosures are required by HKFRS 16.

As at 31 March 2017, the Group has non-cancellable operating lease commitments of HK$1,845,000 as disclosed in Note 21. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

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

### Amendments to HKAS 7 "Disclosure Initiative"

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively to the Group for annual period beginning on 1 April, 2017. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Except as described above, the directors of the Company anticipate that the application of the other new and amendments to HKFRSs in issue but not yet effective will have no 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 the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, 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.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and its subsidiaries. Control is achieved when the Company:

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

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

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

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

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

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income 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 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 lessee

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

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

### Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets 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.

An item of 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 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.

### Impairment losses on assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

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 risks specific to the asset for which the estimates of future cash flows have not been adjusted.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment losses on assets (continued)

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 immediately in profit or loss.

### 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 on 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 on 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 retranslation of monetary items, are recognised in profit or loss for the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's 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 items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

### Retirement benefit costs

Payments to the Mandatory Provident Fund ("MPF") Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

### Taxation

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (continued)

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

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 rates (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 are recognised in profit or loss.

### Inventories

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

### Financial assets

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### Effective interest method

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

#### Financial assets (continued)

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from a former subsidiary and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

##### Impairment of loans and receivables

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, and observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (continued)

#### Financial liabilities and equity instruments

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

##### Equity instruments

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

##### Financial liabilities

Financial liabilities, including trade payables, amount due to immediate holding company, amounts due to directors and amount due to a former subsidiary, are subsequently measured at amortised cost using the effective interest method.

##### Effective interest method

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

#### Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

## 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 judgments, 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 on-going 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 following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Impairment assessment on deposits paid for purchases of garment products

Management assesses whether there is any impairment of deposits paid for purchases of garment products on an ongoing basis. The impairment assessment is based on evaluation of the recoverability of the deposits by considering market demand, expected volume of transactions with the supplier and ability of the supplier to settle the deposits. If market demand, expected volume of transactions with the supplier or ability of the supplier to settle the deposits were to deteriorate, the actual recoverability of the deposits may be lower than expected, an impairment may need to be recognised. As at 31 March 2017, the carrying amount of deposits paid for purchases of garment products is HK$28,526,000 (2016: HK$29,345,000), without any impairment recognised (2016: Nil).

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

### Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss/further impairment loss may arise. As at 31 March 2017, the carrying amount of trade receivables is HK$3,037,000 (2016: HK$19,840,000). No impairment has been recognised during the year (2016: Nil).

### Income taxes

Deferred tax asset in relation to unused tax losses of HK$34,650,000 (2016: HK$25,491,000) has not been recognised in the consolidated statement of financial position 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 taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

## 5. REVENUE

The Group's revenue represents the amounts received and receivable for sourcing of garment products, less sales returns and allowances.

## 6. SEGMENT INFORMATION

The Group's chief operating decision maker ("CODM"), being the executive directors of the Company, monitors the revenue, result, assets and liabilities of the Group based on the monthly management accounts which are substantially in conformity with HKFRSs. Other than revenue analysis by customers, the CODM assesses the operating performance of the Group as a whole as the Group is primarily engaged in garment sourcing. No other discrete information is provided to the CODM. Accordingly, no further segment information is presented.

### Geographical information

The Group's operation is mainly located in Hong Kong and the United States of America (the "USA").

The Group's revenue from external customers by location of customers is detailed below:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| USA | **65,343** | 98,817 |
| Canada | **15,649** | 48,464 |
| Mexico | **–** | 17,308 |
| | **80,992** | 164,589 |

### Information about major customers

Revenue from customers contributing to over 10% of the Group's total annual revenue are as follows:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Customer A | **65,066** | 92,293 |
| Customer B | **12,819** | 33,504 |
| Customer C (note) | **N/A** | 17,308 |

note: This customer contributed less than 10% of the Group's total annual revenue for the year ended 31 March 2017.

## 7. INCOME TAX CREDIT

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Hong Kong Profits Tax | | |
| – current year | – | – |
| – overprovision in prior years | – | (20) |
| | – | (20) |

No provision for Hong Kong Profits Tax has been made in the financial statements as the assessable profit for the current year has been wholly absorbed by tax losses brought forward. There was no assessable profit for the Group in the prior year. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for the US income taxes has been made in the financial statements as the assessable profits for both years are insignificant and have been wholly absorbed by tax losses brought forward.

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

| | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|
| Loss before taxation | (11,443) | (24,777) |
| Tax credit at Hong Kong Profits Tax rate of 16.5% | (1,888) | (4,088) |
| Tax effect of expenses not deductible for tax purpose | 423 | 931 |
| Tax effect of income not taxable for tax purpose | (46) | (18) |
| Tax effect of tax losses not recognised | 1,783 | 3,175 |
| Utilisation of tax losses previously not recognised | (272) | – |
| Overprovision in respect of prior years | – | (20) |
| Income tax credit for the year | – | (20) |

At the end of the reporting period, the Group had unused tax losses of HK$34,650,000 (2016: HK$25,491,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

## 8. LOSS FOR THE YEAR

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging: | | |
| Auditor's remuneration | | |
| – current year | 1,168 | 1,240 |
| – underprovision in prior year | – | 30 |
| Directors' remuneration (note (i)) | 3,880 | 3,688 |
| Other staff costs | | |
| – salaries and wages | 3,038 | 5,217 |
| – retirement benefit scheme contributions | 110 | 197 |
| Total staff costs | 7,028 | 9,102 |
| Depreciation of plant and equipment | – | 230 |
| Sampling expenses (included in selling and distribution costs) | 1,089 | 13,947 |
| Legal and professional expenses (included in other expense) (note (ii)) | – | 4,444 |
| and after crediting: | | |
| Interest income (included in other income) | 114 | 158 |

The cost of inventories recognised as an expense approximates the cost of sales as disclosed in the consolidated statement of profit or loss and other comprehensive income for both years.

notes:

(i) Directors' remuneration

(a) Directors

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

| | Directors' fees HK$'000 | Total 2017 HK$'000 |
|---|---|---|
| **EXECUTIVE DIRECTORS** | | |
| Gao Zhiyin (Chairman) | 1,200 | 1,200 |
| Gao Zhiping (Chief Executive Officer) | 1,200 | 1,200 |
| Shi Jiguo (note i) | 600 | 600 |
| Sub-total | 3,000 | 3,000 |

## 8. LOSS FOR THE YEAR (CONTINUED)

notes: (continued)

(i) Directors' remuneration (continued)

(a) Directors (continued)

| | Directors' fees HK$'000 | Total 2017 HK$'000 |
|---|---|---|
| **NON-EXECUTIVE DIRECTOR** | | |
| Shum Ngok Wa (note ii) | 130 | 130 |

| | Directors' fees HK$'000 | Total 2017 HK$'000 |
|---|---|---|
| **INDEPENDENT NON-EXECUTIVE DIRECTORS** | | |
| Lau Chi Kit | 250 | 250 |
| Lam Kai Yeung (note iii) | 250 | 250 |
| Ma Ming | 250 | 250 |
| Sub-total | 750 | 750 |
| Total | | 3,880 |

| | Directors' fees HK$'000 | Total 2016 HK$'000 |
|---|---|---|
| **EXECUTIVE DIRECTORS** | | |
| Gao Zhiyin (Chairman) | 1,200 | 1,200 |
| Gao Zhiping (Chief Executive Officer) | 1,200 | 1,200 |
| Shi Jiguo | 600 | 600 |
| Sub-total | 3,000 | 3,000 |

| | Directors' fees HK$'000 | Total 2016 HK$'000 |
|---|---|---|
| **INDEPENDENT NON-EXECUTIVE DIRECTORS** | | |
| Lau Chi Kit | 250 | 250 |
| Lam Kai Yeung | 250 | 250 |
| Chen Yifan (note iv) | 5 | 5 |
| Ma Ming (note v) | 183 | 183 |
| Sub-total | 688 | 688 |
| Total | | 3,688 |

## 8. LOSS FOR THE YEAR (CONTINUED)

notes: (continued)

(i) Directors' remuneration (continued)

(a) Directors (continued)

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's emoluments shown above were mainly for his services as a director of the Company.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

notes:

(i) Mr. Shi Jiguo subsequently resigned as an executive director with effect from 31 May 2017.

(ii) Mr. Shum Ngok Wa was appointed as a non-executive director with effect from 12 July 2016 and subsequently resigned with effect from 14 June 2017.

(iii) Mr. Lam Kai Yeung subsequently resigned as an independent non-executive director with effect from 1 May 2017.

(iv) Dr. Chen Yifan resigned as an independent non-executive director with effect from 9 April 2015.

(v) Mr. Ma Ming was appointed as an independent non-executive director with effect from 8 July 2015.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group for the year ended 31 March 2017, three (2016: three) of them are directors of the Company whose emoluments are included in note 8(a).

The remuneration of the remaining two (2016: two) individuals for the year ended 31 March 2017 and 2016 are as follows:

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Salaries and allowances | **1,047** | 928 |
| Retirement benefit schemes contributions | **36** | 29 |
| | **1,083** | 957 |

During each of the two years ended 31 March 2017, the emoluments of each of these two individuals did not exceed HK$1,000,000.

During each of the two years ended 31 March 2017, (i) no emoluments were paid by the Group to the directors of the Company or to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office and (ii) none of the directors of the Company waived or agreed to waive any emoluments.

(ii) The legal and professional expenses were incurred in relation to the proposed acquisition of Highlight Holding Limited, which subsequently did not proceed, details of which were disclosed in the announcements of the Company dated 25 March 2015 and 1 January 2016.

## 9. DIVIDEND

No final/interim dividend was paid or proposed for the year ended 31 Mach 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

## 10. LOSS PER SHARE

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

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| **Loss** | | |
| Loss for the year attributable to owners of the Company for the purpose of basic loss per share | **(11,443)** | (24,757) |
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic loss per share | **519,777,000** | 519,777,000 |

No presentation of diluted loss per share for the year ended 31 March 2017 and 2016 as there were no potential dilutive ordinary shares outstanding during both years.

## 11. PLANT AND EQUIPMENT

| | Furniture, fixtures and equipment HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1 April 2015 | 2,371 | 1,202 | 234 | 3,807 |
| Additions | 5 | – | 53 | 58 |
| Disposals | – | – | (29) | (29) |
| At 31 March 2016 and 31 March 2017 | 2,376 | 1,202 | 258 | 3,836 |
| DEPRECIATION AND IMPAIRMENT | | | | |
| At 1 April 2015 | 2,060 | 382 | 112 | 2,554 |
| Provided for the year | 33 | 158 | 39 | 230 |
| Eliminated on disposals | – | – | (29) | (29) |
| Impairment loss recognised in profit or loss | 283 | 662 | 136 | 1,081 |
| At 31 March 2016 and 31 March 2017 | 2,376 | 1,202 | 258 | 3,836 |
| CARRYING VALUES | | | | |
| At 31 March 2016 and 31 March 2017 | – | – | – | – |

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

| | |
|---|---|
| Furniture, fixtures and equipment | 15% – 25% |
| Leasehold improvements | Over 5 to 10 years or the term of the relevant leases, if shorter |
| Plant and machinery | $6^2/_3$% – 25% |

During the year ended 31 March 2016, the Group recognised an impairment loss of HK$1,081,000 in respect of plant and equipment due to the continuous losses incurred by the Group. Management determined that there was no resale value for the assets (mainly comprise leasehold improvements and computer equipment). Accordingly, the entire outstanding amounts of plant and equipment was impaired.

## 12. INVENTORIES

| | **2017 HK$'000** | 2016 HK$'000 |
|---|---|---|
| Finished goods | **–** | 4,140 |

## 13. TRADE RECEIVABLES

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Trade receivables | 3,037 | 19,840 |
| Less: allowance for doubtful debts | – | – |
| | 3,037 | 19,840 |

The Group allows its trade customers a credit period of 30 to 150 days. The following is an aged analysis of trade receivables presented based on the invoice dates at the end of each reporting period:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| 0 – 30 days | 144 | 7,591 |
| 31 – 60 days | 2,783 | 5,793 |
| 61 – 90 days | 110 | 5,518 |
| 91 – 120 days | – | 393 |
| Over 120 days | – | 545 |
| | 3,037 | 19,840 |

Before accepting any new customer, the Group assesses and understands the potential customer's credit quality. Management reviews each customers credit quality regularly. All trade receivables that are neither past due nor impaired have good credit quality after taking into account the repayment history of the trade customers. The Group has not identified any credit risk on these trade receivables.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$2,783,000 (2016: HK$8,037,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. There has not been a significant change in credit quality and the amounts are still considered to be recoverable. The Group does not hold any collateral over these balances.

## 13. TRADE RECEIVABLES (CONTINUED)

### Aging of trade receivables which are past due but not impaired

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| 31 – 60 days | 2,783 | 3,288 |
| 61 – 90 days | – | 3,811 |
| 91 – 120 days | – | 393 |
| Over 120 days | – | 545 |
| | 2,783 | 8,037 |

## 14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Deposits paid for purchases of garment products | 28,526 | 29,345 |
| Other receivables | 1,368 | 89 |
| Other deposits and prepayments | 796 | 800 |
| Others | 9 | 10 |
| | 30,699 | 30,244 |

## 15. AMOUNTS DUE FROM/TO IMMEDIATE HOLDING COMPANY/ DIRECTORS/A FORMER SUBSIDIARY

The amounts due to directors represent directors' fees payable at the end of the reporting period.

All amounts are unsecured, interest-free and have been fully settled subsequent to 31 March 2017.

## 16. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.001% to 1% (2016: 0.001% to 1%) per annum.

## 17. TRADE PAYABLES

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

| | **2017<br>HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| 0 – 60 days | **120** | 13,005 |
| 61 – 90 days | **621** | 6,077 |
| Over 90 days | **2,060** | 5,220 |
| | **2,801** | 24,302 |

The average credit period on purchases of goods is 30 days (2016: 30 days).

The Group's trade payables that are not denominated in the functional currencies of the relevant group entities are set out below:

| | **2017<br>HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Renminbi ("RMB") | **–** | 4,482 |

## 18. SHARE CAPITAL

| | **Number of shares** | **Amount<br>HK$'000** |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorised: | | |
| As at 1 April 2015, 31 March 2016 and 31 March 2017 | 900,000,000 | 9,000 |
| Issued and fully paid: | | |
| As at 1 April 2015, 31 March 2016 and 31 March 2017 | 519,777,000 | 5,198 |

All shares rank pari passu in all respects.

## 19. RETIREMENT BENEFIT SCHEMES

The Group has operated a defined contribution retirement benefit scheme for all qualifying employees in Hong Kong since 1 April 1995. The assets of the scheme are held separately from those of the Group in a provident fund managed by an independent trustee. The retirement benefits scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. According to the MPF legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group is also required to participate in a MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK$30,000 for each eligible employee) as calculated under the MPF legislation.

Both the defined contribution retirement benefits scheme and the MPF scheme co-existed within the Group in both years.

As at 31 March 2017 and 2016, there were no forfeited contributions available to offset future employers' contributions to the scheme.

In addition, the overseas subsidiary of the Company is required to contribute amount based on employees' salaries to the retirement benefit scheme as stipulated by the relevant local authority. The employees are entitled to this subsidiary's contributions subject to the regulations of the relevant local authority.

The total expenses recognised in profit or loss of HK$110,000 (2016: HK$197,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

## 20. SHARE-BASED PAYMENT TRANSACTIONS

### Share Option Scheme of the Company

Pursuant to a written resolution passed on 2 June 2010, the Company adopted a share option scheme (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide incentives to eligible participants including eligible directors and eligible employees. The Share Option Scheme will remain in force for a period of ten years from the date of its adoption (i.e. 2 June 2010).

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue on the date of adoption of the Share Option Scheme. Such 10% limit may be refreshed, subject to specific approval by the shareholders of the Company, from time to time with reference to the issued share capital of the Company for the time being. Subject to specific approval by the shareholders of the Company, the total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

Options granted must be taken up within 21 days from the date of grant, upon payment of HK$1 per grant of option(s). Options may, subject to the black-out periods under the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules, generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors of the Company may at its discretion determine the specific exercise period and exercise price. The exercise price shall not be less than the highest of (i) the closing price of shares on the Stock Exchange on the date of the offer of grant; (ii) the average closing price of shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

During each of the two years ended 31 March 2017, no share options have been granted by the Company.

## 21. OPERATING LEASE COMMITMENTS

### The Group as lessee

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Minimum lease payments paid by the Group under operating leases during the year | **3,236** | 3,225 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented office premises which fall due as follows:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Within one year | **1,705** | 2,220 |
| In the second to fifth year inclusive | **140** | 1,221 |
| | **1,845** | 3,441 |

Leases are negotiated for terms ranging from one to three years and rental is fixed throughout the lease period.

## 22. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The following is the statement of financial position of the Company as at 31 March 2017 and 31 March 2016:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Non-current asset | | |
| Investment in a subsidiary, unlisted | **1** | 1 |
| Current assets | | |
| Deposits | **583** | 583 |
| Amounts due from subsidiaries | **74,324** | 71,527 |
| Bank balances and cash | **443** | 804 |
| | **75,350** | 72,914 |
| Current liabilities | | |
| Accruals | **1,169** | 1,282 |
| Amount due to immediate holding company | **20,462** | 10,000 |
| Amounts due to subsidiaries | **37,337** | 36,794 |
| Amounts due to directors | **8,657** | 5,553 |
| Tax payable | **1,200** | 1,200 |
| | **68,825** | 54,829 |
| Net current assets | **6,525** | 18,085 |
| Total assets less current liabilities | **6,526** | 18,086 |
| Capital and reserves | | |
| Share capital | **5,198** | 5,198 |
| Reserves (note (a)) | **1,328** | 12,888 |
| | **6,526** | 18,086 |

## 22. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

notes:

(a) Reserves

| | Contributed surplus HK$'000 (note i) | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 31 March 2015 | 125,518 | (94,842) | 30,676 |
| Loss for the year | – | (17,788) | (17,788) |
| At 31 March 2016 | 125,518 | (112,630) | 12,888 |
| Loss for the year | – | (11,560) | (11,560) |
| At 31 March 2017 | 125,518 | (124,190) | 1,328 |

(i) The contributed surplus represents the reserve arising from a previous group reorganisation.

## 23. RELATED PARTY DISCLOSURES

### (i) Balances

Details of the amounts due to the immediate holding company and directors are set out in the consolidated statement of financial position on page 43 and in Note 15.

### (ii) Compensation of key management personnel

The emoluments of the directors of the Company and the employees included in the five highest paid individuals who are identified as members of key management of the Group during both years are set out in Note 8.

## 24. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the 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 debt, which includes amount due to immediate holding company, amounts due to directors and amount due to a former subsidiary, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves, net of accumulated losses.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 25. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **10,789** | 32,459 |
| **Financial liabilities** | | |
| Amortised cost | **31,920** | 44,724 |

## 25. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, amount due from a former subsidiary, bank balances and cash, trade payables, amount due to immediate holding company, amounts due to directors and amount due to a former subsidiary. 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. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Market risk

##### (i) Currency risk

The Group's operations are mainly located in Hong Kong and the USA and the exposure in exchange rate risks mainly arises from fluctuations in RMB exchange rates. Exchange rate fluctuations and market trends have always been the concern of the Group. As RMB is under a managed floating system, after reviewing the Group's exposure for the time being, the Group did not enter into any derivative contracts aimed at minimising exchange rate risks during the year. However, management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

At the end of the reporting period, the carrying amount of the Group's monetary liabilities denominated in currencies other than the respective functional currencies of the relevant group entities are as follows:

| | **Liabilities** | |
|---|---|---|
| | **2017** | 2016 |
| | **HK$'000** | HK$'000 |
| RMB | – | 4,482 |

## 25. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Financial risk management objectives and policies (continued)

#### Market risk (continued)

##### (i) Currency risk (continued)

Sensitivity analysis

As at 31 March 2016, the Group mainly exposed to foreign currency risk of RMB. No exposure to foreign currency risk of RMB was noted as at 31 March 2017.

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. 5% (2016: 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% (2016: 5%) change in foreign currency rates. A positive number below indicates a decrease in loss for the year where the functional currency of the group entities strengthen 5% (2016: 5%) against the relevant currency. For a 5% (2016: 5%) weakening of the functional currency of the group entities against the relevant currency, there would be an equal and opposite impact on the loss for the year.

| | **2017**<br>**HK$'000** | 2016<br>HK$'000 |
|---|---|---|
| Loss for the year | – | 224 |

##### (ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates on its bank balances which carry interest at prevailing market interest rates. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. No sensitivity analysis is presented as the risk is limited as assessed by management of the Group.

## 25. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Financial risk management objectives and policies (continued)

#### Credit risk

As at 31 March 2017, the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position best represent the Group's maximum exposure to credit risk which will cause a financial loss to the Group.

In order to minimise its credit risk, 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 debts. In addition, the Group reviews the recoverable amount of each individual trade debt 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.

As at 31 March 2017, the Group had a concentration of credit risk as the largest and the top five trade debtors accounted for 80.3% (2016: 56.1%) and 100% (2016: 97%) of its total trade debt balance, respectively. In view of this, senior management members regularly visit these customers to understand their business operations and cash flows position. In this regard, management considers that this credit concentration risk has been significantly mitigated.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

#### Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have 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. The maturity dates for other financial liabilities are based on the agreed repayment dates.

## 25. FINANCIAL INSTRUMENTS (CONTINUED)

### (b) Financial risk management objectives and policies (continued)

**Liquidity risk (continued)**

Liquidity tables

| | On demand or less than 1 month | 1 to 3 months | 3 months to 1 year | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2017** | | | | | |
| Trade payables | **2,681** | **120** | **–** | **2,801** | **2,801** |
| Amount due to immediate holding company | **20,462** | **–** | **–** | **20,462** | **20,462** |
| Amounts due to directors | **–** | **–** | **8,657** | **8,657** | **8,657** |
| | **23,143** | **120** | **8,657** | **31,920** | **31,920** |
| 2016 | | | | | |
| Trade payables | 15,425 | 8,877 | – | 24,302 | 24,302 |
| Amount due to immediate holding company | 10,000 | – | – | 10,000 | 10,000 |
| Amounts due to directors | – | – | 5,553 | 5,553 | 5,553 |
| Amount due to a former subsidiary | 4,869 | – | – | 4,869 | 4,869 |
| | 30,294 | 8,877 | 5,553 | 44,724 | 44,724 |

### (c) Fair value measurement of financial instruments

The fair values of the financial assets and financial liabilities have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis. The management considers that the carrying amounts of the financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

## 26. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2017 and 2016 are as follows:

| Name of subsidiary | Place of incorporation or establishment/ operation | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Group | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Directly | | Indirectly | | |
| | | | 2017 % | 2016 % | 2017 % | 2016 % | |
| Best Keen International Limited | The BVI | Ordinary US$50,000 | 100 | 100 | – | – | Investment holding |
| Gold Chapter Limited | Hong Kong | Ordinary HK$1 | – | – | 100 | – | Investment holding |
| High Gold International Limited | Cayman Island | Ordinary US$0.01 | 100 | – | – | – | Investment holding |
| Top Value Inc. | The USA | Common stock US$1,000 | – | – | 100 | 100 | Trading of garment products |
| United Gainer Investment Limited | Hong Kong | Ordinary HK$1 | – | – | 100 | 100 | Trading of garment products |
| 杭州浩毓云勢網絡科技有限公司 ("杭州浩毓") | People's Republic of China (The "PRC") | Ordinary US$15,000,000 (note) | – | – | 100 | – | Provision of Internet of Things technology service |

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

note: The Group is required to pay up the registered capital for 杭州浩毓 of US$15 million in accordance with the relevant laws, rules and regulations of the PRC before December 2021. During the year ended 31 March 2017 and up to the date of this report, this registered capital has not yet been paid.

## 27. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the following events took place:

(i) In May 2017, the Company through its indirect wholly owned subsidiary, 杭州浩毓, entered into the cooperation agreement with 江西省廣播電視網絡傳輸有限公司 ("江西廣電"), pursuant to which the parties agreed to cooperate to develop and operate the integrated information service platform on the network of 江西廣電. Further details of this transaction are set out in the Company's announcement dated 18 May 2017.

(ii) In May 2017, the Company through its indirect wholly owned subsidiary, 杭州浩毓, entered into the cooperation agreement with 平陽華數廣電網絡有限公司 ("平陽華數"), pursuant to which the parties agreed to cooperate to develop and operate the platform for the provision of comprehensive town management, market supervision, comprehensive law enforcement, public convenience and other services in Pingyang County. Further details of this transaction are set out in the Company's announcement dated 22 May 2017.

| Abbreviation | Definition |
|---|---|
| 2016 AGM | annual general meeting of the Company held on 23 September 2016 |
| Audit Committee | audit committee of the Company established by the Board on 8 September 2010 with written terms of reference, as amended from time to time |
| Board | the board of Directors |
| Board Committees | Audit Committee, Nomination Committee and Remuneration Committee |
| Bye-Law(s) | the bye-laws of the Company, as amended from time to time |
| Company | Highlight China IoT International Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Main Board of the Stock Exchange |
| Corporate Governance Code | Corporate Governance Code as set out in Appendix 14 of the Listing Rules |
| Director(s) | the director(s) of the Company |
| Group | the Company and its subsidiaries from time to time |
| HK$ | Hong Kong dollars, the lawful currency of Hong Kong |
| Listing Rules | the Rules Governing the Listing of Securities on the Stock Exchange |
| Model Code | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| Nomination Committee | nomination committee of the Company established by the Board on 19 March 2012 with written terms of reference, as amended from time to time |
| PRC | the People's Republic of China |
| Remuneration Committee | remuneration committee of the Company established by the Board on 8 September 2010 with written terms of reference, as amended from time to time |

# Glossary

| Abbreviation | Definition |
|---|---|
| SFO | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| Share(s) | ordinary share(s) of HK$0.01 each in the share capital of the Company |
| Share Options Scheme | share option scheme conditionally adopted by the Company on 2 June 2010 which became effective upon the Shares were listed on the Stock Exchange on 5 October 2010. |
| Shareholder(s) | holder(s) of the Share(s) in issue |
| Stock Exchange | The Stock Exchange of Hong Kong Limited |
| US$ | United States dollars, the lawful currency of the United States of America |
| % | per cent. |

香港灣仔港灣道 30 號新鴻基中心 41 樓 4114-4119 室
Rooms 4114 - 4119, 41st Floor, Sun Hung Kai Centre,
No. 30 Harbour Road, Wanchai, Hong Kong

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