MAN WAH HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 01999)

First Class Experience
# Everyday
Annual Report 2018

# Contents

# Corporate Information

## BOARD OF DIRECTORS

*Executive Directors*
Mr. Wong Man Li
*(Chairman and Managing Director)*
Ms. Hui Wai Hing
Mr. Wang Guisheng (resigned on 31 March 2018)
Mr. Alan Marnie
Mr. Dai Quanfa
Ms. Wong Ying Ying
Mr. Tsang Hoi Lam (appointed on 31 March 2018)

*Independent non-executive Directors*
Mr. Ong Chor Wei
Mr. Chau Shing Yim, David
Mr. Kan Chung Nin, Tony
Mr. Ding Yuan

## AUDIT COMMITTEE

Mr. Chau Shing Yim, David *(Chairman)*
Mr. Ong Chor Wei
Mr. Ding Yuan

## NOMINATION COMMITTEE

Mr. Wong Man Li *(Chairman)*
Mr. Chau Shing Yim, David
Mr. Wang Guisheng
(resigned on 31 March 2018)
Mr. Kan Chung Nin, Tony
Mr. Ding Yuan
Mr. Tsang Hoi Lam (appointed on 31 March 2018)

## REMUNERATION COMMITTEE

Mr. Ding Yuan *(Chairman)*
Mr. Wong Man Li
Mr. Chau Shing Yim, David
Mr. Wang Guisheng
(resigned on 31 March 2018)
Mr. Kan Chung Nin, Tony
Mr. Tsang Hoi Lam (appointed on 31 March 2018)

## COMPANY SECRETARY

Ms. Liu Xiaoting

## AUDITOR

Deloitte Touche Tohmatsu
*Certified Public Accountants*
35th Floor, One Pacific Place
88 Queensway
Hong Kong

## BERMUDA SHARE REGISTRAR AND SHARE TRANSFER AGENT

Estera Management (Bermuda) Limited
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1st Floor, Wah Lai Industrial Center
10-14 Kwei Tei Street, Fotan
New Territories, Hong Kong

## LEGAL ADVISERS

Reed Smith Richards Butler
Estera Management (Bermuda) Limited

## PRINCIPAL BANKERS

Standard Chartered Bank
Hang Seng Bank
Hong Kong and Shanghai Banking Corporation Limited
Citibank, N.A.
China Construction Bank Corporation
Agricultural Bank of China Limited
Bank of China Limited
Industrial and Commercial Bank of China Limited

## STOCK CODE

1999

## WEBSITE

www.manwahholdings.com

## INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited
2401-2, Admiralty Centre I
18 Harcourt Road
Hong Kong

### *Executive Directors*

**Mr. Wong Man Li**, aged 53, Member of the National Committee of Chinese People's Political Consultation Conference ("CPPCC"), BBS, JP, is our Chairman, Managing Director and our executive Director. Mr. Wong is also the Chairman of the Company's nomination committee and a member of the Company's remuneration committee. He is responsible for the day-to-day overall management of our Company and mapping our growth strategy. Mr. Wong founded our Group in 1992 and has served as our Chairman, Managing Director and executive Director since 17 November 2004. He is also a director of a number of subsidiaries of the Company. He has over 21 years of experience in the furniture industry. Since 2005, Mr. Wong has been the Vice-President of the China Furniture & Decoration Chamber of Commerce (全國工商聯傢具裝飾業商會), the Executive Member of the China National Furniture Association (中國傢具協會) and the sofa Professional Committee Executive Chairman of the China National Furniture Association (中國傢具協會沙發專業委員會). In December 2007, Mr. Wong was recognized as one of the "Top Ten Outstanding Youth Industrialists of Hong Kong" (香港十大傑出青年工業家) and a Standing Committee Member of the Huizhou Chinese People's Political Consultative Conference (惠州市政協委員會) since February 2009. In December 2012, Mr. Wong was elected as a Founding Chairman of the China Furnishing Brand Federation (中國傢具品牌聯盟). In 2013, Mr. Wong was elected as an Honorary Director of the Development Committee of the Hong Kong Baptist University Jao Tsung-I Academy of Sinology (香港浸會大學饒宗頤國學院發展委員會) and as an Honorary Vice-Chairman of Hong Kong Baptist University Foundation (香港浸會大學基金) in February 2014. Since 2013, Mr. Wong was elected as a Co-Chairman of the "Community for the Chest". In 18 May 2015, Mr. Wong was elected as an Executive Chairman of the Hong Kong Industrial & Commercial Association (香港工商總會) and as a Founding Chairman of the Happy Hong Kong Charity Foundation (築福香港慈善基金會). Mr. Wong received the 2010 Fellowship Award from Asian College of Knowledge Management and an Honorary Doctorate in Management from Lincoln University (2010年度亞洲知識管理學院院士暨林肯大學榮譽管理博士學位). Mr. Wong is the husband of Ms. Hui Wai Hing, an executive Director, and the father of Ms. Wong Ying Ying, an executive Director. Mr. Wong is a director of Man Wah Investments Limited, the controlling shareholder of the Company.

**Ms. Hui Wai Hing**, aged 55, is our executive Director and Vice President (General Administration and Retail Sales). She is also a director of a number of subsidiaries of the Company, and is responsible for our general administration and retail business functions in Hong Kong. She is the wife of Mr. Wong Man Li, our Chairman, Managing Director and executive Director, and the mother of Ms. Wong Ying Ying, an executive Director. She joined our Group in 1992 and was appointed our Director on 17 November 2004. She has over 23 years of experience in the furniture industry, over 22 years of which is management experience in our Group.

**Mr. Alan Marnie**, aged 47, is our executive Director since 6 October 2011 after joining the Group in September 2010. He is responsible for exploring the furniture markets in United Kingdom, Europe, Africa, Asia and Oceania. Mr. Marnie has over 29 years of experience in manufacturing, retail and marketing in furniture industry. Prior to joining the Group, he was employed by Homestyle Operations Limited ("Homestyle") as the managing director for Steinhoff Retail Furniture Division in the United Kingdom for 2 years from 2008 to 2010. Homestyle belongs to Steinhoff International Holding Ltd ("Steinhoff"), a company listed on the Frankfurt Stock Exchange, and is one of the largest furniture retailers in Europe. In addition, Mr. Marnie had also worked for 19 years in Reid Furniture Limited, a company which was subsequently owned by Steinhoff, the largest furniture retailer of Scotland and Ireland at that time, and had served as its managing director and chief executive officer for 3 years and 2 years, respectively.

**Mr. Dai Quanfa**, aged 45, is our executive Director since 19 July 2012 after joining the Group in 1995, and is currently a director of a number of subsidiaries of the Company, including Man Wah Furniture Manufacturing (Huizhou) Co., Ltd. (敏華傢具製造(惠州)有限公司), Man Wah Furniture Manufacturing (Shenzhen) Co., Ltd. (敏華傢具製造(深圳)有限公司), King Famous Bedding Manufacturing (Shenzhen) Co., Ltd. (金雅典床俱製造(深圳)有限公司), Remaco Machinery Technology (Wujiang) Co., Ltd. (銳邁機械科技(吳江)有限公司) and Man Wah Furniture (China) Co., Ltd. (敏華傢具(中國)有限公司). Mr. Dai is also a senior director of the manufacturing center of the Group. He is responsible for the Group's manufacture of furniture. Mr. Dai has over 21 years of experience in the furniture industry.

**Ms. Wong Ying Ying**, aged 31, is our executive Director since 4 February 2015 after joining the Group in 2009. She is the daughter of Mr. Wong Man Li, our Chairman, Managing Director, executive Director and controlling shareholder, and Ms. Hui Wai Hing, our executive Director. She is the chief brand officer and deputy general manager of the Great China Division of the Group. Ms. Wong is also a director of some of the subsidiaries of the Company. She is responsible for retail sales, marketing plans and e-commerce in China and has been assisting in the general administration and retail business of the Group in Hong Kong. She is a committee member of the All-China Youth Federation, the vice-chairman of Dynamic Youth of Huizhou Ltd, vice-chairman of Kwai Tsing Volunteer Develop Team, honorary chairman of Shatin District Junior Police Call, member of the Y. Elites Association, honorary chairman of Shatin Sports Association, youth member of HK Industrial & Commercial Association Ltd, Youth Link and youth member of HK Young Industrialists Council and youth member of Jiangsu Youth Federation. She graduated from the University of Wisconsin Madison, Wisconsin, United States of America in 2009 with bachelor's degrees in both Marketing and Sociology. Ms. Wong Ying Ying is also a director of Man Wah Investments Limited, the controlling shareholder of the Company.

**Mr. Tsang Hoi Lam**, aged 35, is our executive Director and chief financial officer since 31 March 2018 after joining the Company as the deputy chief financial officer since April 2017. Mr. Tsang is also a member of the Company's nomination committee and remuneration committee. Mr. Tsang is also a supervisor or director (as the case may be) of certain subsidiaries of the Group. He received a bachelor's degree of Business Administration (major in accounting and finance) from The University of Hong Kong in 2004. Mr. Tsang is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company, Mr. Tsang was a deputy financial controller of a subsidiary of Lee & Man Paper Manufacturing Company Limited (stock code: 2314), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from October 2013 to February 2017. Prior to that, he served as an audit manager in Deloitte Touche Tohmatsu from September 2009 to September 2013.

### *Independent non-executive Directors*

**Mr. Chau Shing Yim, David**, aged 54, is our independent non-executive Director and was appointed on 5 March 2010. Mr. Chau is the Chairman of the Company's audit committee and a member of each of the Company's nomination committee and remuneration committee. Mr. Chau has over 20 years of experience in corporate finance, working on projects ranging from initial public offering transactions and restructurings of PRC enterprises to cross-border and domestic takeover transactions. Mr. Chau was formerly a partner of one of the big four accounting firms in Hong Kong, holding the position as their Head of Merger and Acquisition and Corporate Advisory. He is a Director of the Hong Kong Securities Institute, a member of the Institute of Chartered Accountants in England and Wales ("ICAEW"), and was granted the Corporate Finance Qualification of the ICAEW, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and was an ex-committee member of the Disciplinary Panel of the HKICPA. Mr. Chau has become a member of Jinan Municipal Committee of the CPPCC and Hospital Governing Committee of Pamela Youde Nethersole Eastern Hospital on 1 April 2017. Mr. Chau currently is an independent non-executive director of Lee & Man Paper Manufacturing Limited (stock Code: 2314), China Evergrande Group (stock Code: 3333), Richly Field China Development Limited (stock Code: 313), Evergrande Health Industry Group Limited (stock Code: 708), Hengten Networks Group Limited (stock Code: 136), IDG Energy Investment Group Limited (Stock Code: 650), Asia Grocery Distribution Limited (stock Code: 8413), and, since 16 April 2018, Branding China Group Limited (stock code: 863). All the aforesaid companies are listed on the Hong Kong Stock Exchange.

Mr. Chau has resigned as an executive director of China Solar Energy Holdings Limited (stock Code: 155) on 12 June 2015. He has retired as an independent non-executive director of Up Energy Development Group Limited (stock Code: 307) on 25 September 2015 and Varitronix International Limited (now known as BOE Varitronix Limited, stock code: 710) on 3 June 2016. All the aforesaid companies are listed on the Hong Kong Stock Exchange.

**Mr. Ong Chor Wei**, aged 48, is our independent non-executive Director. Mr. Ong was formerly our non-executive Director appointed on 5 March 2010 who was redesignated on 31 May 2012 as our independent non-executive Director. Mr. Ong is also a member of the Company's audit committee. Mr. Ong is currently an executive director of Net Pacific Financial Holdings Limited (previously known as K Plas Holdings Limited) and a non-executive director of Joyas International Holdings Limited, both of which is listed on the SGX-ST. Mr Ong is an executive director of Zibao Metals Recycling Holdings Plc, a company trading on AIM, a market operated by the London Stock Exchange (stock code: ZBO). He is also an independent non-executive director of O-Net Technologies (Group) Limited (stock code: 877), Denox Environmental & Technology Holdings Limited (stock code: 1452) and Nameson Holdings Limited (stock code: 1982), all of which are companies listed on the main board of the Stock Exchange. Mr. Ong is also an independent non-executive Director of Smart Globe Holdings Limited (stock code: 8485), a company listed on the GEM Board of the Stock Exchange. Mr. Ong is also the non-executive Director of Prosperous Printing Company Limited (stock code: 8385) and Vico International Holdings Limited (Stock code: 1621) ,which are listed on GEM Board of the Stock Exchange and main board of the Stock Exchange respectively. Previously, Mr. Ong served as a non-executive director of Hong Wei (Asia) Holdings Company Limited (stock code: 8191) from 13 December 2013 to 12 October 2016, which is a company listed on the GEM Board of the Stock Exchange. Mr. Ong has over 25 years of experience in finance and accounting. Mr. Ong holds a Bachelor of Laws degree from The London School of Economics and Political Science, University of London. He also holds a distance learning degree in Masters in Business Administration jointly awarded by The University of Wales and The University of Manchester. Mr. Ong is an associate member of ICAEW and a member of the HKICPA.

**Mr. Kan Chung Nin, Tony**, aged 67, LL.B., P.C.LL., BBS, SBS, JP, is our independent non-executive Director and was appointed on 20 May 2013. Mr. Kan is also a member of the Company's nomination committee and remuneration committee. He is the Founder and Senior Consultant of Tony Kan & Co., Solicitors & Notaries, practising as a Solicitor of the Supreme Court of Hong Kong since 1982. He is also a Solicitor of the Supreme Court of England and Wales, a Barrister and Solicitor of the Supreme Court of the Australian Capital Territory, as well as Advocate and Solicitor of the Supreme Court of the Republic of Singapore. He is also a China Appointed Attesting Officer and a Notary Public. Mr. Kan is currently a Committee Member of the National Committee of the Chinese People's Political Consultative Conference and was a Committee Member of the Guangdong Committee of the Chinese People's Political Consultative Conference for three consecutive terms. Mr. Kan had been an Elected Member of the Sha Tin District Council from 1985 to the end of 2011. He had also been an Elected Member of the Regional Council and he was elected as Vice Chairman of the Council in July 1997 until its dissolution at the end of 1999. Since 1988, Mr. Kan has served as a Councillor of Heung Yee Kuk in the New Territories and is currently an Ex Official Member and Executive Committee Member of the Kuk. Mr. Kan has served on various advisory committees for the government, including Town Planning Board Member and Member of the Building Committee of Hong Kong Housing Authority. He is currently a Member of the Election Committee of the Chief Executive of Hong Kong Special Administrative Region. Mr. Kan has been appointed during the period from 15 March 2014 to October 2016 as a non-executive director of Midland Holdings Limited (stock code: 1200), as well as independent non-executive director of Nameson Holdings Limited (stock code: 1982) on 29 January 2016. He has been the chairman as well as non-executive director of Midland IC&I Limited (stock code: 459) since October 2016. He is an independent non-executive Director of Hopewell Highway Infrastructure Limited (stock code: 737) since 11 April 2018. The above mentioned companies are listed on the main board of the Stock Exchange.

**Mr. Ding Yuan**, aged 48, is our independent non-executive Director and was appointed on 31 December 2016. Mr. Ding is the Chairman of the Company's remuneration committee and a member of each of the Company's nomination committee and audit committee. Mr. Ding graduated with a doctor of philosophy degree in management science from the College of Business Administration, Bordeaux IV University in France in December 2000. Mr. Ding served as a tenured professor in accounting and management control at the HEC School of Management in France from September 1999 to September 2006. He joined China Europe International Business School since September 2006, and currently serves as the Cathay Capital Chair Professor in Accounting, vice president and dean. Mr. Ding has been an independent non-executive director of Red Star Macalline Group Corporation Ltd. (紅星美凱龍家居集團股份有限公司) (stock code: 1528) and Landsea Green Group Co., Ltd. (朗詩綠色集團有限公司) (stock code: 106) since 2012 and 2013, respectively, both of which are listed on the main board of the Stock Exchange. He is currently a director of Jaccar Holdings, a private investment company. Mr. Ding was an independent director and the chairman of the audit committee of Anhui Gujing Distillery Co., Ltd. (安徽古井貢酒股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000596), from June 2008 to June 2011 and at TCL Corporation (TCL集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stockcode: 000100), from June 2008 to June 2014. From July 2011 to June 2015, he was a director and the chairman of the audit committee of MagIndustries Corp., a company listed on the Toronto Stock Exchange (stock code: MAA). Mr. Ding has more than ten years of experience in teaching and researching financial accounting, financial statement analysis, corporate governance and mergers and acquisitions.

### *Senior Management*

All the executive directors of the Company are respectively responsible for the various aspects of the business and operations of the Group. These executive directors are regarded as the members of the senior management team of the Group.

# Financial Highlights

| | FY2018 HK$000 | FY2017 HK$000 (Restated) | FY2016 HK$000 | FY2015 HK$000 | FY2014 HK$000 |
|---|---|---|---|---|---|
| Revenue | **10,026,573** | 7,779,015 | 7,327,590 | 6,554,811 | 5,991,060 |
| Gross profit margin | **37.3%** | 41.9% | 39.5% | 35.6% | 35.6% |
| Selling and administrative expense/Revenue | **21.3%** | 19.8% | 21.5% | 20.8% | 21.9% |
| Operating profit margin | **16.0%** | 22.1% | 18.0% | 14.8% | 13.7% |
| Profit attributable to owners of the Company | **1,535,908** | 1,752,370 | 1,327,244 | 1,075,159 | 976,965 |
| Net profit margin | **15.3%** | 22.5% | 18.1% | 16.4% | 16.3% |
| Basic EPS (HK$ cents) | **40.22** | 45.64 | 34.15 | 27.83 | 26.82 |
| Diluted EPS (HK$ cents) | **40.04** | 45.47 | 33.89 | 27.28 | 25.57 |
| Interim dividend (HK$ cents) | **13.0** | 14.0 | 8.0 | 6.25 | 6.25 |
| Special dividend (HK$ cents) | **–** | – | – | 18.75 | – |
| Proposed final dividend (HK$ cents) | **12.0** | 14.0 | 9.5 | 6.5 | 6.25 |
| Dividend payout ratio | **62.1%** | 61.0% | 51.0% | 114.9% | 47.6% |
| Inventory days | **52.8** | 54.8 | 57.3 | 64.1 | 63.2 |
| Account receivable days | **29.0** | 28.9 | 30.3 | 31.3 | 26.5 |
| Account payable days | **34.3** | 28.0 | 22.6 | 24.7 | 26.0 |
| Total assets | **9,470,739** | 7,511,744 | 5,645,108 | 6,095,730 | 6,130,113 |
| Total liabilities | **3,026,255** | 2,102,825 | 934,755 | 1,643,399 | 1,627,802 |
| Total equity | **6,444,484** | 5,408,919 | 4,710,353 | 4,452,331 | 4,502,311 |
| Bank balances and cash | **1,406,959** | 1,808,298 | 1,447,508 | 1,599,028 | 2,362,450 |
| Return on equity[1] | **25.8%** | 34.8% | 28.2% | 24.5% | 21.9% |
| Return on assets[2] | **16.2%** | 23.4% | 23.5% | 17.6% | 15.9% |

Notes:

1. Return on equity = Profit attributable to owners of the company/Equity attributable to owners of the company at year end.

2. Return on assets = Profit attributable to owners of the company/Total assets as at year end.

3. In Financial Year ended 31 March 2015 ("FY2015") and Financial Year ended 31 March 2017 ("FY2017"), the Company had issued bonus shares on the basis of one bonus share for every one existing share held by the shareholders on 7 January 2015 and 4 August 2016 respectively. For comparison purpose, earnings per share and dividend per share have been restated in each respective period.

## DEAR SHAREHOLDERS,

On behalf of the Board of Directors of Man Wah Holdings Limited ("Man Wah" or the "Company"), I am pleased to present the audited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2018 ("FY2018", the "Review Period" or the "Current FY").

# BUSINESS REVIEW

During the Review Period, the Group continued to improve its operational efficiency and develop competitive products and improve the functions and quality of products for the increase in mid-level income group. During the Review Period, the Group's revenue reached a new high.

In the China market, the Group benefited from the trend of consumption upgrades in household products, and has achieved a pleasing revenue growth through its increased efforts in brand promotion and marketing, as well as its vigorous promotion of refined management of sales terminal. The Group has also continued vertical integration. Some of the components and materials will be manufactured by ourselves. As at 1 January 2018, the Group has acquired Jiangsu Yulong Intelligent Technology Co., Limited, which allows the Group to lower part of manufacturing cost.

In the North America market, although there are adverse effects from a series of external factors, the Group still maintained a steady growth in revenue.

In Europe and other overseas markets, due to the weak economic growth in the Eurozone, many European retailers increased the proportion of local procurement in Europe to lower their inventory turnover days, thereby increasing the pressure on the Group's sofa export business in Europe, so the Group's sofa revenue in Europe (except for Home Group Ltd. and its subsidiaries) has decreased during the Review Period. On the other hand, the revenue of Home Group Ltd., with manufacturing bases in Europe, has recorded a better growth in Europe.

In terms of its internal management, the Group continued to improve its refined management and establish a craftsman's spirit to improve its product quality and cost indicators.

## PROSPECTS

In the future, the Group will continue to strengthen its core competencies in recliner and maintain the leading position in the industry. Through further vertical integration, the Group intends to improve the proportion of self-produced spare parts, thereby effectively reduce costs and increase flexibility in product design. In the manufacturing sector, the Group will be committed to improving the level of automation and intelligence. At the same time, the Group will also continue to provide healthy, comfortable, worthwhile, and trendy furniture products.

The Group is fully aware of the great potential of branded furniture market in China, and will accelerate the pace of expansion in the PRC market in the next year. The Group will strengthen brand promotion, with the aim of building the "CHEERS First-Class Cabin" brand into a well-known consumer brand, and continues to expand its store network in China. During the next fiscal year, the Group plans to add no less than 300 stores in China. In addition, the Group will, as always, strengthen the refined management of existing stores, including performance management, and better motivate its store staffs to maintain a steady revenue growth in existing stores.

In the North American market, challenges are still great, including the government policy. If sofa industry is included in the list of trade war between the United States of America and China, this will, in short to medium term, have negative effects inevitably. Therefore, the Group will consider to acquire or build factories in order to be less dependent on manufacturing in China. In respect of products, the Group will keep innovation and improvement of quality in order to maintain its competitiveness in North American market.

In Europe and other overseas markets, the Group plans to achieve revenue growth by product restructuring, launching more value-added products, increase the selling price, and developing more new customers. At the same time, the Group will fully utilize Home Group's land and plants in Europe to produce recliner sofas in Europe, so as to meet the demand of fast delivery and quick inventory turnover from European customers.

In line with the Group's continuous revenue growth, the Group will keep expanding its manufacturing capacity in China. At the same time, the Group's factory in Chongqing China, as a manufacturing base in Southwest China, will be completed and start operation before the end of 2018. This will increase the sofa annual production capacity by approximately 300,000 sets. Also the new factory will further reduce logistics cost of the Group in southwest China.

## APPRECIATION

On behalf of the Board of Directors, I would like to express my gratitude to our shareholders, business partners, consumers and employees for their support in the past year. We will continue to work hard to reward shareholders with better performance and to make more contributions to society.

**Wong Man Li**
*Chairman*
**Man Wah Holdings Limited**

## MARKET REVIEW

During the financial year of 2018, the Group has benefited from a diversified market distribution and adjusted its sales strategy and product structure in a timely manner when faced with challenges in overseas markets, which effectively overcome the adverse external impact and continued to maintain a steady growth in revenue.

### China market

During the Review Period, the China market is still facing some challenges, but the overall economic situation has gradually improved. According to the data released by the National Bureau of Statistics of China, GDP, total retail sales of consumer goods and urban resident per capita disposable income recorded year-on-year growth of 6.9%, 10.2% and 9.0% in 2017, respectively. The total retail sales of the reclining sofa category grew by 13.8% year-on-year in 2017. With the continuous increase in resident income, the Group will be benefited from the strong demand for high quality brand furniture products arising from consumption upgrading. Per newly released market survey report published by Euromonitor International Limited ("Euromonitor International")[1] in May 2018, the Group maintained the leadership position in China reclining sofa market while market share rose from 37.7% in 2016 to 44.8% in 2017.

### North America market

The US macroeconomic data was picking up in 2017. According to the report of the US Department of Commerce, the US real GDP grew by 2.9% year-on-year in 2017. According to data published by the US Department of Commerce, total new houses completed for private owners in the US per annum in 2017 increased by approximately 8.8% from 2016. At the same time, new home sales increased by approximately 9.7% from 2016. According to the market survey report published by Euromonitor International[1] in May 2018, the Group was continuously ranked as one of top three reclining sofa players in US while the share of the US reclining sofa market was 9.8% in calendar year 2017 (9.6% in calendar year 2016). The Group maintained the advantages in cost control, capacity and products innovation in the North America market, and will seize the favourable market opportunities to achieve sustainable revenue growth

### Europe and other overseas markets

In European market, there were still a lot of challenges. The European economy's growth was subject to more uncertainties due to terrorist attack, refugee problem and so on. According to the Eurostat, the real GDP in the Eurozone was only 2.3% year-on-year in 2017, still at a low level.

[1] Disclaimer from Euromonitor International

This information about Motion Recliners in USA and PRC contains information extracted from the commissioned report from Euromonitor International and reflects estimates of the market's size, rankings and performance from publicly available secondary sources and trade survey analysis of the opinions and perspectives of leading industry players, and is prepared primarily as a market research tool. Research by Euromonitor International should not be considered as the opinion of Euromonitor International as to the value of any security or the advisability of investing, or not investing, in the Company. Accordingly, Euromonitor International Limited does not give any representations as to the accuracy of the information set out in this report.

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# BUSINESS REVIEW

During the financial year of 2018, the Group continued to enhance its core competitiveness by improving its internal operational efficiency. Facing increased uncertainties in overseas market by vigorously developing the Chinese market, the Group still maintained a positive revenue growth. During the Review Period, the Group's revenue reached a new high. The analysis of revenue by different regions is as follows.

## 1 China market

In the China market, as at 31 March 2018, the Group had a total of 2,357 "CHEERS First-class Cabin" brand sofa and "CHEERS Five-star Mattress" brand stores, and 42 Fleming stores in China. During the Review Period, the net increase in the number of "CHEERS First-class Cabin" and "CHEERS Five-star Mattress" brand retail stores was 424. During the review period, sales from the China market increase approximately 43.7% compared with the last corresponding Period.

In addition to the focus on production and sales of sofas and bedding products, the Group also produced and sold chairs and other products to high-speed railways, chain cinemas and other business customers. Moreover, the Group also produced and sold some smart furniture spare parts and other products.

In addition, the Group acquired a Jiangsu-based metal frame producer during the Review Period. The Group has started to account for the Company as a subsidiary of the Group and consolidated the accounts of it since 1 January 2018. For the three months ended 31 March 2018, its contributed revenue amounted to approximately HK$154,060,000.

## 2 North America market

In the North American market, the overall market competition remained fierce. The Group obtained steady sales growth during the Review Period by adjusting the product mix timely, strengthening the sales team and introducing the rapid delivery plan. During the Review Period, revenue in the North America market increased by approximately 2.6% compared with the Last Corresponding Period, whereas sales in the US increased by approximately 1.6% and sales in Canada increased by approximately 14.3%.

During the Review Period, the Group participated in four furniture exhibitions and introduced a number of new sofa models to customers in the exhibitions.

## 3 Europe and other overseas markets

In Europe, the Group recorded increase in revenue during the Review Period despite the factors of the weak economic growth in the Europe and the Brexit. During the Review Period, excluding Home Group, the total sales of all products from Europe and other overseas markets increased by 2.6%. For sofas, sales in Europe and other overseas markets decreased by approximately 1.9%, including sales of sofas in the Europe decreased by approximately 17.5%. However, sales of other products including smart furniture spare parts in Europe has increased by 39.1% and offset the decrease of sales of sofas in Europe.

During the Review Period, Home Group (which was acquired by the Group in December 2016) had five sofa manufacturing factories mainly in Poland, the Baltic States and Ukraine respectively, which are mainly engaged in the design and production of stationary sofas and sofa beds, and sells their products to many European furniture retailers. During the Review Period, it achieved satisfactory sales growth. Benefited from its highly cost-effective products and high quality service, many existing retailer clients increased their orders from the Home Group, which was due to the PRC government's support of the "Belt and Road Initiative". The Group believes that it will benefit from the development of the "Belt and Road Initiative" as it progresses.

## RESEARCH AND DEVELOPMENT OF SMART FURNITURE PRODUCTS

During the Review Period, the Group also launched a series of new smart furniture products with innovative functions based on the changes in the market. At the same time, the Group continued to strengthen the development of core parts of smart furniture to further improve the proportion of self-produced parts, so as to effectively reduce the cost and improve the flexibility of product innovation.

## FINANCIAL REVIEW

### Revenue and gross profit margin

| | Revenue (HK$'000) | | | As a percentage of revenue (%) | | Gross profit margin (%) | |
|---|---|---|---|---|---|---|---|
| | **FY2018** | FY2017 | Change (%) | **FY2018** | FY2017 | **FY2018** | FY2017 |
| Business of sofas and ancillary products | **8,075,623** | 6,981,725 | 15.7% | **80.5%** | 89.8% | **40.1%** | 43.0% |
| Other products | **925,934** | 594,802 | 55.7% | **9.2%** | 7.6% | **28.1%** | 33.8% |
| Home Group business | **870,956** | 202,488 | n/a | **8.7%** | 2.6% | **24.6%** | 27.4% |
| Jiangsu Yulong business | **154,060** | – | n/a | **1.6%** | n/a | **20.3%** | n/a |
| Total | **10,026,573** | 7,779,015 | 28.9% | **100.0%** | 100.0% | **37.3%** | 41.9% |

During FY2018, total revenue rose by approximately 28.9% to approximately HK$10,026,573,000 (FY2017: approximately HK$7,779,015,000). The overall gross profit margin decreased from approximately 41.9% to approximately 37.3% year-on-year. The main reason for the margin decrease was the increase of price of materials, including chemical products, steels and cardboards among the packaging materials. Moreover, the appreciation of RMB against USD has also constituted part of the increase of cost of materials. Another reason for the decrease of gross profit margin is the consolidation of Home Group business. The gross profit margin of Home Group is lower than that of the Group and consolidation of Home Group business has led to decrease of gross profit margin of the Group.

During FY2018, the cost of goods sold rose by approximately 39.0%.

During the Review Period, excluding Home Group business, the Group produced approximately 1,097,000 sets of sofa products in China factories (FY2017: approximately 960,000 sets), representing an increase of approximately 14.3% (one set equals to six seats, in calculating sofa sets, excluding chairs and other products which were sold to commercial clients).

## 1 Sofas and ancillary products business

During the Review Period, revenue from business of sofas and ancillary products was approximately HK$8,075,623,000, representing an increase of approximately 15.7% as compared with approximately HK$6,981,725,000 recorded in the Last Corresponding Period.

### *1.1 China market*

During the Review Period, revenue from the China market reached approximately HK$3,890,398,000, up by approximately 35.4% from approximately HK$2,873,852,000 in the Last Corresponding Period.

The increase in revenue was not only attributable to the Group's continued efforts to expand its store network in China market during the Review Period, but also the fact that the average sales per distributor store under "CHEERS First-class Cabin" brand increased by approximately 13.4% from the Last Corresponding Period (average sales per store is calculated as sales of all stores during the Review Period divided by average number of stores; and the average number of stores is calculated as the arithmetic mean of stores at the beginning of the Review Period and those at the end of the Review Period respectively).

### *1.2 North America market*

During the Review Period, revenue from the North America market reached approximately HK$3,560,328,000, grow by approximately 2.6% compared with approximately HK$3,471,181,000 from the Last Corresponding Period. Of this, revenue from the US reached approximately HK$3,278,245,000, grow by approximately 1.6% compared with approximately HK$3,228,168,000 in the Last Corresponding Period, and revenue from Canada reached approximately HK$270,823,000, increased by approximately 14.3% compared with approximately HK$237,010,000 from the Last Corresponding Period.

### *1.3 Europe and other overseas markets*

During the Review Period, revenue of sofas and ancillary products from Europe and other overseas markets was approximately HK$624,897,000, down by approximately 1.9% compared with approximately HK$636,692,000 from the Last Corresponding Period. Of this, revenue from Europe was approximately HK$300,973,000, down by approximately 17.5% compared with approximately HK$364,724,000 from the Last Corresponding Period. Revenue from other overseas markets reached approximately HK$323,924,000, up by approximately 19.1% compared with approximately HK$271,968,000 from the Last Corresponding Period.

## 2 Sales of other products

During the Review Period, the Group's revenue from other products reached approximately HK$925,934,000, representing an increase of approximately 55.7% as compared with approximately HK$594,802,000 in the Last Corresponding Period.

2.1 Retail revenue from bedding stores reached approximately HK$475,342,000, up by approximately 89.5% compared with approximately HK$250,814,000 in the Last Corresponding Period.

2.2 During the Review Period, revenue from other furniture products sold to commercial clients reached approximately HK$81,818,000, up by approximately 60.8% from approximately HK$50,871,000 in the Last Corresponding Period.

2.3 Revenue from smart furniture parts reached approximately HK$368,774,000 (including approximately HK$229,462,000 from China market, approximately HK$29,922,000 from North America market, approximately HK$109,390,000 from Europe and other overseas market), up by approximately 25.8% from approximately HK$293,117,000 (including approximately HK$186,870,000 from China market, approximately HK$27,582,000 from North America market, approximately HK$78,665,000 from Europe and other overseas market) in the Last Corresponding Period.

## 3 The Business of Home Group

During the Review Period, the Home Group has achieved a total revenue of approximately HK$870,956,000 whereas approximately HK$202,488,000 of revenue was achieved by the Home Group after its acquisition by the Group at 31 December 2016 in the Last Corresponding Period.

## 4 Jiangsu Yulong Business

The Group acquired Jiangsu Yulong and its accounts have been consolidated into the Group's financial statements since January 2018. During the Review Period, Jiangsu Yulong's realised revenue amounted to approximately HK$154,060,000.

## Cost of goods sold

*Cost of goods sold breakdown*

| | **FY2018 HK$'000** | FY2017 HK$'000 | Change (%) |
|---|---|---|---|
| Cost of raw materials | **5,139,966** | 3,639,586 | 41.2% |
| Labour costs | **911,225** | 701,986 | 29.8% |
| Manufacturing overhead | **232,442** | 179,260 | 29.7% |
| Total | **6,283,633** | 4,520,832 | 39.0% |

| Major raw materials | **Average unit cost year-on-year change (%)** |
|---|---|
| Leather | **-1.3%** |
| Metal | **28.9%** |
| PVC | **-0.8%** |
| Wood | **3.2%** |
| Fabric | **-1.7%** |
| Chemicals | **27.3%** |
| Packaging paper | **34.8%** |

## Other income

During FY2018, other income of the Group increased by approximately 128.2% to approximately HK$364,630,000 (FY2017: approximately HK$159,752,000). The increase was mainly due to the increase in the Government subsidies and income on structured deposits.

| | **FY2018 HK$'000** | FY2017 HK$'000 | Change (%) |
|---|---|---|---|
| Income from sale of industrial waste* | **68,540** | 40,817 | 67.9% |
| Government subsidies** | **216,211** | 70,615 | 206.2% |
| Income on structured deposits*** | **19,741** | 7,602 | 159.7% |
| Interest income | **31,338** | 19,082 | 64.2% |
| Others | **28,800** | 21,636 | 33.1% |
| Total | **364,630** | 159,752 | 128.2% |

Notes:

* Income from sale of industrial waste is revenue from the sale of non-reusable leather, cotton, wood etc. generated in the normal production process of the Group. During the Review Period, such income accounted for approximately 0.7% of total income (sale of industrial waste accounted for approximately 0.5% of total income in the Last Corresponding Period).

** Government subsidies mainly consist of subsidies from local governments to subsidiaries in China.

*** Income from structured deposits originated from the Company using unutilized funds to invest in commercial banking wealth management products of major banks in mainland China. The banks have provided guarantee for principal and returns for all products.

## Other gains and losses

During FY2018, other gains and losses of the Group amounted to losses of approximately HK$26,168,000 (the Last Corresponding Period: gains of approximately HK$184,001,000). During the Review Period, other gains and losses of the Group amounted to losses of approximately 19,119,000 (the Last Corresponding Period: gains of approximately HK$170,536,000), mainly due to the foreign exchange losses.

## Selling and distribution expenses

Selling and distribution expenses increased by approximately 44.2% from approximately HK$1,173,878,000 in FY2017 to approximately HK$1,693,223,000 in FY2018. Selling and distribution expenses as a percentage of revenue increased from approximately 15.1% in FY2017 to approximately 16.9% in FY2018. The increase was mainly attributable to the following:

(a) Overseas transportation and port fees increased by approximately 40.8% from approximately HK$434,174,000 to approximately HK$611,452,000. Overseas transportation and port fees as a percentage of revenue increased from approximately 5.6% in last year to approximately 6.1%; domestic transportation expenses increased by approximately 30.2% from approximately HK$74,243,000 to approximately HK$96,685,000. Domestic transportation expenses as a percentage of revenue of approximately 1.0% was the same as last year;

(b) Advertising, promotion and brand building expenses increased by approximately 78.8% from approximately HK$128,863,000 to approximately HK$230,469,000. Advertising, promotion and brand building expenses as a percentage of revenue increased from approximately 1.7% to approximately 2.3%; and

(c) Salaries, welfare and commissions of sales staff increased by approximately 34.3% from approximately HK$219,893,000 to approximately HK$295,420,000. Salaries, welfare and commissions of sales staff as a percentage of revenue increased from approximately 2.8% to approximately 2.9%.

## Administrative expenses

Administrative expenses increased by approximately 21.0% from approximately HK$365,441,000 in FY2017 to approximately HK$442,052,000 in FY2018. As a percentage of revenue, administrative expenses were approximately 4.4% (FY2017: approximately 4.7%).

## Income tax expense

Income tax expense increased by approximately 25.7% from approximately HK$293,222,000 in FY2017 to approximately HK$368,639,000 in FY2018. The proportion of income tax expense to profit before tax increased from approximately 14.3% in FY2017 to approximately 19.2% in FY2018.

## Profit attributable to owners of the Company and net profit margin

The profit attributable to owners of the Company decreased by approximately 12.4% from approximately HK$1,752,370,000 in FY2017 to approximately HK$1,535,908,000 in FY2018. The net profit margin of the Group decrease from approximately 22.5% in FY2017 to approximately 15.3% in FY2018. The decrease in profit attributable to owners of the Company and net profit margin was mainly due to decrease of the gross profit margin from approximately 41.9% in FY2017 to approximately 37.3% in FY2018 and currency loss of approximately HK$19,119,000 (FY2017: currency gains of approximately HK$170,536,000).

## Dividends

The Board has proposed a final dividend of HK12 cents per share for the FY2018. During the FY2018, the Board has already declared and paid an interim dividend of HK13 cents per share. Total dividends declared for FY2018 accounted for approximately 62% of the profit attributable to owners of the Company.

## Working capital

As at 31 March 2018, the Group's bank balances and cash were approximately HK$1,406,959,000.

The Group has been committed to maintain the sound financial policy. The Group continues to improve its operational efficiency in order to reduce turnover days of the working capital. During the Review Period, turnover of the working capital was good. Benefiting from the steady and healthy development of the Company's business, it can effectively manage its cash flow and capital commitments. The Group also ensures that it has sufficient funds to meet its existing and future cash requirements while providing the sustainable and stable dividend return to shareholders. The Group has not experienced and does not expect to experience any difficulties in meeting its obligations when they are due.

## Liquidity and capital resources

As at 31 March 2018, the Group's short-term borrowings amounted to approximately HK$1,316,799,000, all of which were repayable within twelve months from 31 March 2018. All of the borrowings bore floating interest rates.

The Group's primary source of working capital is cash flow from operating activities and bank deposits. As at 31 March 2018, the Group's current ratio was approximately 1.5 (31 March 2017: approximately 1.9). The Group maintained a net cash position, reflecting its healthy financial position, paving the way for future development. As at 31 March 2018, the Group's gearing ratio was approximately 22.5% (31 March 2017: approximately 21.3%), which is defined as total borrowings divided by total equity attributable to owners of the Group.

## Allowance for inventories

For FY2018, the Group reversed impairment allowance for inventories of approximately HK$1,512,000 (FY2017: reversed impairment allowance of approximately HK$2,781,000).

## Impairment loss on trade and other receivables

For FY2018, the Group provided impairment loss on trade and other receivables of approximately HK$635,000 (FY2017: nil).

## Pledge of assets

As at 31 March 2018, there was approximately HK$8,303,000 restricted bank balances. As of 31 March 2018, some subsidiaries of Home Group under the Group pledged certain assets for financing, including property, plant and equipment with book value of approximately HK$122,310,000 (FY2017: HK$103,204,000) and inventories with book value of approximately HK$18,139,000 (FY2017: HK$8,598,000).

## Capital commitments and contingent liabilities

Save as disclosed in note 32, the Group did not have any material capital commitment as at 31 March 2018.

As at 31 March 2018, the Group did not have any contingent liabilities.

## Foreign currency risks

The Group's exposure to currency risks is mainly attributable to the trade and other receivables, bank balances, trade and other payables and bank borrowings, which are denominated in currencies other than the functional currency of respective Group entities. Except for the business of Home Group, most of the Group's sales in overseas markets are settled in USD. As such, during the Review Period, the depreciation of USD against RMB adversely resulted in exchange loss on trade receivables mainly from export business. In addition, the Group's sales in Mainland and Hong Kong markets are settled in RMB and HKD respectively. Except for the business of Home Group, the Group's costs are mainly settled in USD, RMB and HKD. As such, the appreciation of RMB against USD resulted in rising cost of export business mainly denominated in USD. The revenue of Home Group's current business in Europe was settled mainly in Euro, while the cost was settled mainly in Euro, UAH and PLN.

## Significant investments and acquisitions

### *Acquisition of Jiangsu Yulong Intelligent Technology Co., Limited (江蘇鈺龍智能科技有限公司) ("Jiangsu Yulong")*

On 27 December 2017, the equity transfer agreement in relation to the acquisition of a controlling stake in Jiangsu Yulong ("Jiangsu Yulong Agreement") was signed. The Group acquired 80% equity interest in Jiangsu Yulong at RMB240 million (equivalent to approximately HK$300 million) after completion the Jiangsu Yulong Agreement. Jiangsu Yulong is principally engaged in the production and sales of metal frames for furniture business.

The accounts of Jiangsu Yulong have been consolidated into the consolidated financial statements of the Group since January 2018.

### *Development of a Piece of Land in Wu Jiang*

Reference is made to the announcement of the Company dated 26 October 2011 relating to the acquisition of land in Wujiang. According to the said announcement, the Group has acquired a piece of land in Wujiang, PRC through an indirect wholly-owned subsidiary of the Company, for RMB217,246,470.

The original development plan of the land included developing a commercial complex, including furniture shopping mall, office building, apartments and residential premises. The commercial complex is developed mainly for sale.

After careful study on the local market, the development plan of the land was adjusted as follows:

– for constructing a Cheers First-class Cabin furniture products flagship store;

– for developing a high end hotel and an international recognized hotel management company will be invited to manage the hotel;

– for developing residential premises, mainly for sale; and

– for the Group's own operation.

As at 31 March 2018, the Group has completed most of the construction works. Based on current plan, the hotel is expected to commence operation in 2018. The residential premises were also ready for pre-sale in second half of 2017 and delivery to buyers in the second half of 2018 and 2019. The construction of flagshop store was also completed. The above timetable is subject to change due to uncertainties in relation to market conditions and government approval etc.

As of 31 March 2018, the Group has invested a total of approximately HK$767,621,000 in the development of the land (including acquisition of the land).

Except for the above, the Group did not have any other significant investments or acquisitions or sales of subsidiaries or associates or joint ventures during the Review Period.

## Human Resources

As at 31 March 2018, the Group had 15,985 employees (31 March 2017: 12,976 employees), whereas Home Group had 2,606 employees (31 March 2017: 2,481 employees).

The Group firmly believes that staff is the most important resource, and provides its staff with sound working and living conditions at the main manufacturing bases, and has developed a comprehensive staff training and development, performance evaluation and incentive system. Meanwhile, the Group also devoted to enhancing the production and operating efficiency. With increasing the standardization and automation level of the production process and improving the operation management process, the Group also increased the number of employees while maintaining the steady revenue growth momentum during the Review Period.

During FY2018, the total staff cost for the Group amounted to approximately HK$1,414,217,000 (FY2017: approximately HK$1,076,385,000), of which approximately HK$16,305,000 (FY2017: approximately HK$16,937,000) was Directors' emoluments. The Group endeavours to keep the remuneration packages of its employees competitive and reward employees based on their performance. As part of the Group remuneration system and policy, we have adopted a share option scheme and a share award scheme, both of which enable the Group to reward employees and incentivise them to perform better.

## INTRODUCTION

Man Wah Holdings Limited ("Man Wah" or the "Company") has been persistent in the pursuit of its corporate value of "fulfilling social responsibility, to achieve sustainable development," and strived to promote the environment in the community and green recycling economic development, while adhering to the irrevocable duty and responsibility of "bringing healthy, comfortable, valuable and stylish home to thousands of families".

This report summarizes the actions and achievements of the Company and its subsidiaries (collectively the "Group") in actively fulfilling its social responsibilities within the four key areas of environmental protection, operating practices, workplace quality and public welfare activities for the year ended 31 March 2018 ("FY 2018", the "Review Period" or the "Current FY"), thereby reflecting the progress achieved by the Group during the Current FY.

## 1. ENVIRONMENTAL PROTECTION

The Group strived to enhance operational efficiency. Meanwhile, it took lots of measures to reduce the impact on the environment. The processes of its product design, factory design and supplier selection were always in accordance with the highest standards of environmental protection, so as to reach a high degree of integration in the efficiency improvement, resource conservation, environmental protection and healthy products. The Group has strictly complied with the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), the Law of the PRC on Prevention and Control of Pollution From Environmental Noise (《中華人民共和國環境噪聲污染防治法》), and other relevant environmental protection laws and regulations.

### 1.1 Energy Saving and Emission Reduction

In the furniture production process, the Group increased the utilization rate of resources by improving the production procedure continuously and using more environmentally friendly materials and equipments, so as to reduce costs while minimizing the impact on the environment. As it would generate a certain amount of waste water, gas emissions and solid wastes in the furniture production process, the Group has adopted a series of effective measures. In respect of the uncontrolled exhaust gas, waste water and noise arising from operation, the Group has complied with all the national standards such as the Integrated Emission Standard of Air Pollutants (大汽污染綜合排放標準), the Integrated Wastewater Discharge Standard (污水綜合排放標準) and the Emission Standard for Industrial Enterprises Noise at Boundary (工廠企業廠界環境噪聲排放標準) and did not exert material impacts on the environment.

In terms of waste water treatment, the Group has self-constructed domestic sewage treatment systems in the main factories in China. From February 2018, all the wastewater discharged by the Group has been processed by a localized public wastewater treatment plant, of wastewater was processed throughout the Current FY. Around 200,000 tons (2017: 260,000 tons) of domestic sewage has been treated during the Review Period, down by approximately 23.1% as compared to last year. All treated up to standard domestic sewage has been recycled and reused, saving approximately 64,922 tons of water (Last Corresponding Period: approximately 75,449 tons).

In order to ensure air quality in the workplace, the Group established the full-circumference exhaust gas collection device in all sponge factories, where plasma photolysis and activated carbon adsorption processes were used to treat the exhaust gas. (Please refer to the pictures below)

Sponge Foam Exhaust Treatment Unit 1

Sponge Foam Exhaust Gas Treatment Unit 2

No substantial direct emission of greenhouse gas is generated from the Group's business activities. Greenhouse gases emissions associated with electricity purchase was approximately 34,069 tonnes ($CO_2$ equivalent emissions) (2017: 33,206 tonnes) during the Current FY. Indirect emissions other than electricity were minimal.

| Greenhouse gases emission | 2018 | 2017 |
|---|---|---|
| Total Greenhouse gases emission (tonnes) | **28,550** | 24,694 |
| Total Greenhouse gases emission per employee (tonnes per employee) | **1.79** | 1.90 |
| Direct emissions (tonnes) | **–** | – |
| Indirect emissions (tonnes) | **28,550** | 24,694 |
| Quantity of purchased Electricity ('000 KWh) | **39,110** | 33,828 |
| Emission factor (kg/kWh) | **0.73** | 0.73 |

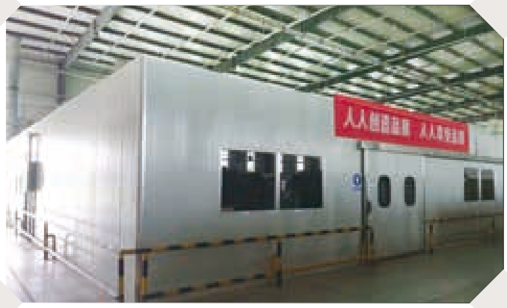
The Group does not generate much waste paper and household garbage during its operation, all of which will be collected and disposed by cleaning personnel and afterwards, will be processed by the Local Sanitation Bureau. Such arrangement will not cause material impact on the environment. The solid wastes such as leftover woods, fabrics and leather, etc. will be recycled and reused by the Group in order to save material consumption costs and enhance the resources efficiency. The quantity of non-hazardous waste of the Group representing leftover woods fabrics and leather for the Reporting Period is approximately 32,133 tonnes (2017: 22,955 tonnes) and the said waste did not exert any significant impact on the environment.

In the carpentry workshop, the Group used new dust removal equipment in all manufacturing base in China, in order to lower the dust concentration effectively, reduce exhaust emission, and protect the health of the practitioners. Moreover, waste water of the panel-type furniture factory can be reused on the production line after treatment, so as to save water resources. By establishing the enclosed type spraying device, harmful gases will not leak, thus ensuring the safe working environment of employees. (Please refer to the pictures below)

Dust Treatment Unit in Carpentry Workshop

Dust Collection Unit in Carpentry Workshop 2

Smith EB-4000C Boiler



Sealed Spraying Device

## 1.2 Resources Consumption

The Group acknowledged the importance of operation-wide consumption of energy. Therefore, the Group has set up an energy measurement and management system with detailed specifications to reduce the consumption of resources. Furthermore, a dedicated energy management organization, the Energy Management Team, was set up in 2012. Under this team's leadership, strict management and precise measurement have been implemented in the energy consumed in production and non-production systems in respect of energy imports and exports and incentive and constraint mechanisms for energy-saving have been established and improved. The energy conservation team has set up an energy-saving incentive fund to reward teams and individuals who have achieved excellent results in energy management, energy-saving innovations, and exploiting potential in energy-saving work.

During FY2018, total electricity consumption of the Group's sofa production bases in China was approximately 43,400,000 kWh, an increase of approximately 2.6% as compared to the Last Corresponding Period. Total water consumption was about 808,300 tons, increased by approximately 13.1% as compared to the Last Corresponding Period about 714,400 tons. The reason for the increase in electricity consumption lies in the expanding scale of production on one hand, and on the other hand, the increase in the percentage of self-produced parts and automation equipments. During the Current FY, the major energy consumption of the Group is as follows.

| **Energy Consumption** | Unit | **Total Consumption in 2018** | Total Consumption in 2017 |
|---|---|---|---|
| Total electricity consumption (excluding the solar power panels) | '000 KWh | **39,110** | 33,828 |
| Electricity consumption per capita | '000 Kwh/ per person | **2.72** | 3.26 |
| Consumption of non-renewable fuels | L | **313,732** | 291,132 |
| Consumption per capita | L/per person | **19.63** | 22.44 |
| Total water consumption | $m^3$ | **808,300** | 714,400 |
| Water consumption per capita | $m^3$/per person | **50.57** | 55.06 |

The Group mainly uses paper boxes, plastic bags and sponge scraps as packaging materials for its products. The amount of various types of packaging materials used in Current FY was approximately 19,741 tons (2017: 17,286 tons) in total and approximately 18 kg (2017: 18 kg) packaging materials were used per set of sofa. The Group used the packaging materials reasonably and effectively to minimize its impact on the environment.

### 1.3 Environment and Natural Resources

The Rooftop Solar Photovoltaic System

The Group has been committed to the protection of natural resources and reduction of resource wastage across its operation, which has become integral to its corporate culture.

In the factories in China, a solar photovoltaic system at the rooftops was used. During the Review Period, the three production bases of the Group generated power capacity of approximately 18,260,000 kWh from photovoltaic systems, representing approximately 42.1% of the total electricity consumption of sofa production bases as compared to the Last Corresponding Period of 41.0%.

In addition, the Group proactively implemented the paperless office policy, thereby minimizing the adverse impacts of its operation on the environment.

## 2. OPERATING PRACTICES

The Group's sofa brand "Cheers First-class Cabin" was awarded the accolades of "Consumers' Favorite Brand of Furniture" and "Green Furniture Products," and its products continued to gain consumer recognition. Providing the best-quality home products and services to billions of consumers around the world is the Group's commitment to consumers, and also the foundation for its constant and robust growth. The Group's employees must abide the anti-corruption policy strictly so as to maintain the Group's reputation.

### 2.1 Product Liability

*A. Raw material management and control:*

In order to provide healthy and comfortable products to customers and ensure the product quality, the Group always uses high quality materials from the product design stage and sets up an comprehensive supplier evaluation system. Only suppliers, whose scale, industry position, quality control and reputation that can satisfy the Group's required standard can enter into supply chain system of the Group. For selection of raw materials, the Group makes sure the quality and environmental indicators could meet relevant national regulations and industry standards and standards in clients countries, and it adheres to strict and reasonable raw material specification table, defining the nature, quality policy and safety indicators of raw materials, and providing quantitative and definite standards for procurement and inspection of raw materials. The Group has introduced a variety of special testing equipments, for example: the heavy metal content tester is used to check if the heavy metal content in raw materials such as fabrics, paint and plywood complies with national standards; Martindale abrasion tester is used to test the abrasion resistance of leather and ensure the quality of raw materials; vertical low-temperature flexing tester is used to test the smoothness and durability of fabrics at a low temperature environment.

*B. Product quality monitoring:*

To ensure the Group provides the highest quality products to customers, it has developed a set of strict quality management procedures, covering the whole process from supplier selection, materials testing, process control, pre-delivery tests, third-party inspection and certification, after-sales service and product quality tracking, and has recorded and tracked the whole process by the IT system. Based on the strict standards of the world's respected third-party testing organizations, the Group has established testing systems for raw materials, flame retardant, electronic hardware, metal frame, foam, leather, fabric, cloth, semi-finished and finished products. The Group has attained ISO9001 quality management system, ISO14001 environmental management system and China Environmental Labeling Product Certifications. In addition to meeting inspection standard of customers, the Group regularly sends its products to third-party authoritative organization for testing.

During the FY2018, there was no material breach or non-compliance with the applicable laws and regulations that have a significant impact on the Group with regards to product responsibility.

## 2.2 Supply Chain Management

When selecting suppliers, the Group conducts an on-site assessment of its industry position, production capacity, technical capability, quality control systems, production environment, testing capability and personnel quality, requiring relevant qualifications and certifications. Only those who pass the assessment can qualify as its suppliers. In addition, suppliers are managed by hierarchies based on their average monthly purchase volume, and suppliers are paid as scheduled to enable suppliers can grow together with the Group, in return to provide high quality raw materials.

The Group has constantly improved accuracy of sales and production forecast, which further reduced safe stock and thus improved inventory turnover.

## 2.3 Anti-corruption

The Group has been committed to establishing and consistently improving its internal control system in order to prevent corruption and fraud.

The Company's audit committee and management do not tolerate any corruption and fraud. The integrity, impartiality, transparency and responsibility are reflected in the policies and operational procedures of the Group.

In addition, the Group conveys its firm stance against corruption and fraud to its employees, and also includes applicable provisions in the contracts with third party suppliers to explain to them its requirements. The Group's internal audit department conducts an independent audit to make the integral mechanism more effective and complete. Seminars are held regularly within the Group to communicate professional knowledge, skills and experience.

To summarize, the Group's firm stance against corruption and fraud is an integral part of its corporate governance, and ensures the assets and interests of shareholders are fully protected.

The Group has strengthened the supervision of anti-corruption, while ensuring daily supervision channels. In addition, the Group has set up a corruption reporting platform to encourage real-name reporting of corruption and theft of corporate property during the production and operation. By public WeChat ID, telephone and office automation system, this platform has realized efficient and effective communication between the suppliers, consumers, grass-roots staff and management personnel, with the reward system established for informers.

Through continuous improvement of internal operation efficiency and constant promotion of the internal control system, the Group sets up related policies and procedures for the majority of business activities, and implements regular inspection on compliance with policies and procedures. The Group also reviews the business monthly to find out abnormality in the business in time.

During the FY2018, there was no material breach or non-compliance with the applicable laws and regulations that have a significant impact on the Group relating to anti-corruption.

# 3. WORKING ENVIRONMENT

The Group always regards talents as the most valuable resource, providing staff with a comfortable and efficient working environment, developing labor standards in strict accordance with the national Labor Law, focusing on employee health and safety measures, offering training and development opportunities as well as broad career promotion channel for employees. The Group also advocates the work-life balance of employees.

The Group has set up a series of policies and procedures on human resources management, including but not limiting to: recruitment and promotion, compensation and dismissal, working hours, rest periods, equal opportunity, diversity, anti-discrimination, benefits and welfare, preventing child and forced labour etc.

It has set up detailed employee selection procedures to make sure only qualified employees can be recruited to the Group. Based on requirement of different positions, the Group has developed training manuals and programs for employees. In order to better motivate employees, provide equal opportunities to them and evaluate them to make sure their behaviors are in line with the Group's goal, the Group has set up a comprehensive performance evaluation system. Benefited from strong information system and management accounting system, the Group tries to evaluate performance of different level employees and management by actual numeric key performance indicators ("KPI"), and reduce proportion of subjective judgment in people evaluation. At the same time, the Group has set up a series of incentive bonus programs based on above KPI. The grant of share options is also based on annual KPI of managers.

The Group cooperates with many big furniture retailers. These clients conducted regular social responsibility audit to factories of the Group, including detailed checking on working and living environment of workers, preventing child and forced labour etc. The Group maintained a good record during these factory audits. This is also part of the reasons that the Group can keep long term cooperation with these furniture retailers.

## 3.1 Health & Safety

During the Review Period, the Group had adhered to implement the following measures to protect employees' occupational health and safety:

1. conducting three-level safety training for new employees and on-the-job safety training;

2. establishing voluntary fire brigade, purchasing professional fire and emergency rescue equipment; regularly holding fire evacuation drills to improve the safety awareness of total employees;

3. regularly arranging health check of employees at the positions with occupational hazards, supervising employees to wear labor protection products;

4. while procuring the equipment, the safety of the equipment is always the first evaluation index – devices are used to prevent occupational injuries during production, such as the use of infrared detector and nail gun protector on punching machines, etc;

5. strengthening the on-site identification and rectification of hidden production safety accident, and implementing the main responsibility of enterprise to protect the health and safety of employees;

6. establishing a centralized system of supplier assessment, procurement and inspection for food materials of staff canteens; and

7. installing central air-conditioning systems at main production areas.

During the FY2018, the number of lost working days due to work-related injuries increased by approximately 22.7% as compared with FY2017.

During the Review Period, there was no material breach or non-compliance with the applicable laws and regulations that have a significant impact on the Group relating to health and safety.

## 3.2 Staff Training

The Company attaches great importance to the development and cultivation of talents. In addition to the organization of regular on the job training and management training, the Company also continues to develop talent cultivation programs in cooperation with well-known institutions, and has internally set up specialist training courses, academic education classes and professional managers training courses. During the Review Period, the Group spent training expenses approximately HK$13.75 million (Last Corresponding Period: approximately HK$6.14 million), details of which are as follows:

*(1) For junior staff:*

* offer training classes for production leaders, which have cultivated nearly 341 (360 in the Last Corresponding Period) outstanding team leaders during the Review Period, and have trained accumulatively more than 1,651 outstanding team leaders within the past five years;

* offer junior college academic classes, which have helped 62 employees (84 employees in the Last Corresponding Period) to enroll in junior college or undergraduate college academic courses of Huizhou College and obtain the college diploma during the Review Period.

*(2) For store sales:*

offer classes to junior business representatives and regional training classes, which have cultivated 1,727 outstanding business representatives (1,698 in the Last Corresponding Period) during the Reporting Period.

*(3) For franchisees and certain middle-level executives:*

* offer franchisees training classes to improve the management and operating capabilities of franchisees, which have trained 4,118 franchisees and store managers during the Review Period (2,780 franchisees and store managers in the Last Corresponding Period);

* offer an EDP class and a mini MBA class in cooperation with the Research Institute of Tsinghua University. A total of 64 employees (61 employees in the Last Corresponding Period) graduated and obtained certificates from the trainings in cooperation with Research Institute of Tsinghua University during the Review Period.

*(4) Middle-level talent pool plan:*

Golden Seed talent pool plan: Since 2011, the Company has recruited outstanding graduates every year from well-known universities through campus recruiting. As of the end of the Review Period, we have offered ten cadres reserve classes, in which five classes have been offered during the Review Period. Each outstanding college graduate, undergraduate student and junior college student has been provided with a mentor, a tailored career development plan and targeted rotation training.

*(5) Cadre Trainee Program:*

In order to reserve talents in expanding the overseas market, during the Review Period, the Company has launched cadre trainee program, by recruiting outstanding students from overseas, and has developed a systematic training program to learn about the production process and product knowledge on the spot, and to participate in marketing activities. During the Review Period, the Company has started one training class.

*(6) For certain executives:*

1. EMBA education: cooperate with domestic and foreign well-known business colleges and select executives to join EMBA courses and general manager training courses;

2. Observation and study abroad: During the Review Period, the Company has sent 16 executives (24 executives in the Last Corresponding Period) abroad to observe and study overseas furniture markets, and learn advanced management experiences;

*(7) Education for the children of employees:*

In order to reward those employees' children who are admitted to universities, the "Golden Houses Exist in Books – Man Wah Holdings All Staff Education Grants Program" established by and with personal contributions from Dr. Wong Man Li, the Chairman of the Board and president of the Company, has currently awarded student grants (a total of approximately RMB3,527,000) to eight groups of applicants (234 employees in total) since its founding in May 2010. Among these grants, a total of approximately RMB583,000 has been granted to 43 employees since May 2010.

## 3.3 Staff Development and Motivation

In recent years, the Company has provided management and professional channels for staff career development, initially established qualification standards and excellent staff study points system to provide a standard basis for staff promotion and career development. The Company carried out organizational and talent inventory, and adopted comprehensive assessment of performance and capability to retain reserve talents for key positions of the Company.

The Company has conducted the classified management for talents, provided the appropriate promotion, salary adjustment, job transfer, training and other development plans according to the talent situation, carried out internal personnel selection according to the business development, and has built a broader platform for staff development.

Benefiting from the strong information system and management accounting system, the Company has developed a monthly comprehensive quantitative performance appraisal system for staff at the manager-level and above, determining their rewards completely based on objective data basis. In addition to cash bonus, the Company has developed the share option incentive scheme covering all officers at the manager level and above. During the Review Period, the Company had granted 5,926,000 share options to 527 officers at the manager level and above (Last Corresponding Period: the Company granted 8,863,600 share options to 459 officers at the manager level and above).


Labour Day Evening Party

## 3.4 Work-Life Balance

The Group has been committed to providing employees with ideal working conditions and fully relaxing rest environment. In the staff living area of major factories, the Company has established Staff Club to offer a variety of sports equipment, cinema, library and other facilities, and regularly held various activities for staff, such as various competitions, training classes and staff evening parties, etc.

During the Review Period, there was no material breach or non-compliance with the applicable laws and regulations that have a significant impact on the Group relating to human resources management, including preventing child and forced labour.

# 4. PUBLIC WELFARE

The Group has been actively involved in various social welfare activities in different ways to give back to society, such as donations to the Community Chest, the Hong Kong Celebration Association etc. In addition to donations from time to time, the Group also organized various volunteering activities for its employees, customers and even suppliers, incorporating social services into the team-building activities. The Group was able to give back to society and at the same time improved the quality and the sense of belonging of its staff to the Company.

During the Review Period, the Group donated a total of approximately HK$21,331,000 towards public welfare (Last Corresponding Period: approximately HK$17,560,000).

## CORPORATE GOVERNANCE PRACTICES

Man Wah Holdings Limited (the “Company”) has a policy of seeking to comply with established best practice in corporate governance. The board (the “Board”) of directors (the “Directors”) of the Company believes that good corporate governance is crucial to improving the efficiency and performance of the Company and its subsidiaries (the “Group”) and to safeguarding the interests of its shareholders (the “Shareholders”). Set out below are the principles of corporate governance as adopted by the Company during the Review Period.

## CORPORATE GOVERNANCE CODE

The Board acknowledges the importance of the highest standards of corporate governance as the Board believes that effective corporate governance practices are fundamental to enhancing shareholders’ value and safeguarding the interest of shareholders. Accordingly, the Company has adopted sound corporate governance principles that emphasize effective internal control and accountability to all shareholders.

The Company has applied the principles of and complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 (the “CG Code”) to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) during the Review Period, save for the deviation from code provision A.2.1 which is explained below. The Company periodically reviews its corporate governance practices to ensure that they continue to meet the requirements of the CG Code.

Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive officer”. Mr. Wong Man Li, who acts as the Chairman and Managing Director of the Company, is also responsible for overseeing the general operations of the Group. The Board meets regularly to consider major matters concerning the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to a strong and consistent leadership enabling the Group to operate efficiently.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors’ securities transactions. The Company has made specific enquiry of all Directors and the relevant employees regarding any non-compliance with the Model Code during the Review Period, and they all confirmed that they had fully complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions. Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are prohibited from dealing in shares of the Company during the black-out period.

## CORPORATE GOVERNANCE FUNCTIONS

It is the responsibility of the Board to determine the appropriate corporate governance practices applicable to the Company's circumstances and to ensure processes and procedures are in place to achieve the Company's corporate governance objectives.

The duties of the Board in performing its corporate governance functions under the CG Code include:

1. developing and reviewing the Company's policies and practices on corporate governance;

2. reviewing and monitoring the training and continuous professional development of Directors and senior management of the Company;

3. reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

4. developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors of the Company; and

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

During the Review Period, the Board in particular considered the following corporate governance issues:

(i) to review the Terms of Reference and Proceedings of the Board;

(ii) to review the Terms of References of the Audit Committee and Remuneration Committee;

(iii) to review the Terms of Reference of the Nomination Committee;

(iv) to review the Shareholders' Communication Policy and Procedures for Shareholders to propose a person for election as a Director;

(v) to review the Policy for the employees to raise concerns about possible improprieties; and

(vi) to review the effectiveness of the internal controls and risk management systems of the Company through the Audit Committee.

# SHAREHOLDERS' MEETINGS

The annual general meeting and other general meetings of the Company are the primary forum for communication by the Company with the Shareholders and for Shareholders' participation. All Shareholders are encouraged to attend the general meetings or to appoint proxies to attend and vote at meetings on their behalf if they are unable to attend the meetings.

During the Review Period, apart from the annual general meeting held on 12 July 2017, the Company has not held any other general meeting.

## Attendance records

During the Review Period, the annual general meeting was held and the attendance records are as follows:

| **Board** | **Meetings attended/ Eligible to attend Annual General Meeting** |
|---|---|
| *Executive Directors* | |
| Mr. Wong Man Li *(Chairman)* | 1/1 |
| Ms. Hui Wai Hing | 1/1 |
| Mr. Wang Guisheng (resigned on 31 March 2018) | 1/1 |
| Mr. Alan Marnie | 1/1 |
| Mr. Dai Quanfa | 1/1 |
| Ms. Wong Ying Ying | 1/1 |
| Mr. Tsang Hoi Lam (appointed on 31 March 2018) | 0/0 |
| *Independent Non-executive Directors* | |
| Mr. Chau Shing Yim, David | 1/1 |
| Mr. Ong Chor Wei | 1/1 |
| Mr. Kan Chung Nin, Tony | 1/1 |
| Mr. Ding Yuan | 1/1 |

## DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

The Company has provided funding to encourage the Directors to participate in professional development courses and seminars to develop and refresh their knowledge and skills. During the Review Period, regulatory updates and relevant materials on amendment of Listing Rules were sent to the Directors for their awareness of the latest development on statutory requirements.

The training each Director received during the Review Period is summarized as below:

| Name of Director | Reading materials regarding regulatory update and corporate governance matters | Attending seminars/in-house workshops relevant to the Company's business, Listing Rules compliance and risk management |
|---|---|---|
| *Executive Directors* | | |
| Mr. Wong Man Li | √ | √ |
| Ms. Hui Wai Hing | √ | √ |
| Mr. Wang Guisheng (resigned on 31 March 2018) | √ | √ |
| Mr. Alan Marnie | √ | √ |
| Mr. Dai Quanfa | √ | √ |
| Ms. Wong Ying Ying | √ | √ |
| Mr. Tsang Hoi Lam (appointed on 31 March 2018) | √ | √ |
| *Independent non-executive Directors* | | |
| Mr. Ong Chor Wei | √ | √ |
| Mr. Chau Shing Yim, David | √ | √ |
| Mr. Kan Chung Nin, Tony | √ | √ |
| Mr. Ding Yuan | √ | √ |

# BOARD OF DIRECTORS

As at 31 March 2018, the Board comprised six executive Directors and four independent non-executive Directors (the "INEDs"). The list of Directors is set out in the section headed "Directors' Report" of this annual report.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

Save for the Directors' business relationships as a result of their respective directorships in the Company, the spousal relationship between the executive Directors Mr. Wong Man Li and Ms. Hui Wai Hing, and the family relationship between Mr. Wong Man Li, Ms. Hui Wai Hing and Ms. Wong Ying Ying, as disclosed in each of their respective biographies in the section headed "Directors' Biographies" of this annual report, there are no financial, business, family or other material or relevant relationships among members of the Board and they are independent from each other.

The Board met regularly during the Review Period on an ad-hoc basis as required by business needs. The Board's primary purpose is to set and review the overall strategic development of the Group and to oversee the achievement of the plans to enhance Shareholders' value. Daily operational decisions are delegated to the executive Directors.

## Role and function

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the executive committee of the Board (the "Executive Committee") and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to each of the Company's audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee"). Further details of these committees are set out in the sections headed "Audit Committee", "Remuneration Committee" and "Nomination Committee" below.

## Board meetings

The Board has four scheduled meetings a year. Additional meetings would be arranged if and when required. The Directors can attend meetings in person or through other means of electronic communication in accordance with the bye-laws of the Company (the "Bye-laws").

The company secretary of the Company (the "Company Secretary") assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days' notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at a reasonable time before the intended date of a Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.

The Company Secretary is responsible for taking minutes of Board and Board committee meetings, drafts and final versions of which would be sent to Directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of the Board and Board committees' meetings are kept by the Company Secretary and are open for inspection by any Director or committee member.

If a substantial shareholder of the Company or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of resolution.

## Attendance records

During the Review Period, a total of five Board meetings were held and the attendance records are as follows:

| **Board** | **Meetings attended/ Eligible to attend** |
|---|---|
| *Executive Directors* | |
| Mr. Wong Man Li *(Chairman)* | 5/5 |
| Ms. Hui Wai Hing | 4/5 |
| Mr. Wang Guisheng (resigned on 31 March 2018) | 5/5 |
| Mr. Alan Marnie | 4/5 |
| Mr. Dai Quanfa | 4/5 |
| Ms. Wong Ying Ying | 4/5 |
| Mr. Tsang Hoi Lam (appointed on 31 March 2018) | 0/0 |
| *Independent Non-executive Directors* | |
| Mr. Chau Shing Yim, David | 5/5 |
| Mr. Ong Chor Wei | 5/5 |
| Mr. Kan Chung Nin, Tony | 5/5 |
| Mr. Ding Yuan | 5/5 |

## Access to information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

## Appointments and re-election of Directors

Directors were nominated by members of the Board during the year to fill casual vacancies or as an addition to existing Board. The Nomination Committee, in consultation with the Board, determines the selection criteria and identifies candidates with the appropriate expertise and experience for the appointments of new Directors. The Nomination Committee then nominates the most suitable candidate to be appointed to the Board.

According to the Bye-laws, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director (including the NED and INEDs) is appointed for a specific term and is subject to retirement by rotation at least once every three years.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

## Chairman and Managing Director

Mr. Wong Man Li serves as the Chairman and Managing Director of the Company. He is responsible for the day – to-day overall management of the Company and mapping its growth strategy. With the support of the executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

## Executive Director and Chief Financial Officer

As announced by the Company on 13 March 2018, Mr. Wang Guisheng ("Mr. Wang") resigned as an executive Director and the Chief Financial Officer with effect from 31 March 2018, for the purpose of pursuing other career development opportunities. Mr. Tsang Hoi Lam was appointed as an executive Director and the Chief Financial Officer to fill the casual vacancy following the resignation of Mr. Wang. Mr. Wang had confirmed that there was no disagreement with the Board and there were no other matters relating to his resignation that need to be brought to the attention of the shareholders of the Company and the Stock Exchange.

## Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed four independent non-executive Directors for a term of three years. Two of the INEDs, Mr Chau Shing Yim, David and Mr. Ong Chor Wei, have appropriate professional qualifications or accounting or related financial management expertise. Every Director is subject to retirement by rotation at least once every three years in accordance with the Bye-laws.

The INEDs are considered by the Board to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgments. The Board considered that each of the INEDs brings his own relevant expertise to the Board and its deliberations. None of the INEDs has any business or financial interests with the Group nor has any relationship with other Directors.

## Directors' and Auditors' Responsibilities for Accounts

The Directors' responsibilities for the accounts and the responsibilities of the external auditor to the Shareholders are set out on page 60 of this annual report.

## Board Committees

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

## Audit Committee

The Audit Committee has been established with specific written terms of reference which deal clearly with its authorities and duties. As at 31 March 2018, the Audit Committee consisted of three INEDs, namely, Mr. Chau Shing Yim, David, Mr. Ong Chor Wei and Mr. Ding Yuan. None of the members of the Audit Committee are former partners of the auditor of the Company within the past financial year. The principal duties of the Audit Committee include, among other things:

- to review the audit plans of the Group's external auditors;
- to review external auditors' reports;
- to review the cooperation given by the Group's officers to the external auditors;
- to review the Group's financial statements before their submission to the Board;
- to review, approve and monitor internal control procedures and risk management systems;
- to review the effectiveness of our internal audit function;
- to review and approve the terms and conditions for all interested person transactions;
- to nominate external auditors for appointment;
- to review and ratify interested person transactions to ensure that they comply with the approved internal control procedures and have been conducted on an arm's length basis; and
- to review the Group's financial and accounting policies and practices.

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.

During the Review Period, the Board had no disagreement with the Audit Committee's view on the re – appointment of the external auditor. The financial statements for the Review Period have been reviewed by the Audit Committee.

During the Review Period, two meetings of the Audit Committee were held and the Audit committee's primary responsibilities included, overseeing the relationship with the Company's external auditor, reviewing financial information of the Group, and overseeing of the Group's financial reporting system, internal control procedures and risk management system, and the effectiveness of the Group's internal audit function. The Company has adopted a term of reference of the Audit Committee, which complies with the provisions of the CG Code. The terms of reference of the Audit Committee are available on the Company's website. The members of the Audit Committee during the Review Period and their attendance were as follows:

| **Audit Committee** | **Meetings attended/ Eligible to attend** |
|---|---|
| Mr. Chau Shing Yim, David *(Chairman)* | 2/2 |
| Mr. Ong Chor Wei | 2/2 |
| Mr. Ding Yuan | 2/2 |

## Nomination Committee

The Nomination Committee has been established with specific written terms of reference which deal clearly with its authorities and duties. As at 31 March 2018, the Nomination Committee consisted of three INEDs, namely, Mr. Chau Shing Yim, David, Mr. Kan Chung Nin, Tony and Mr. Ding Yuan, and two executive Directors of the Company, namely, Mr. Wong Man Li and Mr. Tsang Hoi Lam. The principal duties of the Nomination Committee include, among other things:

- to nominate the Directors having regard to the Directors' contribution and performance;
- to determine on an annual basis whether or not a Director is independent;
- to review the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy;
- to decide whether or not a Director is able to and has been adequately carrying out his duties as a Director; and
- to review and assess the adequacy of the corporate governance guidelines of the Company and to recommend any proposed changes to the Board for approval.

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

During the Review Period, one meeting of the Nomination Committee was held and the Nomination Committee reviewed the structure of the Board and determined the policy for the nomination of Directors.

The members of the Nomination Committee during the Review Period and their attendance were as follows:

| **Nomination Committee** | **Meetings attended/ Eligible to attend** |
|---|---|
| Mr. Wong Man Li *(Chairman)* | 1/1 |
| Mr. Chau Shing Yim, David | 1/1 |
| Mr. Wang Guisheng (resigned on 31 March 2018) | 1/1 |
| Mr. Kan Chung Nin, Tony | 1/1 |
| Mr. Ding Yuan | 1/1 |
| Mr. Tsang Hoi Lam (appointed on 31 March 2018) | 0/0 |

## Remuneration Committee

The Remuneration Committee has been established with specific written terms of reference which deal clearly with its authorities and duties. As at 31 March 2018, the Remuneration Committee consisted of three INEDs, namely, Mr. Ding Yuan, Mr. Chau Shing Yim, David and Mr. Kan Chung Nin, Tony, and two executive Directors of the Company, namely, Mr. Wong Man Li and Mr. Tsang Hoi Lam. The principal duties of the Remuneration Committee include, among other things:

- to review the remuneration of the executive Directors and to provide a greater degree of objectivity and transparency in the setting of remuneration; and
- to assess performance of the executive Directors and determine specific remuneration packages for each executive Director and the Group's Managing Director.

The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other executive Directors. The Remuneration Committee takes into consideration industry practices and norms in compensation, in addition to the performance relative to the industry and the performance of the individual Directors. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

During the Review Period, one meeting of the Remuneration Committee was held. The work done by the Remuneration Committee during the Review Period included the following:

(i) determining the policy for the remuneration of executive Directors;
(ii) assessing performance of executive Directors; and
(iii) approving the terms of an executive Director's service contract.

In order to attract, retain, and motivate executives and key employees serving the Group, the Company has adopted a share option scheme and a share award scheme in April 2010 and January 2011, respectively. Both incentive schemes enable the eligible persons to obtain an ownership interest in the Company and thus to reward the participants who contribute to the success of the Group's operations.

Details of the remuneration of the Directors of the Company for the Review Period are set out in note 11 to the consolidated financial statements and details of the share option scheme and share award scheme are set out in note 28 to the consolidated financial statements.

The members of the Remuneration Committee during the Review Period and their attendance were as follows:

| **Remuneration Committee** | **Meetings attended/ Eligible to attend** |
|---|---|
| Mr. Ding Yuan *(Chairman)* | 1/1 |
| Mr. Wong Man Li | 1/1 |
| Mr. Chau Shing Yim, David | 1/1 |
| Mr. Wang Guisheng (resigned on 31 March 2018) | 1/1 |
| Mr. Kan Chung Nin, Tony | 1/1 |
| Mr. Tsang Hoi Lam (appointed on 31 March 2018) | 0/0 |

# COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company recognises the importance of open communication and fair disclosure. It is the Company's policy to ensure that all shareholders are equally informed of all major corporate developments.

All shareholders have proper notice of any general meeting of the Company at which the Directors and the committees' members are available to give explanation on any query raised by the shareholders. Major information of the Company could be obtained from the Company's website or financial reports and circulars sent to the shareholders. Any enquiries by the shareholders requiring the Board's attention can also be sent in writing to the Investor Relations Manager of the Company whose contact details are set out in the paragraph headed "Shareholders' rights – (c) Right to put enquiries to the Board" below.

Resolutions put to the vote at the general meetings of the Company shall be decided on a poll, save that the chairman of the meeting may in good faith allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Procedures for conducting a poll will be explained to the shareholders at each general meeting and questions from shareholders regarding the voting procedures will be answered. The poll results will be posted on the websites of the Stock Exchange and the Company respectively in the manner prescribed under the Listing Rules.

As part of a regular program of investor relations, senior executives may hold briefings or road shows after the results announcement and attend conferences with institutional investors and analysts to engage in two-way communications on Company's performance, objectives and developments. Company visits can be arranged upon specific request.

## Shareholders' rights

### *(a) Right to convene special general meeting*

Bye-laws

(i) Bye-law 62 sets out the position under the Bye-laws where a requisition is made by shareholders of the Company (the "Shareholders" and each a "Shareholder"). Bye-law 62 provides that a special general meeting ("SGM") shall be convened on requisition, as provided by the Companies Act (as defined therein), or, in default, may be convened by the requisitionists.

Companies Act

(ii) Pursuant to section 74 of the Companies Act, a Shareholder or Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company may requisition the directors of the Company (the "Directors" and each a "Director") to forthwith proceed duly to convene an SGM by depositing a written requisition at the registered office of the Company.

(iii) The written requisition must state the purposes of the meeting (including the resolutions to be considered at the meeting), signed by the requisitionists, deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and may consist of several documents in like form each signed by one or more requisitionists.

(iv) If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene an SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene an SGM, but any SGM so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

(v) An SGM so convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

*(b) Right to put forward proposals at general meetings*
Companies Act

(i) Sections 79 and 80 of the Companies Act allow certain Shareholder(s) to requisition the Company to give notice to the shareholders in respect of any resolution which is intended to be moved at an annual general meeting ("AGM") of the Company or circulate a statement in respect of any proposed resolution or business to be considered at a general meeting of the Company. Under section 79 of the Companies Act, at the expense of the requisitionists unless the Company otherwise resolves, it shall be the duty of the Company on the requisition in writing by such number of Shareholders:

(a) to give to the Shareholders entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting;

(b) to circulate to the Shareholders entitled to have notice of any general meeting sent to them 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 that meeting.

(ii) The number of Shareholders necessary to make the above-mentioned requisitions to the Company shall be:

(a) either 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.

(iii) Notice of any such intended resolution shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholder by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meeting of the Company, provided that the copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

(iv) Section 80 of the Companies Act sets out the conditions to be met before the Company is bound to give any notice of resolution or to circulate any statement. Pursuant to section 80 of the Companies Act, the Company shall not be bound to give notice of any resolution or to circulate any statement as mentioned in paragraph (b)(i) above unless:

(aa) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company:

(i) in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

(ii) in the case of any other requisition, not less than one week before the meeting; and

(bb) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expense in giving effect to the procedures in paragraph (b)(i) above (i.e. the giving of notice of resolution and/or circulation of statement).

Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the above-mentioned time shall be deemed to have been properly deposited for the purposes thereof.

*(c)* *Right to put enquiries to the Board*

Shareholders may at any time send their enquiries and concerns to the Board in writing for the attention of the Investor Relations Manager of the Company whose contact details are as follows:

1st Floor, Wah Lai Industrial Center
10-14 Kwei Tei Street, Fotan
New Territories, Hong Kong

Fax: (852) 2712 0630

Email: ir@manwahgroup.com

The Investor Relations Manager of the Company shall forward the Shareholders' enquiries and concerns to the Board and/or relevant committees of the Board to answer the Shareholders' questions where appropriate.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Insurance cover has been arranged for Directors' and Officers' Liability to provide adequate cover, as determined by the Board, in respect of the Board members and senior management members of the Company. Such insurance has also been renewed before 31 March 2018 with a term from 1 April 2018 until 31 March 2019.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board is of the opinion that sound internal control and risk management systems will contribute to the effectiveness and efficiency of the operations of the Group and to the safeguard of the Group's assets as well as the Shareholders' investment.

The Company improves its business and operational activities by identifying the areas of significant business risks via a regular review and taking appropriate measures to control and mitigate these risks. The management of the Company reviews all significant control policies and procedures and highlights all significant matters to the Board and Audit Committee annually.

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee helps the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by reviewing and monitoring the internal control systems and processes annually so as to ensure that they can provide reasonable assurance against material errors of the Group. The Company has an internal audit function.

The Board has reviewed the effectiveness of the risk management and internal control systems and considers the risk management and internal control systems effective and adequate.

## COMPANY SECRETARY

Ms. Liu Xiaoting has been the Company Secretary of the Company since 29 September 2017. Ms. Liu Xiaoting reports to the Chairman of the Company and is responsible for advising the Board on corporate governance matters. Ms. Liu Xiaoting has confirmed that she has taken no less than 15 hours of relevant professional training during the Review Period.

## AUDITOR'S REMUNERATION

The Audit Committee is responsible for considering the appointment of the external auditor.

During the Review Period, the remuneration paid or payable to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

| **Services rendered** | **Paid/ payable fee** HK$'000 |
|---|---|
| Statutory audit services | 3,160 |
| Non-statutory audit services: | |
| Review of interim financial information | 640 |
| Others | 1,349 |
| | 5,149 |

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the financial statements, announcements and other financial disclosures required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The directors (the "Directors") of Man Wah Holdings Limited (the "Company") present this annual report and the audited consolidated financial statements of the Company for the Review Period.

## BUSINESS REVIEW

A fair review of the Group's business, an indication of likely future development in the Group's business, an analysis using financial key indicators as required by Schedule 5 to the Hong Kong Companies Ordinance (Cap. 622) can be found in the "Chairman Statement" and "Management Discussion and Analysis" section, which form part of this Directors' Report of this annual report.

## PRINCIPAL RISKS AND UNCERTAINTIES FACING THE COMPANY

The followings are part of the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

### Competition

The products of the Group are sold in over 60 countries. The Group needs to compete with global sofa manufactures as well as a lot of local players. Advantages in cost control, design, quality and service are the core advantages of the Group, and if they cannot be maintained, the Group's market share in major markets may decrease.

### Macroeconomic environment

Currently, the Group's products are mainly sold in North America, China, Europe and other markets. Any negative macroeconomic change in its major markets may affect its sales growth or margins adversely. The Group needs to keep increasing its key competences to reduce possible impacts from macroeconomy.

Besides, overseas transportation cost is one of the most important expense elements of the Group. Change of global economy plays a significant role in affecting shipping rate, which consequently may affect the Group's profitability or revenue growth.

### Supply chain

For sofa production, the Group needs to source leather, wood, chemical materials from global market. It needs to plan carefully in advance on quantity, delivery time, material specifications etc. with its major suppliers. This will help it to match the delivery of materials with its production plan, try to avoid waiting time of its factories or customers. At the same time, the Group needs to keep its inventory level as low as possible to control cost. Any disruption in supply chain may cause the increase of production cost or delay in delivery to its customers. In order to lower the risk from supply chain, the Group has set up a comprehensive planning system for material procurement. At the same time, for each major material, the Group has at least two qualified suppliers and keeps reviewing the competency of suppliers on timely basis.

## CORPORATE REORGANISATION

The Company was incorporated with limited liability in Bermuda.

The shares ("Shares") of the Company were listed on the main board of the Stock Exchange with effect from 9 April 2010.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 39 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Company and together with its subsidiaries (referred to as the "Group") for the Review Period are set out in the consolidated statement of profit or loss and other comprehensive income on page 62 of this annual report.

An interim dividend of HK 13.0 cents per Share amounting to approximately HK$495,521,832 were paid to the shareholders of the Company ("Shareholders") during the Review Period. The Directors recommend the payment of a final dividend of HK 12.0 cents per Share to the Shareholders on the register of members on Friday, 13 July 2018, amounting to approximately HK$459,891,000.

## PROPERTY, PLANT AND EQUIPMENT

During the Review Period, the Group revalued all of its investment properties as at 31 March 2018. The net increase in fair value of investment properties, which has been credited directly to consolidated statement of profit or loss and other comprehensive income, amounted to approximately HK$4,456,000.

Details of movements during the Review Period in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements during the Review Period in the share capital of the Company are set out in note 27 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to Shareholders as at the end of the Review Period were as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Contributed surplus | **114,657** | 173,462 |
| Retained earnings (accumulated losses) | **99,172** | (694,933) |
| | **213,829** | (521,471) |

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

## DIRECTORS

The Directors of the Company during the Review Period and up to the date of this annual report were:

*Executive Directors:*
Mr. Wong Man Li *(Chairman)*
Ms. Hui Wai Hing
Mr. Wang Guisheng (resigned on 31 March 2018)
Mr. Alan Marnie
Mr. Dai Quanfa
Ms. Wong Ying Ying
Mr. Tsang Hoi Lam (appointed on 31 March 2018)

*Independent Non-executive Directors:*
Mr. Chau Shing Yim, David
Mr. Ong Chor Wei
Mr. Kan Chung Nin, Tony
Mr. Ding Yuan

In accordance with bye-law 102 of the Company's bye-laws, Mr. Tsang Hoi Lam will retire at the forthcoming annual general meeting.

In accordance with bye-law 99 of the Company's bye-laws, Ms. Wong Ying Ying, Mr. Chau Shing Yim, David and Mr. Kan Chun Nin, Tony will retire by rotation. Ms. Wong Ying Ying, Mr. Tsang Hoi Lam, Mr. Chau Shing Yim, David and Mr. Kan Chun Nin, Tony all being eligible, will offer themselves for re-election at the forthcoming annual general meeting to be held on Thursday, 5 July 2018.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2018, the interests of the Directors, chief executives and their associates in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

## Long positions in shares, underlying shares and debentures of the Company

| Name of director | Capacity | Number of issued ordinary shares held | Approximate percentage of the issued share capital of the Company[1] |
|---|---|---|---|
| Mr. Wong Man Li | Interest in controlled corporation | 2,443,125,200[2] | 63.81% |
| | Spouse | 2,427,200[2] | 0.06% |
| | Beneficial owner | 2,769,600[2] | 0.07% |
| Ms. Hui Wai Hing | Beneficial owner | 2,427,200[3] | 0.06% |
| | Spouse | 2,445,894,800[3] | 63.88% |
| Mr. Alan Marnie | Beneficial owner | 800,000[4] | 0.02% |
| Mr. Dai Quanfa | Beneficial owner | 1,772,400[5] | 0.05% |
| Ms. Wong Ying Ying | Beneficial owner | 2,069,600[6] | 0.05% |
| Mr. Tsang Hoi Lam | Beneficial owner | 71,200[7] | 0.00% |

Notes:

1. The percentage of the Company's issued share capital is based on the 3,828,778,400 Shares issued as at 31 March 2018.

2. These 2,443,125,200 Shares were beneficially owned by Man Wah Investments Limited which, in turn, was owned by Mr. Wong Man Li and Ms. Hui Wai Hing as to 80% and 20%, respectively. Mr. Wong was therefore deemed to be interested in the entire 2,443,125,200 Shares held by Man Wah Investments Limited. Mr. Wong was a director of Man Wah Investments Limited. Mr. Wong also held 2,427,200 Shares and 342,400 Share Options (as defined below) granted to him under the Share Option Scheme (as defined below) respectively. Upon exercise of the Share Options, Mr. Wong would directly own an aggregate of 2,769,600 Shares. Mr. Wong was also deemed, under Part XV of the SFO, to be interested in the 2,427,200 Shares in which Ms. Hui Wai Hing, the spouse of Mr. Wong, had a long position.

3. These 2,427,200 Shares represented the 1,956,000 Shares and the 471,200 Share Options granted to Ms. Hui under the Share Option Scheme respectively. Upon exercise of the Share Options, Ms. Hui would own an aggregate of 2,427,200 Shares. Ms. Hui was also deemed, under Part XV of the SFO, to be interested in the 2,445,894,800 Shares in which Mr. Wong Man Li, the spouse of Ms. Hui was interested (i.e. 2,769,600 Shares as beneficial owner and 2,443,125,200 Shares as interest in a controlled corporation).

4. This figure represents the aggregate number of 400,000 Shares held by Mr. Marnie and 400,000 Share Options granted to Mr. Marnie under the Share Option Scheme. Upon exercise of the Share Options, Mr. Marnie would own an aggregate of 800,000 Shares.

5. This figure represents the aggregate number of 745,600 Shares held by Mr. Dai and 1,026,800 Share Options granted to Mr. Dai under the Share Option Scheme. Upon exercise of the Share Options, Mr. Dai would own an aggregate of 1,772,400 Shares.

6. This figure represents the aggregate number of 1,821,600 Shares held by Ms. Wong and 248,000 Share Options granted to Ms. Wong under the Share Option Scheme. Upon exercise of the Share Options, Ms. Wong would own an aggregate of 2,069,600 Shares. Ms. Wong was also a director of Man Wah Investments Limited.

7. This figure represents the aggregate number of 71,200 Share options granted to Mr. Tsang Hoi Lam under the Share Option Scheme. Upon exercise of the Share Options, Mr. Tsang would own an aggregate of 71,200 Shares.

### Long positions in the shares of our associated corporation (as defined in the SFO)

| Name of Director | Name of associated corporation | Capacity | Number of issued ordinary shares held | Percentage in the associated corporation |
|---|---|---|---|---|
| Mr. Wong Man Li | Man Wah Investments Limited | Beneficial owner | 800 | 80% |
| Ms. Hui Wai Hing | Man Wah Investments Limited | Beneficial owner | 200 | 20% |

Save as disclosed above, as at 31 March 2018, none of the Company's Directors, chief executives nor their associates had any other personal, family, corporate and other interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than those disclosed in this section and the section headed "Share Options", no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any Directors or chief executives during the Review Period.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than shareholdings disclosed above, at no time during the year ended 31 March 2018 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2018, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors, the following Shareholders had notified the Company of relevant interests in the issued share capital of the Company.

### Long position in shares and underlying shares of the Company

| Name of shareholder | Capacity | Number of issued ordinary shares held | Approximate percentage of the issued share capital of the Company[1] |
|---|---|---|---|
| Man Wah Investments Limited | Beneficial owner | 2,443,125,200 | 63.81% |
| 東方證券股份有限公司 | Interest in controlled corporation | 269,094,357[2] | 7.03% |
| 上海東方證券資產管理有限公司 | Beneficial owner | 269,094,357[2] | 7.03% |

Note:

1. The percentage of the Company's issued share capital is based on the 3,828,778,400 Shares issued as at 31 March 2018.

2. These 269,094,357 Shares were beneficially owned by 上海東方證券資產管理有限公司 which, in turn, was 100% owned by 東方證券股份有限公司.

Save as disclosed above, as at 31 March 2018, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the Shares and/or underlying Shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

## SHARE OPTION SCHEME

On 5 March 2010, a share option scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

The purpose of the share option scheme (the "Share Option Scheme") is to enable the Company to grant share options to selected participants as incentives or rewards for their contributions to the Company and/or its subsidiaries and/or its associated companies. The Share Option Scheme will remain in force for a period of 10 years commencing on 5 March 2010, being the date of adoption of the Share Option Scheme, to 4 March 2020.

Under the Share Option Scheme, the Directors may, at their discretion, offer Directors (including executive and non-executive Directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of its associated companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the Directors, will contribute or have contributed to the Company or any of its subsidiaries or any of its associated companies, share options to subscribe for shares of the Company. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Share Option Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to the Company's shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5,000,000 (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company.

The period during which a share option may be exercised will be determined by the Company's directors at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Share Option Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Company's directors are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the Company's directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of the share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Share Option Scheme. The offer of share options must be accepted within 28 days from the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at general meetings.

As at the date of this report, the number of share options that could still be granted under the Share Option Scheme was 31,016,420 share options representing approximately 0.81% of the 3,832,428,800 Shares in issue as at the date of this report.

## SHARE OPTIONS

On 5 March 2010, the Share Option Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the Shareholders. Details of movements in the share options under the Share Option Scheme ("Share Options") during the Review Period were as follows:

| | | | | | | Number of Share Options[1] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Grantee | Date of grant[2] | Vesting period | Exercisable period | Exercise price per share | Adjusted Exercise price per share | Outstanding at 1.4.2017 | Granted during the Review Period | Cancelled/ Lapsed during the Review Period | Exercised during the Review Period | Outstanding at 31.3.2018 |
| Mr. Wong Man Li | 10.2.2015 | 10.2.2015–9.2.2018 | 10.2.2018–9.2.2020 | 6.72 | 3.36 | 397,600 | – | – | (397,600) | – |
| | 13.1.2017 | 13.1.2017–12.1.2019 | 13.1.2019–12.1.2021 | 5.17 | N/A | 74,000 | – | – | – | 74,000 |
| | | 13.1.2017–12.1.2020 | 13.1.2020–12.1.2022 | 5.17 | N/A | 74,000 | – | – | – | 74,000 |
| | | 13.1.2017–12.1.2021 | 13.1.2021–12.1.2023 | 5.17 | N/A | 73,200 | – | – | – | 73,200 |
| | 12.2.2018 | 12.2.2018–11.2.2020 | 12.2.2020–11.2.2022 | 7.18 | N/A | – | 40,400 | – | – | 40,400 |
| | | 12.2.2018–11.2.2021 | 12.2.2021–11.2.2023 | 7.18 | N/A | – | 40,400 | – | – | 40,400 |
| | | 12.2.2018–11.2.2022 | 12.2.2022–11.2.2024 | 7.18 | N/A | – | 40,400 | – | – | 40,400 |
| Ms. Hui Wai Hing | 10.2.2015 | 10.2.2015–9.2.2018 | 10.2.2018–9.2.2020 | 6.72 | 3.36 | 316,000 | – | – | (316,000) | – |
| | 27.1.2016 | 27.1.2016–26.1.2018 | 27.1.2018–26.1.2020 | 8.92 | 4.46 | 172,000 | – | – | (172,000) | – |
| | | 27.1.2016–26.1.2019 | 27.1.2019–26.1.2021 | 8.92 | 4.46 | 171,200 | – | – | – | 171,200 |
| | 13.1.2017 | 13.1.2017–12.1.2019 | 13.1.2019–12.1.2021 | 5.17 | N/A | 69,200 | – | – | – | 69,200 |
| | | 13.1.2017–12.1.2020 | 13.1.2020–12.1.2022 | 5.17 | N/A | 69,200 | – | – | – | 69,200 |
| | | 13.1.2017–12.1.2021 | 13.1.2021–12.1.2023 | 5.17 | N/A | 68,800 | – | – | – | 68,800 |
| | 12.2.2018 | 12.2.2018–11.2.2020 | 12.2.2020–11.2.2022 | 7.18 | N/A | – | 31,200 | – | – | 31,200 |
| | | 12.2.2018–11.2.2021 | 12.2.2021–11.2.2023 | 7.18 | N/A | – | 31,200 | – | – | 31,200 |
| | | 12.2.2018–11.2.2022 | 12.2.2022–11.2.2024 | 7.18 | N/A | – | 30,400 | – | – | 30,400 |
| Mr. Wang Guisheng[5] | 10.2.2015 | 10.2.2015–9.2.2018 | 10.2.2018–9.2.2020 | 6.72 | 3.36 | 933,600 | – | – | (933,600) | – |
| | 26.1.2016 | 26.1.2016–25.1.2018 | 26.1.2018–25.1.2020 | 8.92 | 4.46 | 549,600 | – | – | (549,600) | – |
| | | 26.1.2016–25.1.2019 | 26.1.2019–25.1.2021 | 8.92 | 4.46 | 548,800 | – | (548,800) | – | – |
| | 13.1.2017 | 13.1.2017–12.1.2019 | 13.1.2019–12.1.2021 | 5.17 | N/A | 53,200 | – | (53,200) | – | – |
| | | 13.1.2017–12.1.2020 | 13.1.2020–12.1.2022 | 5.17 | N/A | 53,200 | – | (53,200) | – | – |
| | | 13.1.2017–12.1.2021 | 13.1.2021–12.1.2023 | 5.17 | N/A | 53,200 | – | (53,200) | – | – |
| | 12.2.2018 | 12.2.2018–11.2.2020 | 12.2.2020–11.2.2022 | 7.18 | N/A | – | 51,200 | (51,200) | – | – |
| | | 12.2.2018–11.2.2021 | 12.2.2021–11.2.2023 | 7.18 | N/A | – | 51,200 | (51,200) | – | – |
| | | 12.2.2018–11.2.2022 | 12.2.2022–11.2.2024 | 7.18 | N/A | – | 50,400 | (50,400) | – | – |
| Mr. Alan Marnie | 21.5.2015 | 21.5.2015–20.5.2017 | 21.5.2017–20.5.2019 | 9.51 | 4.76 | 400,000 | – | – | (400,000) | – |
| | 26.5.2016 | 26.5.2016–25.5.2018 | 26.5.2018–25.5.2020 | 10.46 | 5.23 | 400,000 | – | – | – | 400,000 |

| Grantee | Date of grant[2] | Vesting period | Exercisable period | Exercise price per share | Adjusted Exercise price per share | Number of Share Options[1] Outstanding at 1.4.2017 | Granted during the Review Period | Cancelled/ Lapsed during the Review Period | Exercised during the Review Period | Outstanding at 31.3.2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Mr. Dai Quanfa | 22.1.2014 | 22.1.2014–21.1.2017 | 22.1.2017–21.1.2019 | 7.28 | 3.64 | 468,800 | – | – | (468,800) | – |
| | 10.2.2015 | 10.2.2015–9.2.2017 | 10.2.2017–9.2.2019 | 6.72 | 3.36 | 276,800 | – | – | (276,800) | – |
| | | 10.2.2015–9.2.2018 | 10.2.2018–9.2.2020 | 6.72 | 3.36 | 276,800 | – | – | – | 276,800 |
| | 26.1.2016 | 26.1.2016–25.1.2018 | 26.1.2018–25.1.2020 | 8.92 | 4.46 | 223,200 | – | – | – | 223,200 |
| | | 26.1.2016–25.1.2019 | 26.1.2019–25.1.2021 | 8.92 | 4.46 | 222,400 | – | – | – | 222,400 |
| | 13.1.2017 | 13.1.2017–12.1.2019 | 13.1.2019–12.1.2021 | 5.17 | N/A | 59,200 | – | – | – | 59,200 |
| | | 13.1.2017–12.1.2020 | 13.1.2020–12.1.2022 | 5.17 | N/A | 59,200 | – | – | – | 59,200 |
| | | 13.1.2017–12.1.2021 | 13.1.2021–12.1.2023 | 5.17 | N/A | 59,200 | – | – | – | 59,200 |
| | 12.2.2018 | 12.2.2018–11.2.2020 | 12.2.2020–11.2.2022 | 7.18 | N/A | – | 42,400 | – | – | 42,400 |
| | | 12.2.2018–11.2.2021 | 12.2.2021–11.2.2023 | 7.18 | N/A | – | 42,400 | – | – | 42,400 |
| | | 12.2.2018–11.2.2022 | 12.2.2022–11.2.2024 | 7.18 | N/A | – | 42,000 | – | – | 42,000 |
| Ms. Wong Ying Ying | 10.2.2015 | 10.2.2015–9.2.2018 | 10.2.2018–9.2.2020 | 6.72 | 3.36 | 173,600 | – | – | (173,600) | – |
| | 27.1.2016 | 27.1.2016–26.1.2018 | 27.1.2018–26.1.2020 | 8.92 | 4.46 | 81,600 | – | – | (81,600) | – |
| | | 27.1.2016–26.1.2019 | 27.1.2019–26.1.2021 | 8.92 | 4.46 | 80,800 | – | – | – | 80,800 |
| | 13.1.2017 | 13.1.2017–12.1.2019 | 13.1.2019–12.1.2021 | 5.17 | N/A | 31,200 | – | – | – | 31,200 |
| | | 13.1.2017–12.1.2020 | 13.1.2020–12.1.2022 | 5.17 | N/A | 31,200 | – | – | – | 31,200 |
| | | 13.1.2017–12.1.2021 | 13.1.2021–12.1.2023 | 5.17 | N/A | 31,200 | – | – | – | 31,200 |
| | 12.2.2018 | 12.2.2018–11.2.2020 | 12.2.2020–11.2.2022 | 7.18 | N/A | – | 24,800 | – | – | 24,800 |
| | | 12.2.2018–11.2.2021 | 12.2.2021–11.2.2023 | 7.18 | N/A | – | 24,800 | – | – | 24,800 |
| | | 12.2.2018–11.2.2022 | 12.2.2022–11.2.2024 | 7.18 | N/A | – | 24,000 | – | – | 24,000 |
| Mr. Tsang Hoi Lam | 12.2.2018 | 12.2.2018–11.2.2020 | 12.2.2020–11.2.2022 | 7.18 | N/A | – | 24,000 | – | – | 24,000 |
| | | 12.2.2018–11.2.2021 | 12.2.2021–11.2.2023 | 7.18 | N/A | – | 24,000 | – | – | 24,000 |
| | | 12.2.2018–11.2.2022 | 12.2.2022–11.2.2024 | 7.18 | N/A | – | 23,200 | – | – | 23,200 |
| Other employees | 8.2.2012 | 8.2.2012–7.2.2017 | 8.2.2017–7.2.2019 | 2.36 | 1.18 | 206,400 | – | – | (206,400) | – |
| | 1.2.2013 | 1.2.2013–31.1.2016 | 1.2.2016–31.1.2018 | 3.59 | 1.8 | 6,400 | – | – | (6,400) | – |
| | | 1.2.2013–31.1.2017 | 1.2.2017–31.1.2019 | 3.59 | 1.8 | 1,080,000 | – | – | (1,065,600) | 14,400 |
| | 22.1.2014 | 22.1.2014–21.1.2016 | 22.1.2016–21.1.2018 | 7.28 | 3.64 | 262,400 | – | – | (262,400) | – |
| | | 22.1.2014–21.1.2017 | 22.1.2017–21.1.2019 | 7.28 | 3.64 | 4,232,000 | – | – | (3,792,000) | 440,000 |
| | 10.2.2015 | 10.2.2015–9.2.2017 | 10.2.2017–9.2.2019 | 6.72 | 3.36 | 5,538,400 | – | – | (4,957,600) | 580,800 |
| | | 10.2.2015–9.2.2018 | 10.2.2018–9.2.2020 | 6.72 | 3.36 | 12,584,800 | – | (1,136,800) | (7,973,600) | 3,474,400 |
| | 26.1.2016 | 26.1.2016–25.1.2018 | 26.1.2018–25.1.2020 | 8.92 | 4.46 | 10,384,000 | – | (39,600) | (5,936,000) | 4,408,400 |
| | | 26.1.2016–25.1.2019 | 26.1.2019–25.1.2021 | 8.92 | 4.46 | 10,235,200 | – | (1,410,400) | – | 8,824,800 |
| | 26.5.2016 | 26.5.2016–25.5.2018 | 26.5.2018–25.5.2020 | 10.46 | 5.23 | 2,000,000 | – | – | – | 2,000,000 |
| | 13.1.2017 | 13.1.2017–12.1.2019 | 13.1.2019–12.1.2021 | 5.17 | N/A | 2,244,000 | – | (205,600) | – | 2,038,400 |
| | | 13.1.2017–12.1.2020 | 13.1.2020–12.1.2022 | 5.17 | N/A | 2,242,400 | – | (204,800) | – | 2,037,600 |
| | | 13.1.2017–12.1.2021 | 13.1.2021–12.1.2023 | 5.17 | N/A | 2,246,000 | – | (206,800) | – | 2,039,200 |
| | 12.2.2018 | 12.2.2018–11.2.2020 | 12.2.2020–11.2.2022 | 7.18 | N/A | – | 1,838,800 | (31,600) | – | 1,807,200 |
| | | 12.2.2018–11.2.2021 | 12.2.2021–11.2.2023 | 7.18 | N/A | – | 1,818,000 | (30,400) | – | 1,787,600 |
| | | 12.2.2018–11.2.2022 | 12.2.2022–11.2.2024 | 7.18 | N/A | – | 1,630,800 | (21,600) | – | 1,609,200 |
| | | | | | | 59,814,000 | 5,926,000 | (4,148,800) | (27,969,600) | 33,621,600 |
| Number of share options exercisable at 31 March 2018 | | | | | | | | | | 9,418,000 |

Notes:

1. Number of shares in the Company over which options granted under the Share Option Scheme are exercisable.

2. The closing price of the Shares immediately before the date on which the Share Options were granted on (i) 8 February 2012, i.e. on 7 February 2012 was HK$2.10, (ii) 1 February 2013, i.e. on 31 January 2013 was HK$3.57, (iii) 22 January 2014, i.e. on 21 January 2014 was HK$7.16, (iv) 10 February 2015, i.e. on 9 February 2015 was HK$6.41, (v) 21 May 2015, i.e. on 20 May 2015 was HK$9.72, (vi) 26 January 2016, i.e. on 25 January 2016 was HK$8.86, (vii) 27 January 2016, i.e. on 26 January 2016 was HK$8.56, (viii) 26 May 2016, i.e. on 25 May 2016 was HK$9.92, (ix)13 January 2017, i.e. on 12 January 2017 was HK$5.14 and (x) 12 February 2018, i.e on 11 February 2018 was HK$6.80.

3. Share Options under each grant are subject to the restrictions that up to 50% and 100% of the total options granted will be exercisable during the period of 18th and 60th months respectively from the date of acceptance of the grant of options by the relevant grantees.

4. The weighted average closing price immediately before the dates on which the options were exercised was HK$7.10.

5. Due to the resignation of Mr. Wang Guisheng, the total number of 861,200 share options were lapsed.

## SHARE AWARD SCHEME

The Company adopted a share award scheme (the "Share Award Scheme") on 27 January 2011 (the "Adoption Date") with a duration of 10 years commencing from the Adoption Date. The objective of the Share Award Scheme is to recognise the contributions by certain directors and employees of the Group and to give incentive to them in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. Please refer to the Company's announcement dated 31 January 2011 for further information on the Share Award Scheme.

As at 31 March 2018, the Share Award Scheme remained in place. There were no Shares granted by the Company to employees of the Company and Directors pursuant to the Share Award Scheme during the Review Period.

Given that all distributions under the Share Award Scheme for the past financial year have been made, no Shares were held by the trustee of the Share Award Scheme as at 31 March 2018.

## 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. The Company considers that all of the independent non – executive Directors are independent.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the Review Period, the Company and the Group had continuing connected transactions, certain details of which have been disclosed in the prospectus of the Company dated 18 March 2010 and note 34 to the consolidated financial statements. Such continuing connected transaction are exempted from the reporting, announcement, shareholders' approval and annual review requirements under the Listing Rules. Save as the above continuing connected transactions, there were no transactions which need to be disclosed as connected transactions and continuing connected transactions in accordance with the requirements of the Listing Rules.

The Directors consider that those continuing related party transaction(s) disclosed in note 34 to the consolidated financial statements fall under the definition of "continuing connected transaction(s)" in Chapter 14A of the Listing Rules, which have complied with the disclosure requirements (if applicable) in accordance with Chapter 14A of the Listing Rules.

## DIRECTORS' INTEREST IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No transaction, arrangement or contract of significance, to which the Company, any of its subsidiaries, its parent company, or its parent company's subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest, whether directly and indirectly, subsisted at the end of 31 March 2018 or at any time during the Review Period.

## NON-COMPETITION UNDERTAKING

Each of Man Wah Investments Limited and Mr. Wong Man Li has entered into a deed of non-competition dated 5 March 2010 with the Company, to the effect that each of them will not directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with the business of the Group from time to time.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Review Period, sales to the Group's five largest customers and purchases from the five largest suppliers accounted for approximately 20.2% and 16.1% of the total revenue and purchases for the year, respectively. The Group's largest customer accounted for around 4.6% of the total revenue for the year. The Group's largest supplier accounted for around 7.5% of the total purchase for the year.

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

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND OTHERS

The Group is not aware of any key relationships between itself and its employees, customers, suppliers and others that have a significant impact on the Group and on which the Group's success depends.

## RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes are set out in note 33 to the consolidated financial statements.

## DONATIONS

During the Review Period, the Group made charitable and other donations amounting to approximately HK$21,331,000 (FY2017: HK$17,560,000).

## PRE-EMPTIVE RIGHTS

There are no provisions 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.

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

During FY2018, the Company repurchased a total of 24,830,400 ordinary shares of the Company at an aggregate purchase price of HK$167,930,617 (before brokerage and expenses) on The Stock Exchange of Hong Kong Limited. Details of the repurchases of such ordinary shares were as follows:

| Month of repurchase | Number of ordinary shares repurchased ('000) | Price per ordinary share Highest (HK$) | Lowest (HK$) | Aggregate purchase price (HK$'000) |
|---|---|---|---|---|
| June 2017 | 24,830 | 7.00 | 6.57 | 167,931 |
| Total | 24,830 | | | 167,931 |

The repurchased ordinary shares were cancelled during the Review Period. The issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The above repurchases were effected by the Directors pursuant to the general mandate to repurchase shares granted by the shareholders of the Company to the Board at the annual general meeting of the Company held on Wednesday, 13 July 2016, with a view to benefiting shareholders as a whole in enhancing the return on net assets and earnings per share of the Company.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the Review Period and until the date of this report.

## EMOLUMENT POLICY

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

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

The emoluments of the Directors and employees of the Group include a share option scheme and share award scheme, details of which are disclosed in pages 50 to 53 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as at the date of this annual report.

## AUDITOR

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

## CHANGE IN DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, since the publication of the last interim report, the changes in the Director's information are as follows:

Mr. Tsang Hoi Lam is a director of certain subsidiary of the Group.

Mr. Ong Chor Wei is also an independent non-executive Director of Smart Globe Holdings Limited (stock code: 8485), a company listed on the GEM Board of the Stock Exchange. Mr. Ong is also the non-executive Director of Prosperous Printing Company Limited (stock code: 8385) and Vico International Holdings Limited (Stock code: 1621), which are listed on GEM Board of the Stock Exchange and main board of the Stock Exchange respectively.

Mr. Kan Chung Nin, Tong is an independent non-executive Director of Hopewell Highway Infrastructure Limited (stock code: 737) since 11 April 2018.

Mr. Chau Shing Yim, David is an independent non-executive Director of Branding China Group Limited (stock code: 863) since 16 April 2018.

With effect from 1 April 2018, the Director's fee for each of the Directors has been adjusted from HK$300,000 per annum to HK$380,000 per annum.

Save as disclosed above, there is no other information required to be disclosed under Rule 13.51 B (1) of the listing rules.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

A discussion on the environmental policies and performance of the Company can be found in the "Environmental, Social and Governance Report" section, which forms part of this Directors' Report of this annual report.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the Review Period, there was no material breach or non-compliance with the applicable laws and regulations that have a significant impact on the Group.

## EQUITY-LINKED AGREEMENTS

Save as disclosed in this Annual Report relating to share option scheme and share award scheme, no equity-linked agreements were entered into during the Review Period or subsisted at the end of the Review Period.

## MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or subsisting during the Review Period.

## PERMITTED INDEMNITY PROVISION

The Bye-laws provides that for the time being a director of the Company, every Director shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs charges, losses, damages and expenses which he shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of his duty or supposed duty in his office.

On behalf of the board

**Wong Man Li**
*Chairman*
15 May 2018

Deloitte. 德勤

**To the Members of Man Wah Holdings Limited**
*(incorporated in Bermuda with limited liability)*

## Opinion

We have audited the consolidated financial statements of Man Wah Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 62 to 145, which comprise the consolidated statement of financial position as at 31 March 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 International Standards on Auditing ("ISAs"). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment loss on trade receivables*** | |
| We identified the impairment loss on trade receivables as a key audit matter due to the significance of the balances to the consolidated financial statements as a whole, the increase in trade receivables arising from the acquisition of a subsidiary, Jiangsu Yulong Intelligent Technology Co., Limited which had significant trade receivables as at 31 March 2018, and the significant degree of management's estimation involved in recognising impairment loss on trade receivables.<br><br>As disclosed in note 21 to the consolidated financial statements, the aggregate amount of trade receivables approximately was HK$921 million which represented 9.7% of the Group's total assets as at 31 March 2018.<br><br>As disclosed in note 5 to the consolidated financial statements, management estimates impairment loss on trade receivables based on management's assessment of the ultimate realisation of these receivables by considering the ageing of the trade receivables balances, the repayment history and current creditworthiness of each customer. | Our procedures in relation to the impairment loss on trade receivables included:<br><br>• Understanding the Group's procedures and policy in assessing and recognising impairment loss on trade receivables, and the corresponding approval procedures;<br><br>• Testing the accuracy of the aged analysis of trade receivables and tracing the subsequent settlements to source documents, on a sample basis; and<br><br>• For the trade receivables without subsequent settlement, assessing the reasonableness of management's assessment of the impairment loss on trade receivables with reference to the ageing of the trade receivables, the repayment history, and current creditworthiness of each customer. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Revenue recognition*** | |
| We identified revenue recognition as a key audit matter due to the significance of the amount of revenue to the consolidated statement of profit or loss and other comprehensive income.<br><br>Revenue from the sales of goods is recognised when goods are delivered and title has passed. The accounting policy for revenue recognition is disclosed in note 4 to the consolidated financial statements. The Group recognised revenue of approximately HK$10,027 million for the year ended 31 March 2018, which is disclosed in the consolidated statement of profit or loss and other comprehensive income and note 6 to the consolidated financial statements. | Our procedures in relation to revenue recognition included:<br><br>• Obtaining an understanding of the revenue business process;<br><br>• Understanding and testing the key controls over revenue recognition performed by management;<br><br>• Checking a selection of sales transactions to the corresponding delivery documents to assess the appropriateness of revenue recognition; and<br><br>• Performing analytical review procedures on the monthly sales amounts by considering the nature of products in different segments, season pattern of the Group's business and comparing to the amount of sales in the prior accounting period, with a view to identifying any unusual fluctuations, and obtaining and assessing management's expectation for such fluctuations. |

## 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 IFRSs 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

- 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.

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
15 May 2018

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2018

| | NOTES | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| Revenue | 6 | **10,026,573** | 7,779,015 |
| Cost of goods sold | | **(6,283,633)** | (4,520,832) |
| Gross profit | | **3,742,940** | 3,258,183 |
| Other income | | **364,630** | 159,752 |
| Other gains and losses | 7 | **(26,168)** | 184,001 |
| Selling and distribution expenses | | **(1,693,223)** | (1,173,878) |
| Administrative expenses | | **(442,052)** | (365,441) |
| Finance costs | 8 | **(23,542)** | (10,271) |
| Profit before income tax | | **1,922,585** | 2,052,346 |
| Income tax expense | 9 | **(368,639)** | (293,222) |
| Profit for the year | 10 | **1,553,946** | 1,759,124 |
| Other comprehensive income (expense): | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of financial statements of foreign operations | | **522,536** | (305,526) |
| *Item that will not be reclassified subsequently to profit or loss:* | | | |
| Increase in fair value of property, plant and equipment and land lease premium transferred to investment property, net of deferred tax | | **3,578** | 21,786 |
| Total comprehensive income for the year | | **2,080,060** | 1,475,384 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **1,535,908** | 1,752,370 |
| Non-controlling interest | | **18,038** | 6,754 |
| | | **1,553,946** | 1,759,124 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **1,999,700** | 1,467,215 |
| Non-controlling interest | | **80,360** | 8,169 |
| | | **2,080,060** | 1,475,384 |
| | | **2018 HK cents** | 2017 HK cents |
| **Earnings per share** | 12 | | |
| Basic | | **40.22** | 45.64 |
| Diluted | | **40.04** | 45.47 |

# Consolidated Statement of Financial Position

At 31 March 2018

| | NOTES | 2018 HK$'000 | 2017 HK$'000 (restated) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 14 | **3,167,900** | 2,267,824 |
| Investment properties | 15 | **210,853** | 170,781 |
| Lease premium for land | 16 | **787,109** | 451,219 |
| Goodwill | 30 | **393,502** | 129,177 |
| Other intangible assets | 17 | **245,540** | 189,994 |
| Deferred tax assets | 18 | **3,590** | 2,589 |
| Properties under development | 19 | **–** | 384,481 |
| Refundable earnest money paid for lease premium for land | | **–** | 3,815 |
| Deposit paid for a land lease | | **4,225** | 11,280 |
| Deposits paid for acquisition of property, plant and equipment | | **101,079** | 79,612 |
| | | **4,913,798** | 3,690,772 |
| Current assets | | | |
| Inventories | 20 | **1,067,133** | 749,253 |
| Properties under development | 19 | **383,415** | – |
| Trade receivables | 21 | **956,097** | 639,674 |
| Other receivables and prepayments | 21 | **397,030** | 235,129 |
| Lease premium for land | 16 | **18,326** | 9,648 |
| Held for trading investments | 22 | **311,754** | 367,862 |
| Tax recoverable | | **7,924** | 1,744 |
| Restricted bank balances | 23 | **8,303** | 9,364 |
| Bank balances and cash | 24 | **1,406,959** | 1,808,298 |
| | | **4,556,941** | 3,820,972 |
| Current liabilities | | | |
| Trade payables | 25 | **753,902** | 427,780 |
| Other payables and accruals | 25 | **748,446** | 485,312 |
| Receipt in advance from sales of properties under development | 25 | **50,011** | – |
| Variable-rate bank borrowings | 26 | **1,316,799** | 1,047,636 |
| Tax payable | | **72,892** | 64,636 |
| | | **2,942,050** | 2,025,364 |
| Net current assets | | **1,614,891** | 1,795,608 |
| Total assets less current liabilities | | **6,528,689** | 5,486,380 |

| | NOTES | 2018 HK$'000 | 2017 HK$'000 (restated) |
|---|---|---|---|
| Non-current liabilities | | | |
| Variable-rate bank borrowings | 26 | **23,909** | 27,294 |
| Deferred tax liabilities | 18 | **56,158** | 42,830 |
| Other non-current liabilities | | **4,138** | 7,337 |
| | | **84,205** | 77,461 |
| | | **6,444,484** | 5,408,919 |
| Capital and reserves | | | |
| Share capital | 27 | **1,531,511** | 1,530,256 |
| Reserves | | **4,431,706** | 3,508,286 |
| Equity attributable to owners of the Company | | **5,963,217** | 5,038,542 |
| Non-controlling interest | | **481,267** | 370,377 |
| | | **6,444,484** | 5,408,919 |

The consolidated financial statements on pages 62 to 145 were approved and authorised for issue by the Board of Directors on 15 May 2018 and are signed on its behalf by:

**WONG MAN LI**
*DIRECTOR*

**TSANG HOI LAM**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2018

| | Attributable to owners of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Treasury shares HK$'000 (note 27) | Share premium HK$'000 | Special reserve HK$'000 (Note i) | Other reserve HK$'000 (Note ii) | Statutory reserve HK$'000 (Note iii) | Translation reserve HK$'000 | Revaluation surplus HK$'000 | Shares held under share award scheme HK$'000 | Share option reserve HK$'000 | Retained profits HK$'000 | Sub-total HK$'000 | Non-controlling interest HK$'000 | Total HK$'000 |
| At 1 April 2016 | 774,745 | (5,317) | 1,131,877 | (16,132) | (4,067) | 226,023 | (59,920) | 3,362 | (448) | 15,979 | 2,646,234 | 4,712,336 | (1,983) | 4,710,353 |
| Profit for the year | – | – | – | – | – | – | – | – | – | – | 1,752,370 | 1,752,370 | 6,754 | 1,759,124 |
| Exchange differences arising on translation of financial statements of foreign operations | – | – | – | – | – | – | (306,941) | – | – | – | – | (306,941) | 1,415 | (305,526) |
| Increase in fair value of property, plant and equipment, net of deferred tax | – | – | – | – | – | – | – | 21,786 | – | – | – | 21,786 | – | 21,786 |
| Total comprehensive income for the year | – | – | – | – | – | – | (306,941) | 21,786 | – | – | 1,752,370 | 1,467,215 | 8,169 | 1,475,384 |
| Cancellation of treasury shares | (5,317) | 5,317 | – | – | – | – | – | – | – | – | – | – | – | – |
| Repurchase of shares | (24,131) | – | (317,936) | – | – | – | – | – | – | – | – | (342,067) | – | (342,067) |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | – | – | – | 11,067 | – | 11,067 | – | 11,067 |
| Bonus issue (note 27) | 770,545 | – | (770,545) | – | – | – | – | – | – | – | – | – | – | – |
| Issue of shares upon exercise of share options | 14,414 | – | 107,960 | – | – | – | – | – | – | (12,746) | – | 109,628 | – | 109,628 |
| Acquisition of additional interest in subsidiaries from non-controlling equity holders | – | – | – | – | (17,084) | – | – | – | – | – | – | (17,084) | (259) | (17,343) |
| Acquisition of subsidiaries (note 29) (restated) | – | – | – | – | – | – | – | – | – | – | – | – | 345,689 | 345,689 |
| Capital contribution by non-controlling interest | – | – | – | – | (3,443) | – | – | – | – | – | – | (3,443) | 21,358 | 17,915 |
| Transfer to PRC statutory reserves | – | – | – | – | – | 85,095 | – | – | – | – | (85,095) | – | – | – |
| Dividends paid (note 13) | – | – | – | – | – | – | – | – | – | – | (899,110) | (899,110) | (2,597) | (901,707) |
| At 31 March 2017 (restated) | 1,530,256 | – | 151,356 | (16,132) | (24,594) | 311,118 | (366,861) | 25,148 | (448) | 14,300 | 3,414,399 | 5,038,542 | 370,377 | 5,408,919 |
| Profit for the year | – | – | – | – | – | – | – | – | – | – | 1,535,908 | 1,535,908 | 18,038 | 1,553,946 |
| Exchange differences arising on translation of financial statements of foreign operations | – | – | – | – | – | – | 460,214 | – | – | – | – | 460,214 | 62,322 | 522,536 |
| Increase in fair value of property, plant and equipment and land lease premium transferred to investment property, net of deferred tax | – | – | – | – | – | – | – | 3,578 | – | – | – | 3,578 | – | 3,578 |
| Total comprehensive income for the year | – | – | – | – | – | – | 460,214 | 3,578 | – | – | 1,535,908 | 1,999,700 | 80,360 | 2,080,060 |
| Repurchase of shares | (9,932) | – | (158,525) | – | – | – | – | – | – | – | – | (168,457) | – | (168,457) |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | – | – | – | 8,734 | – | 8,734 | – | 8,734 |
| Issue of shares upon exercise of share options | 11,187 | – | 99,720 | – | – | – | – | – | – | (9,811) | – | 101,096 | – | 101,096 |
| Acquisition of additional interest in subsidiaries from non-controlling equity holders | – | – | – | – | 12,442 | – | – | – | – | – | – | 12,442 | (12,442) | – |
| Acquisition of subsidiaries (note 29) | – | – | – | – | – | – | – | – | – | – | – | – | 25,144 | 25,144 |
| Capital contribution by non-controlling interest | – | – | – | – | – | – | – | – | – | – | – | – | 17,828 | 17,828 |
| Transfer to PRC statutory reserves | – | – | – | – | – | 96,205 | – | – | – | – | (96,205) | – | – | – |
| Dividends paid (note 13) | – | – | – | – | – | – | – | – | – | – | (1,028,840) | (1,028,840) | – | (1,028,840) |
| At 31 March 2018 | 1,531,511 | – | 92,551 | (16,132) | (12,152) | 407,323 | 93,353 | 28,726 | (448) | 13,223 | 3,825,262 | 5,963,217 | 481,267 | 6,444,484 |

Notes:

(i) Special reserve arose from the acquisition of equity interest of certain subsidiaries through a corporate reorganisation. It represents the difference between the nominal value of share capital of those subsidiaries at the date of acquisition and the nominal value of the shares issued by the Company as consideration for the acquisition.

(ii) Other reserve arose from the acquisition of the additional equity interest of subsidiaries. It represents the difference between the carrying amount of the net assets of the subsidiaries attributable to the additional interest at the dates of acquisition and the fair value of consideration paid by the Company.

(iii) The statutory reserve represents the amount transferred from profit after taxation of the subsidiaries established in the Mainland of People's Republic of China (the "PRC") in accordance with the relevant PRC laws until the PRC statutory reserve reaches 50% of the registered capital of the respective subsidiaries. The statutory reserve can be applied either in setting off the accumulated losses or increasing capital.

# Consolidated Statement of Cash Flows

For the year ended 31 March 2018

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before income tax | **1,922,585** | 2,052,346 |
| Adjustments for: | | |
| Amortisation of other intangible assets | **24,584** | 4,549 |
| Depreciation of properties, plant and equipment | **175,828** | 153,699 |
| Equity-settled share-based payments expense | **8,734** | 11,067 |
| Fair value loss (gain) on held for trading investments | **8,747** | (11,618) |
| Fair value gain on investment properties | **(4,456)** | (2,054) |
| Finance costs | **23,542** | 10,271 |
| Reversal of allowance for inventories | **(1,512)** | (2,781) |
| Allowance for trade receivables | **635** | – |
| Interest income | **(31,338)** | (19,082) |
| Dividend income from an available-for-sale investment | **–** | (254) |
| Income on structured deposits | **(19,741)** | (7,602) |
| Loss on disposal of property, plant and equipment | **2,123** | 207 |
| Release of lease premium for land | **14,106** | 9,567 |
| Operating cash flows before movements in working capital | **2,123,837** | 2,198,315 |
| Increase in inventories | **(300,407)** | (124,778) |
| Increase in trade receivables | **(385,056)** | (24,579) |
| Increase in other receivables and prepayments | **(182,403)** | (80,369) |
| Increase in trade payables | **362,416** | 11,333 |
| Increase in other payables and accruals | **155,964** | 27,591 |
| Increase in receipt in advance from sales of properties under development | **50,011** | – |
| Decrease in other non-current liabilities | **(3,199)** | (15,657) |
| Cash generated from operations | **1,821,163** | 1,991,856 |
| Interest paid | **(23,542)** | (10,271) |
| Interest received | **31,338** | 19,082 |
| Income tax paid, net | **(367,235)** | (260,235) |
| NET CASH FROM OPERATING ACTIVITIES | **1,461,724** | 1,740,432 |

| | NOTE | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Investment in structured deposits | | **(13,301,034)** | (3,948,772) |
| Investment on held for trading investment | | **(250,047)** | (407,883) |
| Purchase of property, plant and equipment | | **(610,090)** | (252,419) |
| Construction of properties under development | | **(81,579)** | (240,142) |
| Payment of lease premium for land | | **(235,551)** | (81,326) |
| Deposits paid for acquisition of property, plant and equipment | | **(114,616)** | (62,308) |
| Deposits paid for acquisition of land lease | | **–** | (11,280) |
| Withdrawal of (placement in) restricted bank balances | | **1,954** | (8,667) |
| Purchase of other intangible assets | | **(778)** | (83) |
| Proceeds on disposal of structured deposits | | **13,320,775** | 3,981,734 |
| Proceeds from disposal of held for trading investment | | **300,128** | 52,021 |
| Withdrawal of short term time deposits with maturity over 90 days | | **–** | 35,913 |
| Proceeds from disposal of property, plant and equipment | | **7,260** | 3,892 |
| Proceeds from capital reduction of an available-for-sale investment | | **–** | 1,729 |
| Acquisition of subsidiaries | 29 | **(137,845)** | 269 |
| Dividend received from an available-for-sale investment | | **–** | 254 |
| NET CASH USED IN INVESTING ACTIVITIES | | **(1,101,423)** | (937,068) |
| FINANCING ACTIVITIES | | | |
| Dividends paid | | **(1,028,840)** | (899,110) |
| Repurchase of shares | | **(168,457)** | (342,067) |
| Repayment of borrowings | | **(699,897)** | (60,147) |
| Acquisition of additional interest in a subsidiary | | **–** | (17,343) |
| Dividend paid to an non-controlling equity holder of a subsidiary | | **–** | (2,597) |
| New borrowings raised | | **953,121** | 772,385 |
| Proceeds from issue of shares upon exercise of share options | | **101,096** | 109,628 |
| Capital contribution by non-controlling equity holders of subsidiaries | | **17,828** | 17,915 |
| NET CASH USED IN FINANCING ACTIVITIES | | **(825,149)** | (421,336) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | **(464,848)** | 382,028 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **1,808,298** | 1,411,635 |
| Effect of foreign exchange rate changes | | **63,509** | 14,635 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | | **1,406,959** | 1,808,298 |

## 1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended). Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") with effect from 9 April 2010. The Company's immediate and ultimate holding company is Man Wah Investments Limited, which is owned by Mr. Wong Man Li and Ms. Hui Wai Hing, directors of the Company.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 39.

The address of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The functional currency of the Company is United States dollars ("USD"). The consolidated financial statements of the Company are presented in Hong Kong dollars ("HKD") for the convenience of the shareholders as the Company is listed in Hong Kong.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

### (i) Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

| | |
|---|---|
| Amendments to IAS 7 | Disclosure Initiative |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to IFRS 12 | As part of the Annual Improvements to IFRSs 2014–2016 Cycle |

*Amendments to IAS 7 Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other business; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 38. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 38, the application of these amendments has had no impact on the Group's consolidated financial statements.

Except as described above, the application of the amendments to IFRSs 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 REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – continued

### (ii) New and revised IFRSs issued but not yet effective

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

| | |
|---|---|
| IFRS 9 | Financial Instruments[1] |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendements[1] |
| IFRS 16 | Leases[2] |
| IFRS 17 | Insurance Contracts[4] |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration[1] |
| IFRIC 23 | Uncertainty over Income Tax Treatments[2] |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1] |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation[2] |
| Amendments to IFRS 10 | Sale or Contribution of Assets between an Investor and IAS 28 and its Associate or Joint Venture[3] |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement[2] |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle[1] |
| Amendments to IAS 40 | Transfers of Investment Property[1] |
| Amendments to IFRSs | Annual Improvements to IFRS Standards 2015–2017 Cycle[2] |

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 2021

# 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – continued

## (ii) New and revised IFRSs issued but not yet effective – continued

*IFRS 9 Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 March 2018, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

*Classification and measurement*

All financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

*Impairment*

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs that are subject to impairment provision upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 April 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would increase the opening accumulated losses at 1 April 2018.

# 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – continued

## (ii) New and revised IFRSs issued but not yet effective – continued

*IFRS 15 Revenue from Contracts with Customers*

iFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 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 IFRS 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 IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 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 IFRS 15 in the future may result in more disclosure, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

*IFRS 16 Leases*

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

IFRS 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.

# 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – continued

## (ii) New and revised IFRSs issued but not yet effective – continued

*IFRS 16 Leases – continued*

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, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for own use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised land use rights for leasehold land where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 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 IFRS 16.

As at 31 March 2018, the Group has non-cancellable operating lease commitments of HK$61,475,000 as disclosed in Note 31. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, 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.

In addition, the Group currently considers refundable rental deposits paid of HK$18,797,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments of refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The directors of the Company anticipate that the application of other new and amendments to IFRSs and Interpretations will have no material effect on amounts reported in the consolidated financial statements and/or disclosures set out in these consolidated financial statements of the Group.

## 3. RESTATEMENT RESULTED FROM ADJUSTMENT TO PROVISIONAL AMOUNTS

The assets acquired and liabilities recognised in relation to the acquisition of subsidiaries set out in the consolidated financial statements for the year ended 31 March 2017 were based on a provisional assessment. The assessment of any necessary adjustments to the carrying amount of intangible assets has not been completed by the date on which the consolidated financial statements for the above financial statements were approved for issuance by the directors of the Company. The Group has completed the assessment of such adjustments as at 31 March 2018. In accordance with the assessment agreed by the Group and the independent valuer, the fair value of intangible assets were finalised at an aggregate amount of HK$194,092,000, resulting in an increase of HK$20,990,000 over their provisional values, a decrease in goodwill of HK$8,396,000 and an increase in non-controlling interests arising from acquisition of HK$12,594,000. The comparative information was restated to reflect the above adjustments to the provisional amounts.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values 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 and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic 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 IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

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

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

The principal accounting policies are set out below.

# 4. SIGNIFICANT ACCOUNTING POLICIES – continued

## 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.

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

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

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

Non-controlling interest in subsidiaries are presented in the consolidated statement of financial position within equity, separately from equity attributable to owners of the Company. Non-controlling interest in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

### *Changes in the Group's ownership interests in existing subsidiaries*

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

# 4. SIGNIFICANT ACCOUNTING POLICIES – continued

## Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

# 4. SIGNIFICANT ACCOUNTING POLICIES – continued

## Business combinations – continued

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

## Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the CGU (or group of CGUs).

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

# 4. SIGNIFICANT ACCOUNTING POLICIES – continued

## Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and any accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in revaluation surplus. On the subsequent sale or retirement of the asset, the relevant revaluation surplus will be transferred directly to retained profits.

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

# 4. SIGNIFICANT ACCOUNTING POLICIES – continued

## Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rental or for capital appreciation purpose are classified and accounted for as investment property and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

## Properties under development

When the leasehold land and buildings are in the course of development for sale, the leasehold land component is amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of the costs of the properties under development.

Properties under development which are intended to be held for own use or their investment potential are shown as non-current assets.

Properties under development which are intended to be held for sale are shown as current assets and carried at the lower of cost and net realisable value

## Intangible assets

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

# 4. SIGNIFICANT ACCOUNTING POLICIES – continued

## Intangible assets – continued

*Research and development expenditure*

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

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

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

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

Subsequent to initial recognition, internally-generated intangible asset are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

# 4. SIGNIFICANT ACCOUNTING POLICIES – continued

## Impairment losses on tangible and intangible assets other than goodwill

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

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 (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

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

*Financial assets*

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") and 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

*Financial assets – continued*

*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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than financial assets classified as FVTPL, of which interest income is included in net gains or losses.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in gain from changes in fair value of held for trading investments. Fair value is determined in the manner described in note 36.

*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 and other receivables, structured deposits, restricted bank balances 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.

# 4. SIGNIFICANT ACCOUNTING POLICIES – continued

## Financial instruments – continued

*Financial assets – continued*

*Impairment of financial assets*

Financial assets, other than FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets 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 and 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 of 30 to 90 days for export customers and 180 days for high speed train manufacturers, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. 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 losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# 4. 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 instrument*

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 Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments (i.e. treasury shares) is recognised and deducted directly from equity attributable to the owners of the Company until the shares are cancelled or re-issued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*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.

*Other financial liabilities*

Other financial liabilities (including trade and other payables and variable-rate bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

*Derecognition*

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable 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. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

*Equity-settled share-based payment transactions*

*Share options granted to employees*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instrument that will eventually vest, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

When the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

For shares of the Company granted under the Share Award Scheme (as defined in note 28), the fair value of the employee services received is determined by reference to the fair value of shares granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share held under share award scheme reserve). At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to the share award scheme reserve.

### Leasing

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

*The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

*The Group as lessee*

Operating lease payments, including the cost of acquiring land held under operating lease, 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES – continued

### Leasing – continued

*Leasehold land and building*

When the Group makes payments for a property interests which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "lease premium for land" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

### Inventories

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

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business. Revenue is reduced for estimated customer returns, rebates and similar allowances and sales related taxes.

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

Revenue from sale of properties in the ordinary course of business is recognised upon delivery of the properties to the buyers, at which time all of the following criteria are satisfied:

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

Deposit received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

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.

Dividend income from investments is recognised when rights to receive payment have been established.

The Group's accounting policy for recognition of revenue from operating leases is described in the amounting policy for leasing above.

# 4. SIGNIFICANT ACCOUNTING POLICIES – continued

## Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

## Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to the Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plan.

## Short-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.

## Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

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

## 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 profit before income tax 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.

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 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES – continued

### Taxation – continued

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset 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.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax asset for such investment properties are measured in accordance with the above general principles set out in IAS 12 (i.e. based on the expected manner as to how to economic benefits embodied in the properties will be recovered).

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

### 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 recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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.

# 4. SIGNIFICANT ACCOUNTING POLICIES – continued

## Foreign currencies – continued

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. HKD) using exchange rates prevailing at the end of each reporting period. income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interest as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint venture that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

# 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

### Key sources of estimation uncertainty

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

*Estimated impairment loss on trade receivables*

The assessment of the impairment loss on trade receivables of the Group is based on the evaluation of collectability using management's estimation. A considerable amount of management's estimation is required in assessing the ultimate realisation of these receivables, including the ageing of the trade receivables balances, the repayment history and the current creditworthiness of each customer. 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 the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 March 2018, the carrying amount of trade receivables is HK$920,939,000 (2017: HK$632,196,000).

### Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimations (see above), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

*Recognition of deferred taxation*

At 31 March 2018, the Group recognised deferred tax liabilities of approximately HK$27,868,000 (2017: HK$21,934,000) in relation to the earnings expected to be distributed from the subsidiaries. Deferred tax liabilities have not been recognised on the distributable profits of those subsidiaries that the Group plans to retain in the respective entities for their daily operations and future developments. In case where the actual distribution of profits are larger than expected, material tax liabilities will arise, which will be recognised in the profit or loss for the period in which such profits are declared or the future development plan of the Group vanished, whichever is earlier.

No deferred tax assets have been recognised in respect of the unused tax losses of approximately HK$203,677,000 (2017: HK$138,360,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than or more than expected, a material reversal or recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or recognition takes place. Details of the related unrecognised deferred taxation are set out in note 18.

*Control over investees accounted for as subsidiaries*

Certain investees are considered to be subsidiaries of the Company despite the interest therein are not more than 50% of the issued share capital of the relevant investees. Based on the contractual power pursuant to the relevant shareholders' agreement between the Group and the other shareholders, the Group has the majority voting power in the board of directors in the respective investees, by which the relevant activities that significantly affect the return of the investees are determined, and hence has control over these investees. Accordingly, those investees are accounted for as subsidiaries of the Company. Further detail are set out in notes 29 and 39.

## 6. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts, sales taxes and returns.

The Group's operating and reportable segments, based on information reported to the Company's executive directors, being the chief operating decision makers of the Group, in respect of the Group's performance regarding different products via different distribution channels, are as follows:

| | | |
|---|---|---|
| Sofa and ancillary products | – | manufacture and distribution of sofas and ancillary products through wholesale and distributors other than those by Jiangsu Yulong Intelligent Technology Co., Limited, ("Jiangsu Yulong") and Home Group Ltd and its subsidiaries ("Home Group") |
| Other products | – | manufacture and distribution of the chairs, mattresses, smart furniture spare parts etc. used in high-speed railways |
| Home Group business | – | manufacture and distribution of sofas and ancillary products by Home Group |
| Jiangsu Yulong business | – | production and sales of metal components for furniture business by Jiangsu Yulong |

The sofa and ancillary products segment includes a number of sales operation in various locations, each of which is considered as a separate operating segment by the executive directors. For segment reporting, these individual operating segments have been aggregated into a single reportable segment in order to present a more systematic and structured segment information on the performance of different type of products.

The Company's executive directors make decisions based on the operating results of each segment and review reports on the aging analysis of trade receivables and expected usage of inventories of the Group as a whole. No information of segment assets and liabilities is reviewed by the Company's executive directors for the assessment of performance of operating segments. Therefore, only the segment revenue and segment results are presented.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results represent the profit before income tax earned by each segment without allocation of interest income, income on structured deposits, rental income, net exchange (loss) gain, fair value gain on investment properties, government subsidies, finance costs, central administrative costs and directors' emoluments. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

# 6. REVENUE AND SEGMENT INFORMATION – continued

The information of segment revenue and segment results are as follows:

## For the year ended 31 March 2018

| | Sofa and ancillary products HK$'000 | Other products HK$'000 | Home Group business HK$'000 | Jiangsu Yulong business HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| External sales | 8,075,623 | 925,934 | 870,956 | 154,060 | 10,026,573 |
| **RESULTS** | | | | | |
| Segment results | 1,873,033 | 211,163 | 15,933 | 25,245 | 2,125,374 |
| Interest income | | | | | 31,311 |
| Income on structured deposits | | | | | 19,741 |
| Rental income | | | | | 6,200 |
| Exchange loss – net | | | | | (21,527) |
| Government subsidies | | | | | 216,211 |
| Fair value gain on investment properties | | | | | 4,456 |
| Finance costs | | | | | (16,992) |
| Central administrative costs and directors' emoluments | | | | | (442,189) |
| Profit before income tax | | | | | 1,922,585 |

# 6. REVENUE AND SEGMENT INFORMATION – continued

## For the year ended 31 March 2017

| | Sofa and ancillary products HK$'000 | Other products HK$'000 | Home Group business HK$'000 | Jiangsu Yulong business HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| External sales | 6,981,725 | 594,802 | 202,488 | – | 7,779,015 |
| **RESULTS** | | | | | |
| Segment results | 1,985,210 | 119,888 | 3,371 | – | 2,108,469 |
| Interest income | | | | | 19,078 |
| Income on structured deposits | | | | | 7,602 |
| Rental income | | | | | 4,250 |
| Exchange gain – net | | | | | 171,056 |
| Government subsidies | | | | | 70,615 |
| Fair value gain on investment properties | | | | | 2,054 |
| Finance costs | | | | | (7,856) |
| Central administrative costs and directors' emoluments | | | | | (322,922) |
| Profit before income tax | | | | | 2,052,346 |

## 6. REVENUE AND SEGMENT INFORMATION – continued

Other information:

| | Sofa and ancillary products HK$'000 | Other products HK$'000 | Home Group business HK$'000 | Jiangsu Yulong business HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Amounts included in the measure of segment result: | | | | | |
| For the year ended 31 March 2018 | | | | | |
| Loss (gain) on disposal of property, plant and equipment | **2,144** | **162** | **(183)** | **–** | **2,123** |
| Depreciation and amortisation | **157,767** | **4,982** | **34,503** | **3,160** | **200,412** |
| Release of lease premium for land | **14,106** | **–** | **–** | **–** | **14,106** |
| Allowance for trade receivables | **14** | **–** | **621** | **–** | **635** |
| (Reversal of) allowance for inventories | **(938)** | **438** | **(1,012)** | **–** | **(1,512)** |

| | Sofa and ancillary products HK$'000 | Other products HK$'000 | Home Group business HK$'000 | Jiangsu Yulong business HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| For the year ended 31 March 2017 | | | | | |
| Loss on disposal of property, plant and equipment | 162 | 38 | 7 | – | 207 |
| Depreciation and amortisation | 145,821 | 5,718 | 6,709 | – | 158,248 |
| Release of lease premium for land | 9,567 | – | – | – | 9,567 |
| Reversal of allowance for inventories | (2,208) | (24) | (549) | – | (2,781) |

## 6. REVENUE AND SEGMENT INFORMATION – continued

Geographical information:

Revenue from external customers by geographical location of customers are as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| PRC (including Hong Kong) | **4,831,080** | 3,362,407 |
| North America | **3,590,250** | 3,498,762 |
| Others (including Europe) | **1,605,243** | 917,846 |
| | **10,026,573** | 7,779,015 |

Note: Others included mainly United Kingdom, Australia, Ireland, United Arab Emirates, Israel, France, Sweden and Indonesia. Home Group business is included in Europe. No further analysis by countries of this category is presented because the revenue from each individual country is insignificant to the total revenue.

Information about the Group's non-current assets (excluding deferred tax assets) is presented based on the location of the assets:

| | 2018<br>HK$'000 | 2017<br>HK$'000<br>(restated) |
|---|---|---|
| PRC (including Hong Kong and Macau) | **4,348,397** | 3,125,119 |
| Europe | **557,666** | 559,060 |
| Others | **4,145** | 4,004 |
| | **4,910,208** | 3,688,183 |

During the year, none of the Group's customers individually contributed more than 10% of the Group's revenue (2017: none).

## 7. OTHER GAINS AND LOSSES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Exchange (loss) gain – net | **(19,119)** | 170,536 |
| Fair value gain on investment properties | **4,456** | 2,054 |
| Loss on disposal of property, plant and equipment | **(2,123)** | (207) |
| Allowance for trade receivables | **(635)** | – |
| (Loss) gain from changes in fair value of held for trading investments | **(8,747)** | 11,618 |
| | **(26,168)** | 184,001 |

## 8. FINANCE COSTS

The amount mainly represents interest on bank borrowings.

## 9. INCOME TAX EXPENSE

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax ("PRC EIT") | **284,536** | 263,690 |
| PRC Withholding Income Tax | **70,328** | 17,447 |
| U.S. Federal and State Current Income Taxes ("U.S. CIT") | **1,776** | 1,660 |
| Others | **1,408** | 310 |
| | **358,048** | 283,107 |
| Underprovision in prior years: | | |
| PRC EIT | **4,647** | 8,143 |
| U.S. CIT | **225** | – |
| | **4,872** | 8,143 |
| Deferred tax (note 18) | **5,719** | 1,972 |
| | **368,639** | 293,222 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. However, the assessable profit for the current year has been wholly absorbed by the tax losses brought forward.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the general tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The EIT Law imposes withholding tax upon the distribution of the profits earned by the Company's PRC subsidiaries on or after 1 January 2008 to their non-resident shareholders, details of which are set out in note 18.

The high technology enterprise qualification of one of the Group's subsidiaries expired on 31 December 2016 and accordingly, the applicable tax rate for the relevant subsidiary changed from 15% to 25% from then.

During the year ended 31 March 2018, a PRC subsidiary of the Company, carrying out business in the western region of the PRC, obtained the approval to enjoy the preferential tax rate of 15%.

The U.S. CIT charge comprises federal income tax calculated at 34% and state income tax calculated from 0% to 9.00% (2017: 0% to 8.84%) on the estimated assessable profits of the subsidiary of the Company which was incorporated in the U.S..

## 9. INCOME TAX EXPENSE – continued

As stated on Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, the Group's Macau subsidiary is exempted from Macao Complementary Tax.

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Profit before income tax | **1,922,585** | 2,052,346 |
| Tax at the PRC EIT rate of 25% (2017: 25%) | **480,646** | 513,087 |
| Tax effect of expenses not deductible in determining taxable profit | **13,152** | 20,097 |
| Tax effect of income not taxable in determining taxable profit | **(5,202)** | (12,523) |
| Underprovision in prior years | **4,872** | 8,143 |
| Effect of different tax rates of subsidiaries operating in other jurisdiction | **(166,505)** | (138,680) |
| Tax effect of tax losses not recognised | **13,436** | 7,152 |
| Utilisation of tax losses previously not recognised | **(29)** | (4,840) |
| PRC Withholding Income Tax | **75,541** | 18,860 |
| Tax effect of profit of a subsidiary under tax exemption | **(47,272)** | (118,074) |
| Tax charge for the year | **368,639** | 293,222 |

## 10. PROFIT FOR THE YEAR

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging: | | |
| Directors' emoluments (note 11) | **16,305** | 16,937 |
| Other staff costs | | |
| Salaries and other allowances, including share option expenses | **1,349,530** | 1,015,791 |
| Retirement benefit scheme contributions, excluding those of directors | **48,382** | 43,657 |
| Total staff costs | **1,414,217** | 1,076,385 |
| Auditor's remuneration (including non-audit services) | **5,377** | 4,180 |
| Release of lease premium for land | **14,106** | 9,567 |
| Amortisation of other intangible assets (recognised in selling and distribution expenses) | **24,584** | 4,549 |
| Depreciation of properties, plant and equipment | **175,828** | 153,699 |
| Cost of inventories recognised as an expense | **6,250,109** | 4,497,502 |
| Research and development expenditure | **35,036** | 26,111 |
| And crediting: | | |
| Recognised in cost of goods sold: | | |
| Reversal of allowance for inventories | **1,512** | 2,781 |
| Recognised in other income: | | |
| Interest income (including interest income from held for trading investments) | **31,338** | 19,082 |
| Income on structured deposits (Note i) | **19,741** | 7,602 |
| Dividend income from an available-for-sale investment | **–** | 254 |
| Rental income from investment properties less outgoings | **6,169** | 4,182 |
| Government subsidies recognised in other income (Note ii) | **216,211** | 70,615 |

Notes:

(i) During the year, the Group invested into structured deposits with certain banks in the PRC by using unutilised funds for investment returns. Majority of the structured deposits are with maturities less than 6 months.

(ii) The government subsidies recognised in other income of HK$216,211,000 (2017: HK$70,615,000) mainly represented the subsidies on PRC taxes paid, photovoltaic power generation, export credit insurance expenses, and research and development cost incurred in the year.

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### (a) Directors

Details of the emoluments paid to the directors of the Company for the year are as follows:

| Name of director | Directors' fee HK$'000 | Performance related incentive payments (Note vi) HK$'000 | Salaries and other allowances HK$'000 | Share-based payment HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| For the year ended 31 March 2018 | | | | | | |
| *Executive Directors:* | | | | | | |
| Mr. Wong Man Li (Chairman) | 300 | 148 | 1,316 | 178 | 18 | 1,960 |
| Ms. Hui Wai Hing | 300 | 113 | 1,036 | 267 | – | 1,716 |
| Mr. Wang Guisheng (Note i) | 300 | 186 | 2,041 | 97 | 32 | 2,656 |
| Mr. Alan Marnie | 300 | – | 5,111 | 315 | – | 5,726 |
| Mr. Dai Quanfa | 300 | 155 | 1,217 | 283 | 24 | 1,979 |
| Ms. Wong Ying Ying | 300 | 90 | 541 | 131 | 6 | 1,068 |
| Mr. Tsang Hoi Lam (Note ii) | – | – | – | – | – | – |
| *Independent Non-executive Directors:* | | | | | | |
| Mr. Ong Chor Wei | 300 | – | – | – | – | 300 |
| Mr. Chau Shing Yim David | 300 | – | – | – | – | 300 |
| Mr. Kan Chung Nin, Tony | 300 | – | – | – | – | 300 |
| Mr. Ding Yuan | 300 | – | – | – | – | 300 |
| | 3,000 | 692 | 11,262 | 1,271 | 80 | 16,305 |

# 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – continued

## (a) Directors – continued

| Name of directors | Directors' fee HK$'000 | Performance related incentive payments (Note vi) HK$'000 | Salaries and other allowances HK$'000 | Share-based payment HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| For the year ended 31 March 2017 | | | | | | |
| *Executive Directors:* | | | | | | |
| Mr. Wong Man Li (Chairman) | 250 | 218 | 1,235 | 195 | 18 | 1,916 |
| Ms. Hui Wai Hing | 250 | 178 | 1,016 | 278 | – | 1,722 |
| Mr. Wang Guisheng | 250 | 137 | 1,794 | 1,032 | 33 | 3,246 |
| Mr. Alan Marnie | 250 | – | 5,014 | 793 | – | 6,057 |
| Mr. Dai Quanfa | 250 | 153 | 1,116 | 412 | 24 | 1,955 |
| Ms. Wong Ying Ying | 250 | 81 | 418 | 152 | 6 | 907 |
| *Non-executive Director:* | | | | | | |
| Mr. Xie Fang (Note iii) | 71 | – | – | – | – | 71 |
| *Independent Non-executive Directors:* | | | | | | |
| Mr. Ong Chor Wei | 250 | – | – | – | – | 250 |
| Mr. Lee Teck leng Robson (Note iv) | 250 | – | – | – | – | 250 |
| Mr. Chau Shing Yim David | 250 | – | – | – | – | 250 |
| Mr. Kan Chung Nin, Tony | 250 | – | – | – | – | 250 |
| Mr. Ding Yuan (Note v) | 63 | – | – | – | – | 63 |
| | 2,634 | 767 | 10,593 | 2,862 | 81 | 16,937 |

Notes:

(i) Resigned as an executive director of the Company on 31 March 2018.

(ii) Appointed as an executive director of the Company on 31 March 2018.

(iii) Resigned as an non-executive director of the Company on 14 July 2016.

(iv) Resigned as an independent non-executive director of the Company on 31 December 2016.

(v) Appointed as an independent non-executive director of the Company on 31 December 2016.

(vi) Performance related incentive payments are recommended by the Remuneration Committee and approved by the board of directors, having regard to the Group's operating result, individual performance and comparable market statistics.

(vii) The emoluments shown above for executive directors were mainly for their services in connection with the management of the affairs of the Company and the Group. The emoluments for the non-executive director were mainly for his services as director of the Company. The emoluments for independent non-executive directors were mainly for their services as directors of the Company.

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – continued

### (b) Senior management

All of the seven (2017: six) senior management members of the Company for the year ended 31 March 2018 are directors of the Company and their remuneration has been disclosed in note 11(a).

### (c) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group for the year ended 31 March 2018, two (2017: two) of them are directors of the Company whose emoluments are included in note 11(a).

The remuneration of the remaining three (2017: three) individuals for the years ended 31 March 2018 and 2017 are as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Salaries and other allowances | **18,068** | 18,644 |
| Performance related bonus | **714** | 685 |
| Contribution to retirement benefits scheme | **28** | 16 |
| Share-based payment expense | **1,669** | 1,287 |
| | **20,479** | 20,632 |

| | **Number of individuals** | |
|---|---|---|
| | **2018** | 2017 |
| Their emoluments were within the following bands: | | |
| HK$2,000,001 to HK$2,500,000 | **–** | 1 |
| HK$2,500,001 to HK$3,000,000 | **–** | 1 |
| HK$3,000,001 to HK$3,500,000 | **2** | – |
| HK$14,000,001 to HK$14,500,000 | **1** | – |
| HK$15,500,001 to HK$16,000,000 | **–** | 1 |
| | **3** | 3 |

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office (2017: nil). None of the directors waived any emoluments during the year (2017: none).

## 12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

### Earnings

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share | **1,535,908** | 1,752,370 |

### Number of shares

| | 2018<br>'000 | 2017<br>'000 |
|---|---|---|
| Weighted average number of ordinary shares in issue during the year for the purpose of basic earnings per share | **3,819,109** | 3,839,666 |
| Effect of dilutive potential ordinary shares – Share options | **16,587** | 14,323 |
| Weighted average number of ordinary shares in issue during the year for the purposes of diluted earnings per share | **3,835,696** | 3,853,989 |

During the year ended 31 March 2017, the Company issued bonus shares on the basis of one bonus share for every one existing share held by the shareholders on 4 August 2016. Accordingly, the weighted average number of shares for the purpose of basic and diluted earnings per share have been adjusted.

In addition, the weighted average number of shares for the year ended 31 March 2017 had been arrived at after eliminating the treasury shares held by the Company.

## 13. DIVIDENDS

During the year, the Company recognised the following dividends as distribution:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Final dividend for 2017 of HK$0.14 (2017: HK$0.19 for 2016) per share | **533,318** | 366,009 |
| Interim dividend for 2018 of HK$0.13 (2017: HK$0.14 for 2017) per share | **495,522** | 533,101 |
| | **1,028,840** | 899,110 |

## 13. DIVIDENDS – continued

A final dividend of HK$0.12 per share in respect of the year ended 31 March 2018, amounting to approximately HK$459,891,000, to be paid to the shareholders of the Company whose names appear on the Company's register of members on Friday, 13 July 2018, has been proposed by the board of directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land in Europe HK$'000 | Leasehold land and buildings outside the PRC HK$'000 | Buildings in the PRC HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fittings and office equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | | |
| At 1 April 2016 | – | 44,501 | 1,313,657 | 146,021 | 602,354 | 238,724 | 83,071 | 203,373 | 2,631,701 |
| Exchange adjustments | 377 | 2,944 | (76,720) | (8,297) | (29,727) | (14,142) | (4,370) | (10,093) | (140,028) |
| Additions | – | – | 623 | 10,911 | 44,444 | 28,129 | 23,217 | 176,827 | 284,151 |
| Transfers | – | 989 | 201,618 | 11,026 | 12,630 | 16,228 | – | (242,491) | – |
| Surplus on valuation upon transfer to investment properties | – | – | 28,218 | – | – | – | – | – | 28,218 |
| Acquired on acquisition of subsidiaries (note 29) | 26,804 | 150,949 | – | – | 62,390 | 7,161 | 2,657 | 1,937 | 251,898 |
| Transfer to investment properties (note 15) | – | – | (64,055) | – | – | – | – | – | (64,055) |
| Transfer from properties under development (note 19) | – | – | – | – | – | – | – | 84,012 | 84,012 |
| Disposals/written off | – | – | – | (12,269) | (5,682) | (6,644) | (7,145) | (261) | (32,001) |
| At 31 March 2017 | 27,181 | 199,383 | 1,403,341 | 147,392 | 686,409 | 269,456 | 97,430 | 213,304 | 3,043,896 |
| Exchange adjustments | 4,595 | 27,458 | 157,090 | 17,597 | 77,882 | 31,864 | 13,462 | 45,320 | 375,268 |
| Additions | – | 1,589 | 7,886 | 28,035 | 105,564 | 42,242 | 53,784 | 474,238 | 713,338 |
| Transfers | – | 46 | 111,308 | 24,613 | 25,349 | 8,503 | 141 | (169,960) | – |
| Surplus on valuation upon transfer to investment properties | – | – | 176 | – | – | – | – | – | 176 |
| Acquired on acquisition of subsidiaries (note 29) | – | – | – | 499 | 19,942 | 27 | 820 | – | 21,288 |
| Transfer to investment properties (note 15) | – | – | (5,882) | – | – | – | – | – | (5,882) |
| Transfer from properties under development (note 19) | – | – | – | – | – | – | – | 73,012 | 73,012 |
| Disposals/written off | – | – | (387) | (15,745) | (21,044) | (6,281) | (2,530) | – | (45,987) |
| At 31 March 2018 | 31,776 | 228,476 | 1,673,532 | 202,391 | 894,102 | 345,811 | 163,107 | 635,914 | 4,175,109 |

# 14. PROPERTY, PLANT AND EQUIPMENT – continued

| | Freehold land in Europe HK$'000 | Leasehold land and buildings outside the PRC HK$'000 | Buildings in the PRC HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fittings and office equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | | | | |
| At 1 April 2016 | – | 1,001 | 116,852 | 80,747 | 225,190 | 143,734 | 30,403 | – | 597,927 |
| Exchange adjustments | – | 653 | (6,617) | (4,887) | (7,233) | (8,682) | (1,514) | – | (28,280) |
| Acquired on acquisition of subsidiaries (note 29) | – | 44,659 | – | – | 39,574 | 5,207 | 1,561 | – | 91,001 |
| Provided for the year | – | 1,971 | 26,298 | 28,095 | 48,667 | 37,927 | 10,741 | – | 153,699 |
| Eliminated on disposals/ written off | – | – | – | (11,046) | (5,122) | (5,731) | (6,003) | – | (27,902) |
| Eliminated on transferred to investment properties (note 15) | – | – | (10,373) | – | – | – | – | – | (10,373) |
| At 31 March 2017 | – | 48,284 | 126,160 | 92,909 | 301,076 | 172,455 | 35,188 | – | 776,072 |
| Exchange adjustments | – | 8,550 | 15,157 | 10,730 | 32,133 | 20,722 | 4,621 | – | 91,913 |
| Provided for the year | – | 6,088 | 27,472 | 26,619 | 59,951 | 39,724 | 15,974 | – | 175,828 |
| Eliminated on disposals/ written off | – | – | – | (10,910) | (18,393) | (5,659) | (1,642) | – | (36,604) |
| At 31 March 2018 | – | 62,922 | 168,789 | 119,348 | 374,767 | 227,242 | 54,141 | – | 1,007,209 |
| CARRYING VALUES | | | | | | | | | |
| At 31 March 2018 | 31,776 | 165,554 | 1,504,743 | 83,043 | 519,335 | 118,569 | 108,966 | 635,914 | 3,167,900 |
| At 31 March 2017 | 27,181 | 151,099 | 1,277,181 | 54,483 | 385,333 | 97,001 | 62,242 | 213,304 | 2,267,824 |

## 14. PROPERTY, PLANT AND EQUIPMENT – continued

During the year ended 31 March 2018, the Group transferred property, plant and equipment with a fair value of HK$5,882,000 (2017: HK$53,682,000) to investment properties as evidenced by the end of owner occupation. The difference between net book value and fair value has been credited to revaluation surplus. The fair value was determined based on the professional valuation carried out by Cushman & Wakefield Valuation Advisory Services (HK) Limited ("Cushman & Wakefield"), a professional valuer independent to the Group at the date of transfer for both years. The fair values were determined by a direct comparison approach, which makes reference to the market evidence of transaction prices for similar properties in the same locations and conditions and adjusted for a number of factors, including differences in location within the city, size, building age, etc., between the comparable properties and the subject matters. The fair value measurement for the property is categorised as level 3 (see note 4). Any changes in the significant unobservable inputs while other variables were held constant, the change in fair value of the property at the date of transfer would not be significant to the Group.

There were no transfers into or out of level 3 during the year.

The Group's interest in freehold land and leasehold land and buildings outside the PRC is listed at net book value as follows:

| | **Medium-term** | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| Macau | **41,898** | 42,699 |
| Ukraine | **47,820** | 41,477 |
| Lithuania | **29,754** | 25,170 |
| Estonia | **43,694** | 38,981 |
| Poland | **34,164** | 29,953 |
| | **197,330** | 178,280 |

The Group's construction in progress is located in the PRC and Ukraine.

The above items of property, plant and equipment, except for freehold land and construction in progress, are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | 50 years or over the term of the relevant lease for land, whichever is shorter |
| Leasehold improvements | 5 years or over the term of the relevant lease, whichever is shorter |
| Plant and machinery | 10% – 20% |
| Furniture, fittings and office equipment | 20% – 33% |
| Motor vehicles | 12.5% – 20% |

## 15. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| At 1 April 2016 | 52,156 |
| Acquired on acquisition of subsidiaries (note 29) | 56,515 |
| Transfer from property, plant and equipment (note 14) | 53,682 |
| Transfer from lease premium for land | 6,719 |
| Fair value gain | 2,054 |
| Exchange adjustments | (345) |
| At 31 March 2017 | 170,781 |
| Transfer from property, plant and equipment (note 14) | 5,882 |
| Transfer from lease premium for land | 9,573 |
| Fair value gain | 4,456 |
| Exchange adjustments | 20,161 |
| At 31 March 2018 | 210,853 |

The fair value measurement for all of the Group's investment properties are categorised as level 3 (see note 4). The fair values were determined based on professional valuations carried out by Cushman & Wakefield and OBEKC (2017: Cushman & Wakefield and OBEKC). The fair values were determined by comparison method, investment method or cost replacement method. The comparison method makes reference to the market evidence of transaction prices for similar properties in the same locations and conditions and adjusted for a number of factors, including differences in location within the city, size, building age, etc., between the comparable properties and the subject matters. Investment method capitalises the net income from existing tenancies with due allowance for reversionary income potential at appropriate capitalisation rates for individual properties. Replacement cost method reflects the amount that would be required for acquiring or constructing an equivalent building.

Any changes in the significant unobservable inputs while other variables were held constant, the changes in fair value of the Group's investment properties would not be significant to the Group. There has been no change to the valuation technique or level of fair value hierarchy during the year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The carrying value of investment properties shown above comprises:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Properties on lands under medium-term lease: | | |
| – in Hong Kong | **49,600** | 45,700 |
| – in Macau | **6,800** | 6,800 |
| – in PRC | **87,453** | 62,042 |
| | **143,853** | 114,542 |
| Properties on freehold land in Ukraine | **67,000** | 56,239 |
| | **210,853** | 170,781 |

# 16. LEASE PREMIUM FOR LAND

The Group's leasehold land is held under medium-term lease of 50 years and is situated in the PRC.

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current asset | **18,326** | 9,648 |
| Non-current asset | **787,109** | 451,219 |
| | **805,435** | 460,867 |

As at 31 March 2017, the Group had not obtained land use right certificates for a piece of leasehold land located in Wujiang, the PRC, with a carrying value of HK$33,686,000. The land use right certificate has been obtained during the current year.

As at 31 March 2018, the Group has not obtained land use right for a piece of leasehold land located in Huizhou, the PRC, with carrying value of HK$31,065,000. The land use right certificate has been obtained in April, 2018.

## 17. OTHER INTANGIBLE ASSETS

| | Trademarks | Technology knowhow | Customer relationship | Assembled workforce | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST | | | | | |
| At 1 April 2016 | 1,745 | – | – | – | 1,745 |
| Additions | 83 | – | – | – | 83 |
| Acquired on acquisition of subsidiaries (note 29) | 323 | 80,586 | 92,193 | – | 173,102 |
| Exchange adjustments | (47) | – | – | – | (47) |
| At 31 March 2017 | 2,104 | 80,586 | 92,193 | – | 174,883 |
| Remeasurement (note 3) | – | 40,293 | (19,303) | – | 20,990 |
| At 31 March 2017 (restated) | 2,104 | 120,879 | 72,890 | – | 195,873 |
| Additions | 778 | – | – | – | 778 |
| Acquired on acquisition of subsidiaries (note 29) | 2,009 | – | 40,281 | 1,509 | 43,799 |
| Exchange adjustments | 342 | 22,426 | 15,212 | 63 | 38,043 |
| At 31 March 2018 | 5,233 | 143,305 | 128,383 | 1,572 | 278,493 |
| ACCUMULATED AMORTISATION | | | | | |
| At 1 April 2016 | 1,363 | – | – | – | 1,363 |
| Exchange adjustments | (33) | – | – | – | (33) |
| Charge for the year | 230 | 2,014 | 2,305 | – | 4,549 |
| At 31 March 2017 | 1,560 | 2,014 | 2,305 | – | 5,879 |
| Exchange adjustments | 145 | 1,388 | 953 | 4 | 2,490 |
| Charge for the year | 357 | 14,511 | 9,642 | 74 | 24,584 |
| At 31 March 2018 | 2,062 | 17,913 | 12,900 | 78 | 32,953 |
| CARRYING VALUE | | | | | |
| At 31 March 2018 | 3,171 | 125,392 | 115,483 | 1,494 | 245,540 |
| At 31 March 2017 (restated) | 544 | 118,865 | 70,585 | – | 189,994 |

The above intangible assets have finite useful lives and are amortised on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Trademarks | 12.5% |
| Technology knowhow | 10% |
| Customer relationship | 10% – 20% |
| Assembled workforce | 20% |

# 18. DEFERRED TAXATION

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Deferred tax assets | **(3,590)** | (2,589) |
| Deferred tax liabilities | **56,158** | 42,830 |
| | **52,568** | 40,241 |

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the year:

| | **Withholding tax** HK$'000 | **Accelerated tax depreciation** HK$'000 | **Fair value change in relation to properties** HK$'000 (Note) | **Inventory provision** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2016 | 1,249 | 1,287 | 130 | (632) | 2,034 |
| Exchange adjustments | – | (89) | (9) | 31 | (67) |
| Acquired on acquisition of subsidiaries (note 29) | 19,272 | – | 10,598 | – | 29,870 |
| Charge to profit or loss | 1,413 | 31 | 289 | 239 | 1,972 |
| Charge to other comprehensive income | – | – | 6,432 | – | 6,432 |
| At 31 March 2017 | 21,934 | 1,229 | 17,440 | (362) | 40,241 |
| Exchange adjustments | 721 | 1,995 | 368 | (87) | 2,997 |
| Charge (credit) to profit or loss | 5,213 | 344 | 980 | (818) | 5,719 |
| Charge to other comprehensive income | – | – | 3,611 | – | 3,611 |
| At 31 March 2018 | 27,868 | 3,568 | 22,399 | (1,267) | 52,568 |

The Group had unused tax losses of HK$203,677,000 (2017: HK$138,360,000) as at 31 March 2018 available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit stream. Most of the unused tax losses will expire in various dates in the next five years.

Withholding tax is imposed on dividends declared in respect of profits earned by the subsidiaries in the PRC and some European countries. Except for deferred tax liability of HK$27,868,000 (2017: HK$21,934,000) which has been recognised, deferred taxation has not been recognised in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of subsidiaries amounting to HK$3,250,994,000 (2017: HK$2,564,200,000) as at 31 March 2018 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Note: Amounts included deferred tax on fair value change in investment properties and property, plant and equipment upon its transfer to investment properties.

## 19. PROPERTIES UNDER DEVELOPMENT

| | HK$'000 |
|---|---|
| At 1 April 2016 | 304,043 |
| Additions | 240,142 |
| Transfer to property, plant and equipment (note 14) | (84,012) |
| Transfer to lease premium for land | (53,259) |
| Exchange adjustments | (22,433) |
| At 31 March 2017 | 384,481 |
| Additions | 81,579 |
| Transfer to property, plant and equipment (note 14) | (73,012) |
| Transfer to lease premium for land | (48,649) |
| Exchange adjustments | 39,016 |
| At 31 March 2018 | 383,415 |

The balance represents the land and development cost of properties under development located at Wujiang, the PRC.

The Group tendered for a piece of land with 40,990 square meter, located in Wujiang, the PRC at a consideration of RMB217,246,000 in 2011, which is currently being developed the land into a commercial complex and some residential premises (together "Wujiang Project"). The Group originally planned to sell the whole Wujiang Project upon its completion. During the year ended 31 March 2017, after careful study on the local market, management adjusted their plan on the Wujiang Project and decided to develop the commercial complex into a flagship store to sell the Group's furniture products and a high end hotel which will be managed by an external hotel management company and residential premises mainly for sale. As the flagship store and the hotel is for the Group's own operation, the Group transferred an amount of HK$84,012,000 and HK$53,259,000 from properties under development to construction in progress included in property, plant and equipment and lease premium for land, respectively during the year ended 31 March 2017.

As part of the premises will be used for the Group's own operation, the Group transfers an amount of HK$73,012,000 and HK$48,649,000 from properties under development to construction in progress included in property, plant and equipment and lease premium for land, respectively, during the year ended 31 March 2018.

## 20. INVENTORIES

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Raw materials | **408,078** | 321,557 |
| Work-in-progress | **211,694** | 150,426 |
| Finished goods | **447,361** | 277,270 |
| | **1,067,133** | 749,253 |

## 21. TRADE RECEIVABLES/OTHER RECEIVABLES AND PREPAYMENTS

**At 31 March 2018**

| | Man Wah HK$'000 (Note a) | Jiangsu Yulong Business HK$'000 | Home Group business HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Trade receivables** | | | | |
| Trade receivables | 664,766 | 182,287 | 73,886 | 920,939 |
| Bills receivables | 32,472 | 2,686 | – | 35,158 |
| Trade and bills receivables | 697,238 | 184,973 | 73,886 | 956,097 |
| Other receivables and prepayments | | | | |
| Valued added taxes recoverable | 101,107 | 769 | 23,899 | 125,775 |
| Deposits | 29,127 | – | – | 29,127 |
| Prepayments to suppliers | 164,454 | 3,223 | 6,871 | 174,548 |
| Sundry receivables | 66,952 | 25 | 603 | 67,580 |
| | 361,640 | 4,017 | 31,373 | 397,030 |

**At 31 March 2017**

| | Man Wah HK$'000 (note a) | Jiangsu Yulong business HK$'000 | Home Group business HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Trade receivables** | | | | |
| Trade receivables | 579,572 | – | 52,624 | 632,196 |
| Bills receivables | 7,478 | – | – | 7,478 |
| Trade and bills receivables | 587,050 | – | 52,624 | 639,674 |
| Other receivables and prepayments | | | | |
| Valued added taxes recoverable | 35,067 | – | 20,169 | 55,236 |
| Deposits | 23,981 | – | 66 | 24,047 |
| Prepayments to suppliers | 106,759 | – | 5,770 | 112,529 |
| Sundry receivables | 41,982 | – | 1,335 | 43,317 |
| | 207,789 | – | 27,340 | 235,129 |

Note a: Man Wah represents the Group other than Jiangsu Yulong and Home Group Business.

## 21. TRADE RECEIVABLES/OTHER RECEIVABLES AND PREPAYMENTS – continued

Other than cash and credit card sales for retail transactions, the Group generally allows a credit period of 30 to 90 days for customers except for high speed train manufacturers which are state-owned enterprises which is allowed for a credit period of 180 days. The aged analysis of the Group's trade and bills receivables (net of allowance for doubtful debts) presented based on the invoice date at the end of the reporting period is as follows:

**At 31 March 2018**

| | Man Wah HK$'000 | Jiangsu Yulong business HK$'000 | Home Group business HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| 0–90 days | **646,442** | **184,973** | **73,131** | **904,546** |
| 91–180 days | **38,192** | **–** | **300** | **38,492** |
| Over 180 days | **12,604** | **–** | **455** | **13,059** |
| | **697,238** | **184,973** | **73,886** | **956,097** |

**At 31 March 2017**

| | Man Wah HK$'000 | Jiangsu Yulong business HK$'000 | Home Group business HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| 0–90 days | 565,214 | – | 52,218 | 617,432 |
| 91–180 days | 14,724 | – | 240 | 14,964 |
| Over 180 days | 7,112 | – | 166 | 7,278 |
| | 587,050 | – | 52,624 | 639,674 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits based on results from investigation of historical credit records of these customers.

Included in the Group's trade and bills receivable balance are receivables with aggregate carrying amount of approximately HK$89,591,000 (2017: HK$72,442,000) which are past due at the end of the reporting period for which the Group has not recognised 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.

The remaining trade and bills receivable balances of HK$866,506,000 (2017: HK$567,232,000) are neither past due nor impaired at the end of the reporting period for which the Group has not recognised an impairment loss since they are mainly the customers with good credit quality based on their repayment history.

## 21. TRADE RECEIVABLES/OTHER RECEIVABLES AND PREPAYMENTS – continued

### Aging (based on invoice date) of trade and bills receivables which are past due but not impaired

**At 31 March 2018**

| | Man Wah HK$'000 | Jiangsu Yulong business HK$'000 | Home Group business HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Within 90 days | **78,263** | **–** | **10,573** | **88,836** |
| 91–180 days | **–** | **–** | **300** | **300** |
| Over 180 days | **–** | **–** | **455** | **455** |
| | **78,263** | **–** | **11,328** | **89,591** |

**At 31 March 2017**

| | Man Wah HK$'000 | Jiangsu Yulong business HK$'000 | Home Group business HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Within 90 days | 64,763 | – | 3,797 | 68,560 |
| 91–180 days | 1,659 | – | 240 | 1,899 |
| Over 180 days | 1,817 | – | 166 | 1,983 |
| | 68,239 | – | 4,203 | 72,442 |

The Group has provided fully for trade and bills receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

### Movement in the allowance for doubtful debts

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| 1 April | **4,193** | 4,718 |
| Increase in allowance | **635** | – |
| Amounts written off as uncollectible | **(3,324)** | (257) |
| Exchange adjustments | **202** | (268) |
| 31 March | **1,706** | 4,193 |

## 22. HELD FOR TRADING INVESTMENTS

All held for trading investments are listed debentures carrying interest at fixed rates ranging from 7.95% to 8.50% (2017: 4.00% to 7.95%) per annum and maturity dates ranging from 15 February 2019 to 23 October 2020 (2017: 5 October 2019 to 7 February 2022).

The fair values for all of the Group's held for trading investments are categorised as level 2 which are quoted prices available from over-the-counter markets.

## 23. RESTRICTED BANK BALANCES

The restricted bank balances mainly represent deposits to banks which can be applied in designated property development projects and carry interest at prevailing deposit rate from 0.30% to 2.25% (2017: 0.35% to 1.5%) per annum.

## 24. BANK BALANCES AND CASH

Bank balances carry interest at prevailing deposit rates ranging from 0.001% to 1.5% per annum (2017: 0.001% to 1.1% per annum).

The Group's bank balances and cash that are not denominated in the functional currencies of the respective entities are as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| USD | **21,110** | 736,564 |
| Ukrainian Hryvnia ("UAH") | **80** | 3,449 |
| Renminbi | **1,372** | 2,176 |
| HKD | **12,058** | – |
| Other currencies | **413** | 1,252 |

## 25. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS/RECEIPT IN ADVANCE FROM SALES OF PROPERTIES UNDER DEVELOPMENT

**At 31 March 2018**

| | Man Wah HK$'000 | Jiangsu Yulong business HK$'000 | Home Group business HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Trade payables | | | | |
| Trade and bills payables | **514,968** | **137,901** | **101,033** | **753,902** |
| Other payables and accruals | | | | |
| Trade deposits received from customers | **194,848** | **197** | **2,917** | **197,962** |
| Accruals | **253,873** | **24,225** | **49,628** | **327,726** |
| Consideration payable for acquisition of Jiangsu Yulong | **149,925** | **–** | **–** | **149,925** |
| Others | **49,872** | **775** | **–** | **50,647** |
| Payables for acquisition of property, plant and equipment | **19,986** | **2,200** | **–** | **22,186** |
| | **668,504** | **27,397** | **52,545** | **748,446** |
| Receipt in advance from sales of properties under development (Note) | **50,011** | **–** | **–** | **50,011** |

Note: As at 31 March 2018, receipt in advance from sales of properties under development of approximately HK$50,011,000 is expected to be realised within twelve months from the end of the reporting period.

**At 31 March 2017**

| | Man Wah HK$'000 | Jiangsu Yulong business HK$'000 | Home Group business HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Trade payables | | | | |
| Trade and bills payables | 324,894 | – | 102,886 | 427,780 |
| Other payables and accruals | | | | |
| Trade deposits received from customers | 194,235 | – | 265 | 194,500 |
| Accruals | 182,675 | – | 40,562 | 223,237 |
| Others | 53,680 | – | – | 53,680 |
| Payables for acquisition of property, plant and equipment | 13,895 | – | – | 13,895 |
| | 444,485 | – | 40,827 | 485,312 |

The credit period on purchases of goods generally ranges from 30 to 60 days.

## 25. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS/RECEIPT IN ADVANCE FROM SALES OF PROPERTIES UNDER DEVELOPMENT – continued

The aged analysis of the Group's trade and bills payables presented based on the invoice date at the end of the reporting period is as follows:

**At 31 March 2018**

| | **Man Wah HK$'000** | **Jiangsu Yulong business HK$'000** | **Home Group business HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| 0–90 days | **514,968** | **137,901** | **98,829** | **751,698** |
| 91–180 days | **–** | **–** | **1,214** | **1,214** |
| Over 180 days | **–** | **–** | **990** | **990** |
| | **514,968** | **137,901** | **101,033** | **753,902** |

**At 31 March 2017**

| | Man Wah HK$'000 | Jiangsu Yulong business HK$'000 | Home Group business HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| 0–90 days | 323,563 | – | 97,622 | 421,185 |
| 91–180 days | 1,330 | – | 795 | 2,125 |
| Over 180 days | 1 | – | 4,469 | 4,470 |
| | 324,894 | – | 102,886 | 427,780 |

## 26. VARIABLE-RATE BANK BORROWINGS

The scheduled principal repayment dates of the Group with reference to the loan agreements are as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Secured (Note) | **74,314** | 76,367 |
| Unsecured | **1,266,394** | 998,563 |
| | **1,340,708** | 1,074,930 |
| The carrying amounts of the above borrowings are repayable: | | |
| Within one year | **1,316,799** | 1,047,636 |
| Within a period of more than one year but not exceeding two years | **13,190** | 24,766 |
| Within a period of more than two years but not exceeding five years | **10,719** | 2,528 |
| | **1,340,708** | 1,074,930 |
| Less: Amounts due within one year shown under current liabilities | **(1,316,799)** | (1,047,636) |
| Amounts shown under non-current liabilities | **23,909** | 27,294 |

There is no bank borrowings shown under current liabilities that are not repayable within one year from the end of the reporting period but contain a repayable on demand clause.

The Group's bank borrowings carry interest at variable rates which are subject to either i) the higher of Hong Kong Interbank Offered Rate plus a spread, ranging from 1.59% to 2.02% (2017: 1.16% to 1.78%), or best lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited plus 1% or ii) Euro Interbank Offered Rate plus a spread, ranging from 1.94% to 4.17% (2017: 2.24% to 4.17%). The weighted average effective interest rate of the above variable-rate bank borrowings was 1.88% (2017: 1.54%) per annum.

Note: As the end of the reporting period, the following assets are pledged against the Group's secured bank borrowings:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Property, plant and equipment | **122,310** | 103,204 |
| Inventories | **18,139** | 8,598 |
| | **140,449** | 111,802 |

## 27. SHARE CAPITAL

| | Number of shares '000 | Amounts HK$'000 |
|---|---|---|
| Authorised: | | |
| Ordinary shares: | | |
| At 1 April 2016, 31 March 2017 and 31 March 2018 | | |
| – HK$0.40 each | 5,000,000 | 2,000,000 |
| Issued and fully paid: | | |
| At 1 April 2016 | 1,936,862 | 774,745 |
| Cancellation of treasury shares (Note a) | (13,293) | (5,317) |
| Repurchase of shares (Note a) | (60,327) | (24,131) |
| Exercise of share options | 36,035 | 14,414 |
| Issue of shares pursuant to bonus issue (Note b) | 1,926,362 | 770,545 |
| At 31 March 2017 | 3,825,639 | 1,530,256 |
| Repurchase of shares (Note a) | (24,830) | (9,932) |
| Exercise of share options | 27,969 | 11,187 |
| At 31 March 2018 | 3,828,778 | 1,531,511 |

Notes:

(a) During the year ended 31 March 2018, 24,830,000 ordinary shares of the Company at HK$0.40 each were repurchased at a price ranging from HK$6.57 to HK$7.00 per share. All shares repurchased have been cancelled during the year.

During the year ended 31 March 2017, 60,327,000 ordinary shares of the Company at HK$0.40 each were repurchased.

| | Number of shares repurchased '000 | Price range per repurchased share HK$'000 |
|---|---|---|
| Before Bonus Issue 2016 (defined in note 27b) | 2,000 | 9.87–9.93 |
| After Bonus Issue 2016 | 58,327 | 4.74–5.92 |
| | 60,327 | |

(b) On 4 August 2016, the Company issued 1,926,362,000 bonus shares (the "Bonus Shares") on the basis of one bonus share for every one existing share held on 22 July 2016 (the "Bonus Issue 2016"), credited as fully paid, by way of capitalising HK$770,545,000, the amount equal to the aggregate par value of the Bonus Shares, from the share premium account of the Company.

# 28. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME

## Share option schemes

On 5 March 2010, a share option scheme was adopted by the shareholders of the Company (the "Share Option Scheme"). The purpose of the Share Option Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contributions to the Company and/or its subsidiaries and/or its associated companies. The Share Option Scheme will remain in force for a period of 10 years commencing on 5 March 2010, being the date of adoption of the Share Option Scheme, to 4 March 2020.

Under the Share Option Scheme, the directors may, at their discretion, offer directors (including executive and non-executive directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the directors, will contribute or have contributed to the Company or any of its subsidiaries or any of its associated companies, share options to subscribe for shares of the Company. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 96,508,800. The total number of shares of the Company issued and to be issued upon the exercise of share options granted under the Share Option Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in aggregate excess of 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5,000,000 (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors.

The period during which a share option may be exercised will be determined by the directors at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Share Option Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of Hong Kong Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Hong Kong Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of the share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Share Option Scheme. The offer of share options must be accepted within 28 days from the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at general meetings.

## 28. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME – continued

### Share option schemes – continued

Details of outstanding share options granted by the Company as at 31 March 2018 and 2017 are as follows:

| Date of grant | Exercise period | Number of share options granted (Note) | Adjusted number of share options granted | Exercise price HK$ | Adjusted exercise price HK$ (Note) | Fair value as at date of grant HK$'000 |
|---|---|---|---|---|---|---|
| 8.2.2012 | 8.2.2017–7.2.2019 | 1,840,000 | 7,360,000 | 4.72 | 1.18 | 360 |
| 1.2.2013 | 1.2.2016–31.1.2018 | 5,266,400 | 21,065,600 | 7.17 | 1.80 | 3,986 |
| | 1.2.2017–31.1.2019 | 5,266,000 | 21,064,000 | 7.17 | 1.80 | 2,713 |
| 22.1.2014 | 22.1.2016–21.1.2018 | 3,765,600 | 15,062,400 | 14.56 | 3.64 | 6,754 |
| | 22.1.2017–21.1.2019 | 3,820,400 | 15,281,600 | 14.56 | 3.64 | 6,012 |
| 10.2.2015 | 10.2.2017–9.2.2019 | 9,674,400 | 19,348,800 | 6.72 | 3.36 | 5,289 |
| | 10.2.2018–9.2.2020 | 9,582,000 | 19,164,000 | 6.72 | 3.36 | 4,268 |
| 21.5.2015 | 21.5.2017–20.5.2019 | 200,000 | 400,000 | 9.51 | 4.76 | 697 |
| 26.1.2016 | 26.1.2018–25.1.2020 | 6,295,200 | 12,590,400 | 8.92 | 4.46 | 6,126 |
| | 26.1.2019–25.1.2021 | 6,193,600 | 12,387,200 | 8.92 | 4.46 | 5,027 |
| 27.1.2016 | 27.1.2018–26.1.2020 | 126,800 | 253,600 | 8.92 | 4.46 | 210 |
| | 27.1.2019–26.1.2021 | 126,000 | 252,000 | 8.92 | 4.46 | 227 |
| 26.5.2016 | 26.5.2018–3.3.2020 | 1,200,000 | 2,400,000 | 10.46 | 5.23 | 3,191 |
| 13.1.2017 | 13.1.2019–12.1.2021 | 2,554,400 | N/A | 5.17 | – | 3,166 |
| | 13.1.2020–12.1.2022 | 2,552,800 | N/A | 5.17 | – | 3,838 |
| | 13.1.2021–12.1.2023 | 2,556,400 | N/A | 5.17 | – | 4,367 |
| 12.2.2018 | 12.2.2020–11.2.2022 | 2,052,800 | N/A | 7.18 | – | 3,329 |
| | 12.2.2021–11.2.2023 | 2,032,000 | N/A | 7.18 | – | 3,751 |
| | 12.2.2022–11.1.2024 | 1,841,200 | N/A | 7.18 | – | 3,765 |

# 28. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME – continued

## Share option schemes – continued

The following tables disclose details of movements of the Company's share options held by directors and employees during the current and prior years:

| | | Number of share options | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Date of grant | Vesting period | Outstanding at 1.4.2016 | Granted during the year | Adjusted during the year | Lapsed during the year | Exercised | Outstanding at 31.3.2017 | Granted during the year | Lapsed during the year | Exercised | Outstanding at 31.3.2018 |
| **Directors** | | | | | | | | | | | |
| 8.2.2012 | 8.2.2012–7.2.2016 | 52,800 | – | – | – | (52,800) | – | – | – | – | – |
| | 8.2.2012–7.2.2017 | 181,600 | – | 181,600 | – | (363,200) | – | – | – | – | – |
| 1.2.2013 | 1.2.2013–31.1.2016 | 249,600 | – | – | – | (249,600) | – | – | – | – | – |
| | 1.2.2013–31.1.2017 | 1,369,600 | – | 1,369,600 | – | (2,739,200) | – | – | – | – | – |
| 22.1.2014 | 22.1.2014–21.1.2016 | 234,400 | – | – | – | (234,400) | – | – | – | – | – |
| | 22.1.2014–21.1.2017 | 833,600 | – | 833,600 | – | (1,198,400) | 468,800 | – | – | (468,800) | – |
| 21.5.2015 | 21.5.2014–20.5.2016 | 1,900,000 | – | – | – | (1,900,000) | – | – | – | – | – |
| 10.2.2015 | 10.2.2015–9.2.2017 | 1,049,600 | – | 1,049,600 | – | (1,822,400) | 276,800 | – | – | (276,800) | – |
| | 10.2.2015–9.2.2018 | 1,048,800 | – | 1,048,800 | – | – | 2,097,600 | – | – | (1,820,800) | 276,800 |
| 21.5.2015 | 21.5.2015–20.5.2018 | 200,000 | – | 200,000 | – | – | 400,000 | – | – | (400,000) | – |
| 26.1.2016 | 26.1.2016–25.1.2018 | 386,400 | – | 386,400 | – | – | 772,800 | – | – | (549,600) | 223,200 |
| | 26.1.2016–25.1.2019 | 385,600 | – | 385,600 | – | – | 771,200 | – | (548,800) | – | 222,400 |
| 27.1.2016 | 27.1.2016–26.1.2018 | 126,800 | – | 126,800 | – | – | 253,600 | – | – | (253,600) | – |
| | 27.1.2016–26.1.2019 | 126,000 | – | 126,000 | – | – | 252,000 | – | – | – | 252,000 |
| 26.5.2016 | 26.5.2016–25.5.2018 | – | 200,000 | 200,000 | – | – | 400,000 | – | – | – | 400,000 |
| 13.1.2017 | 13.1.2017–12.1.2019 | – | 286,800 | – | – | – | 286,800 | – | (53,200) | – | 233,600 |
| | 13.1.2017–12.1.2020 | – | 286,800 | – | – | – | 286,800 | – | (53,200) | – | 233,600 |
| | 13.1.2017–12.1.2021 | – | 285,600 | – | – | – | 285,600 | – | (53,200) | – | 232,400 |
| 12.2.2018 | 12.2.2020–11.2.2022 | – | – | – | – | – | – | 214,000 | (51,200) | – | 162,800 |
| | 12.2.2021–11.2.2023 | – | – | – | – | – | – | 214,000 | (51,200) | – | 162,800 |
| | 12.2.2022–11.1.2024 | – | – | – | – | – | – | 210,400 | (50,400) | – | 160,000 |
| | | 8,144,800 | 1,059,200 | 5,908,000 | – | (8,560,000) | 6,552,000 | 638,400 | (861,200) | (3,769,600) | 2,559,600 |
| **Employees** | | | | | | | | | | | |
| 6.7.2011 | 6.7.2011–5.7.2014 | 320,000 | – | – | – | (320,000) | – | – | – | – | – |
| 8.2.2012 | 8.2.2012–7.2.2016 | 55,200 | – | – | – | (55,200) | – | – | – | – | – |
| | 8.2.2012–7.2.2017 | 1,772,800 | – | 1,722,400 | (197,600) | (3,091,200) | 206,400 | – | – | (206,400) | – |
| 1.2.2013 | 1.2.2013–31.1.2016 | 268,000 | – | 54,400 | (102,400) | (213,600) | 6,400 | – | – | (6,400) | – |
| | 1.2.2013–31.1.2017 | 5,578,400 | – | 5,344,800 | (586,400) | (9,256,800) | 1,080,000 | – | – | (1,065,600) | 14,400 |
| 22.1.2014 | 22.1.2014–21.1.2016 | 2,147,200 | – | 413,600 | (36,800) | (2,261,600) | 262,400 | – | – | (262,400) | – |
| | 22.1.2014–21.1.2017 | 4,888,800 | – | 4,720,000 | (533,600) | (4,843,200) | 4,232,000 | – | – | (3,792,000) | 440,000 |
| 10.2.2015 | 10.2.2015–9.2.2017 | 7,182,400 | – | 6,842,800 | (1,053,200) | (7,433,600) | 5,538,400 | – | – | (4,957,600) | 580,800 |
| | 10.2.2015–9.2.2018 | 7,104,800 | – | 6,771,200 | (1,291,200) | – | 12,584,800 | – | (1,136,800) | (7,973,600) | 3,474,400 |
| 26.1.2016 | 26.1.2016–25.1.2018 | 5,820,400 | – | 5,533,600 | (970,000) | – | 10,384,000 | – | (39,600) | (5,936,000) | 4,408,400 |
| | 26.1.2016–25.1.2019 | 5,731,200 | – | 5,453,600 | (949,600) | – | 10,235,200 | – | (1,410,400) | – | 8,824,800 |
| 26.5.2016 | 26.5.2016–25.5.2018 | – | 1,000,000 | 1,000,000 | – | – | 2,000,000 | – | – | – | 2,000,000 |
| 13.1.2017 | 13.1.2017–12.1.2019 | – | 2,267,600 | – | (23,600) | – | 2,244,000 | – | (205,600) | – | 2,038,400 |
| | 13.1.2017–12.1.2020 | – | 2,266,000 | – | (23,600) | – | 2,242,400 | – | (204,800) | – | 2,037,600 |
| | 13.1.2017–12.1.2021 | – | 2,270,800 | – | (24,800) | – | 2,246,000 | – | (206,800) | – | 2,039,200 |
| 12.2.2018 | 12.2.2020–11.2.2022 | – | – | – | – | – | – | 1,838,800 | (31,600) | – | 1,807,200 |
| | 12.2.2021–11.2.2023 | – | – | – | – | – | – | 1,818,000 | (30,400) | – | 1,787,600 |
| | 12.2.2022–11.1.2024 | – | – | – | – | – | – | 1,630,800 | (21,600) | – | 1,609,200 |
| | | 40,869,200 | 7,804,400 | 37,856,400 | (5,792,800) | (27,475,200) | 53,262,000 | 5,287,600 | (3,287,600) | (24,200,000) | 31,062,000 |
| Exercisable at the end of the reporting period | | | | | | | 12,071,200 | | | | 9,418,000 |

## 28. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME – continued

### Share option schemes – continued

Note: The number of share options granted and the relevant exercise price are adjusted to reflect the effect of bonus issues by the Company, including the bonus issue in January 2015 and the Bonus Issue as defined in note 27b.

During the year ended 31 March 2018, share options of 5,926,000 were granted on 12 February 2018. The estimated fair value of the options granted on the grant date is HK$10,845,000. The closing price of the Company's shares at the date of grant were HK$6.80.

During the year ended 31 March 2017, share options of 1,200,000 and 7,663,600 shares were granted on 26 May 2016 and 13 January 2017. The estimated fair values of the options granted on those dates are HK$3,191,000 and HK$11,371,000 respectively. The closing price of the Company's shares at the date of grant were HK$10.46 and HK$5.12 respectively.

The fair values of the share options at the dates of grant were calculated using the Binomial Option Pricing model after taking into account the different vesting periods. The assumptions used for the calculation for options granted during the years ended 31 March 2018 and 2017 are as follows:

| Date of grant | 26.5.2016 | 13.1.2017 | 12.2.2018 |
|---|---|---|---|
| Closing share price at date of grant | HK$10.46 | HK$5.12 | HK$6.80 |
| Original exercise price | HK$10.46 | HK$5.17 | HK$7.18 |
| Adjusted exercise price with effect to Bonus Issue | HK$5.23 | N/A | N/A |
| Suboptimal exercise factor | 1.6 to 2.5 | 2.2 to 2.8 | 1.6 to 2.47 |
| Expected volatility | 43.13% | 40.7% to 49.5% | 40.09% to 43.72% |
| Expected dividend yield | 4.22% | 4.56% | 3.63% |
| Risk free rate | 0.90% | 1.30% to 1.38% | 1.64% to 1.81% |
| Fair value | HK$2.66 | HK$1.22 to HK$1.71 | HK$1.62 to HK$2.07 |

The variables and assumptions used above are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised an expense of HK$8,734,000 (2017: HK$11,067,000) in relation to the share options granted by the Company.

## 28. SHARE OPTION SCHEMES AND SHARE AWARD SCHEME – continued

### Share Award Scheme

The Company adopted a share award scheme (the "Share Award Scheme") on 27 January 2011 (the "Adoption Date") with a duration of 10 years commencing from the Adoption Date. The objective of the Share Award Scheme is to recognise the contributions by certain directors, employees of the Group (the "Selected Participants") and to give incentive to them in order to retain them for the continual operation and development of the Group, and to attract suitable personnel for further development of the Group. The Company has set up the Employees' Share Award Scheme Trust (the "Trust") to administer and hold the Company's shares before they are vested and transferred to the Selected Participants. The Trust purchases the Company's shares being awarded from the open market with funds provided by the Company by way of contributions. 100% of awarded shares of the Company and the related income derived therefore are vested on the third anniversary date of the grant date. Vesting of the awarded shares of the Company and related income will be conditional on the Selected Participants remaining an employee of the Group until and on each of the relevant vesting dates and his/her execution of the relevant documents to effect the transfer from the Trustee within the period stipulated. An award shall automatically lapse forthwith when a Selected Participant ceases to be an employee of the Group, or the subsidiary employing the Selected Participant ceases to be a subsidiary, or an order for the winding-up of the Company is made or a resolution is passed for the voluntary winding-up of the Company.

Where the awarded shares of the Company do not vest in accordance with the Share Award Scheme, the Trust shall sell such shares of the Company as it determines in its discretion, after having taken into account the recommendations of the board of directors of the Company.

There were no shares granted by the Company under the share award scheme as at 31 March 2017 and 2018.

## 29. BUSINESS COMBINATION

### Acquisition of Jiangsu Yulong Intelligent Technology Co., Limited

On 1 January 2018, Remaco Machinery Technology (Wujiang) Co., Ltd, a non-wholly owned subsidiary of the Company, acquired 80% equity interest in Jiangsu Yulong Intelligent Technology Co., Limited ("Jiangsu Yulong") for a consideration of RMB240,000,000 (equivalent to HK$287,770,000). This acquisition has been accounted for using the purchase method. Jiangsu Yulong is engaged in the production and sale of metal components for furniture business in China, and is acquired from an independent third party so as to expand of the Group's manufacture and sale of sofas operations.

Consideration transferred:

| | HK$'000 |
|---|---|
| Cash paid | 137,845 |
| Consideration payable | 149,925 |
| Total consideration | 287,770 |

## 29. BUSINESS COMBINATION – continued

### Acquisition of Jiangsu Yulong Intelligent Technology Co., Limited – continued

Fair value of assets acquired and liabilities assumed recognised at the date of acquisition were determined as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 18,923 |
| Intangible assets | 43,799 |
| Other receivables | 3,049 |
| Total identifiable net assets | 65,771 |

The non-controlling interest (20%) in the Jiangsu Yulong recognised at the acquisition date was measured by reference to the proportionate share of the fair value of the acquiree's net identifiable assets acquired of the non-controlling interests and amounted to HK$13,154,000.

Acquisition-related costs amounting to HK$385,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses, in the consolidated statement of profit or loss and other comprehensive income.

Goodwill arising on acquisition:

| | HK$'000 |
|---|---|
| Cash consideration | 287,770 |
| Plus: non-controlling interests | 13,154 |
| Less: fair values of identifiable net assets acquired | (65,771) |
| Goodwill arising on acquisition | 235,153 |

Goodwill arose in the acquisition of Jiangsu Yulong because the cost of the combination included a control premium, amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the Jiangsu Yulong. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflow arising on the acquisition:

| | HK$'000 |
|---|---|
| Cash consideration paid | 137,845 |

Included in the profit and revenue for the year are profit HK$20,584,000 and revenue of HK$154,060,000 attributable to the additional business generated by the Jiangsu Yulong.

## 29. BUSINESS COMBINATION – continued

### Acquisition of Jiangsu Yulong Intelligent Technology Co., Limited – continued

Had the acquisition been completed on 1 April 2017, total group revenue for the year would have been HK$10,026,573,000, and profit for the year would have been HK$1,553,946,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2017, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had the Jiangsu Yulong been acquired at the beginning of the current year, the directors have:

- calculated depreciation of plant and equipment and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

### Acquisition of Jiangsu Delanshi Furniture Co., Limited

On 1 January 2018, Man Wah Furniture Manufacturing (Huizhou) Co., Ltd., a wholly owned subsidiary of the Company, injected RMB40,000,000 (equivalent to HK$47,962,000) in Jiangsu Delanshi Furniture Co., Limited ("Jiangsu Delanshi"). After the capital injection, the Group held 80% equity interest in Jiangsu Delanshi. This acquisition has been accounted for using the purchase method. Jiangsu Delanshi is engaged in the manufacture and sale of sofas in China, and the other shareholder is an independent third party, the acquisition is so as to expand of the Group's manufacture and sale of sofas operations.

Fair value of assets acquired and liabilities assumed recognised at the date of acquisition were determined as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 2,365 |
| Inventories | 17,226 |
| Bank balances and cash | 47,962 |
| Other receivables | 3,330 |
| Other payables | (10,931) |
| Total identifiable net assets | 59,952 |

The non-controlling interest (20%) in the Jiangsu Delanshi recognised at the acquisition date was measured by reference to the proportionate share of the fair value of the acquiree's net identifiable assets acquired of the non-controlling interests and amounted to HK$11,990,000.

Acquisition-related costs amounting to HK$385,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses, in the consolidated statement of profit or loss and other comprehensive income.

## 29. BUSINESS COMBINATION – continued

### Acquisition of Jiangsu Delanshi Furniture Co., Limited – continued

Goodwill arising on acquisition:

| | HK$'000 |
|---|---|
| Cash consideration | 47,962 |
| Plus: non-controlling interests | 11,990 |
| Less: fair values of identifiable net assets acquired | (59,952) |
| | – |

Net cash outflow arising on the acquisition:

| | HK$'000 |
|---|---|
| Cash consideration paid | 47,962 |
| Add: Cash and bank balances acquired | (47,962) |
| | – |

Included in the profit and revenue for the year are profit HK$861,000 and revenue of HK$22,678,000 attributable to the additional business generated by the Jiangsu Delanshi.

Had the acquisition been completed on 1 April 2017, total group revenue for the year would have been HK$10,026,573,000, and profit for the year would have been HK$1,553,946,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2017, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had the Jiangsu Yulong been acquired at the beginning of the current year, the directors have:

- calculated depreciation of plant and equipment and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

## 29. BUSINESS COMBINATION – continued

### Acquisition of Home Group Ltd.

On 20 November 2016, Man Wah Group Limited, a wholly-owned subsidiary of the Company, an independent third party (the “Original Shareholder”) and Home Group Ltd. (the “Home Group”), entered into a shareholders’ agreement (the “Shareholders’ Agreement”) for a strategy alliance for the production and sale of upholstered furniture in Europe and stationary fabric sofas in China. Pursuant to the Shareholders’ Agreement, the Original Shareholder agreed to transfer certain equity interests in certain entities (the “Injected Interests”) to Home Group; the Group agreed to subscribe and Home Group agreed to issue 3,000 shares, representing 50% of the then issued share capital of Home Group, after the Injected Interests have been transferred to Home Group, for a consideration to be determined under a contingent arrangement (“Contingent Consideration”); and the Group agreed to purchase and the Original Shareholder agreed to sell an additional 2.5% equity interest in each of the entities included in the Injected Interests for an aggregate cash consideration of USD1,350,000 (equivalent to HK$10,486,000).

According to the Shareholders’ Agreement, the Group has the majority voting power in the board of directors of Home Group, by which the relevant activities that significantly affect the return of Home Group are determined on a simple majority basis, and accordingly, Home Group is accounted for as a subsidiary of the Group at the acquisition date of 31 December 2016, being the closing date of the investment. The investment has been accounted for using the acquisition method.

The Contingent Consideration of acquiring the 3,000 shares of Home Group is payable to Home Group and divided into three instalments with the instalment amounts determined based on different multiples to Home Group’s consolidated profits for the years ending 31 December 2017, 2018 and 2019 (the “Determination Period”), respectively. The Contingent Consideration is limited to within the range from approximately EUR 10 million and EUR 50 million. The Group has a right to elect whether to proceed to the subsequent instalment at the time when the amount of the previous instalment is determined (the “Put Option”). By exercising the Put Option, the Group will have no obligation to pay for any subsequent instalments and the Group will loss control of Home Group from then. Directors of the Company have determined that the chance to exercise the Put Option and the value of the Put Option is not significant to the Group at both the acquisition date and at the end of the reporting period.

Directors of the Company have determined at the acquisition date that the contingent consideration is HK$414,404,000 based on a business forecast of Home Group in the Determination Period. The business forecast of Home Group is prepared with reference to the past performance of the Injected Interests and the expansion plan of Home Group, among others. As the contingent consideration is payable to Home Group, it is eliminated in these consolidated financial statements except for the portion attributable to non-controlling interest amounting to HK$207,202,000.

During the year ended 31 March 2018, upon the finalisation of the independent valuation on the fair value of the identifiable assets acquired and liabilities assumed at the date of acquisition, the amount of goodwill recognised as at 31 March 2017 was subsequently reduced as a result of the upward valuation of intangible assets by HK$20,990,000 with the portion shared to non-controlling interest amounted to HK$12,594,000.

## 29. BUSINESS COMBINATION – continued

### Acquisition of Home Group Ltd. – continued

The restated fair value of assets acquired and liabilities assumed recognised at the date of acquisition were as follows:

| | HK$'000 (restated) |
|---|---|
| Property, plant and equipment | 160,897 |
| Investment properties | 56,515 |
| Intangible assets | 194,092 |
| Deposits paid for acquisition of property, plant and equipment | 257 |
| Inventories | 47,797 |
| Tax recoverable | 465 |
| Bank balances and cash | 10,755 |
| Trade receivables | 55,185 |
| Other receivables and prepayments | 10,517 |
| Other financial liabilities | (22,994) |
| Creditors and accruals | (143,754) |
| Variable-rate bank borrowing | (112,259) |
| Deferred tax liabilities | (29,870) |
| Total identifiable net assets | 227,603 |

The comparative figures of the consolidated statement of financial position at 31 March 2017 have been restated as if the initial accounting had been completed from the acquisition date.

The non-controlling interest in Home Group recognised at the acquisition date amounted to HK$345,689,000, which was measured by reference to the fair value of the identifiable assets acquired, liabilities assumed, and the future increase in asset value arising from the contingent consideration which is to be injected by the Group to Home Group.

Acquisition-related costs amounting to HK$1,903,000 have been excluded from the consideration transferred and have been recognised as an expense in the year ended 31 March 2017, within the administrative expenses, in the consolidated statement of profit or loss and other comprehensive income.

Goodwill arising on acquisition:

| | HK$'000 (restated) |
|---|---|
| Cash consideration | 10,486 |
| Contingent consideration | 414,404 |
| Plus: non-controlling interests | 345,689 |
| Less: fair values of identifiable net assets acquired | (227,603) |
| Less: contingent capital injection to Home Group | (414,404) |
| Goodwill arising on acquisition | 128,572 |

## 29. BUSINESS COMBINATION – continued

### Acquisition of Home Group Ltd. – continued

Goodwill arose in the acquisition of Home Group because the cost of the combination included a control premium, amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Home Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash inflow arising on the acquisition:

| | HK$'000 |
|---|---|
| Cash consideration paid | 10,486 |
| Add: Cash and bank balances acquired | (10,755) |
| | (269) |

Included in the profit and revenue for the year ended 31 March 2017 are profit HK$3,371,000 and revenue of HK$202,488,000, respectively, attributable to the additional business generated by the Target.

Had the acquisition been completed on 1 April 2016, total group revenue for the year ended 31 March 2017 would have been HK$8,497 million, and profit for that year would have been HK$1,776 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2016, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Home Group been acquired at the beginning of the year ended 31 March 2017, the directors have:

- calculated depreciation of property, plant and equipment and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

## 30. GOODWILL

| | HK$'000 |
|---|---|
| COST | |
| At 1 April 2016 | – |
| Arising on acquisition of subsidiaries (note 29) (restated) | 128,572 |
| Exchange adjustments | 605 |
| At 1 April 2017 (restated) | 129,177 |
| Arising on acquisition of subsidiaries (note 29) | 235,153 |
| Exchange adjustments | 29,172 |
| At 31 March 2018 | 393,502 |

For the purposes of impairment testing, goodwill has been allocated to an individual CGU in the manufacture and distribution of sofas by Home Group and the production and sale of metal components for furniture business by Jiangsu Yulong. During the year ended 31 March 2018, the directors of the company determine that there are no impairment of these CGUs.

The recoverable amount of the CGUs has been determined based on value in use calculation. That calculation uses cash flow projections based on a business forecast approved by management covering a 5-year period, and discount rate of 18.26% for Home Group and 18.46% for Jiangsu Yulong respectively. The CGU's cash flows beyond the 5-year period are extrapolated at nil growth rate for Home Group and 3% growth rate for Jiangsu Yulong respectively. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the past performance available and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGUs to exceed the recoverable amount of the CGUs.

# 31. OPERATING LEASES

## The Group as lessee

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Minimum lease payments paid under operating leases recognised as an expense | **94,195** | 76,454 |

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

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Within one year | **49,502** | 46,326 |
| In the second to fifth year inclusive | **11,973** | 19,722 |
| | **61,475** | 66,048 |

Operating lease payments represent rentals payable by the Group for certain of its office premises and retail shops. Leases are negotiated and rentals are fixed for a period of one to three years.

## The Group as lessor

Property rental income earned during the year was as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Rental income | **6,359** | 4,365 |
| Less: outgoings | **(190)** | (183) |
| | **6,169** | 4,182 |

The properties have committed tenants at the end of the reporting period as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Within one year | **8,347** | 5,551 |
| In the second to fifth year inclusive | **11,990** | 14,544 |
| | **20,337** | 20,095 |

The properties generate rental yield of 3% (2017: 3%) on an ongoing basis. All of the properties held have committed tenants for contract terms of two years.

# 32. CAPITAL COMMITMENTS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Capital expenditure contracted but not provided for in the consolidated financial statements in respect of | | |
| – acquisition and construction of property, plant and equipment | **61,146** | 95,025 |
| – construction of production plant | **77,992** | 204,263 |
| | **139,138** | 299,288 |
| Other commitments | | |
| – construction of properties under development for sale | **132,106** | 210,816 |
| | **271,244** | 510,104 |

# 33. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme capped at a maximum of HK$1,500 per month, starting in June 2014. This contribution is matched by the employee.

The employees of the Group in the PRC are members of government-managed retirement benefit schemes operated by the respective local government in the PRC. The Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

The Group pays contributions to social security funds in various European countries on behalf of their employees based on a defined contribution plan in accordance with the local legal requirements. The defined contribution plan is a plan under which the Group pays fixed contributions into the funds and will have no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period.

# 34. RELATED PARTY DISCLOSURES

## (I) Related party transactions

During the year, the Group entered into the following transactions with related parties:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Rental expense paid to related parties (Note) | **2,580** | 2,580 |

Note: Mr. Wong Man Li and Ms. Hui Wai Hing, who are directors of the Company, are also directors and shareholders of these related companies.

# 34. RELATED PARTY DISCLOSURES – continued

## (II) Compensation of key management personnel

The emoluments of directors who are also identified as members of key management of the Group during the year are set out in note 11.

# 35. 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 stakeholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in note 26, cash and cash equivalents disclosed in note 24 and equity attributable to owners of the Company, comprising issued share capital as disclosed in note 27 and reserves.

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

# 36. FINANCIAL INSTRUMENTS

## Categories of financial instruments

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **2,438,939** | 2,500,653 |
| Held for trading investments | **311,754** | 367,862 |
| **Financial liabilities** | | |
| Amortised cost | **2,317,368** | 1,570,285 |

## Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, trade and other payables, held for trading investments, bank balances and cash, restricted bank balances and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and 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. There has been no change to the Group's exposure to financial risks or the manner in which it manages and measures the risk.

# 36. FINANCIAL INSTRUMENTS – continued

## Financial risk management objectives and policies – continued

*Currency risk*

The Group's exposure to currency risk attributable to monetary assets and liabilities (trade and other receivables, bank balances and cash, structured deposits, trade and other payables, restricted bank balances and bank borrowings), which are denominated in currencies other than the functional currency of the entity to which they related (including those between HKD against USD as disclosed in respective notes). As HKD are pegged to USD, the Group does not have material risk on such currency. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange 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 assets and monetary liabilities denominated in currencies other than the respective functional currencies of the relevant group entities are as follows:

**Assets**

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| USD | **54,971** | 766,425 |
| EUR | **34,473** | 17,446 |
| UAH | **80** | 3,449 |
| RMB | **239** | 2,176 |
| HKD | **400** | 178 |
| Other currencies | **2,915** | 9,031 |

**Liabilities**

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| USD | **494,342** | 304,440 |
| RMB | **104,268** | 100,000 |
| EUR | **13,013** | 14,695 |
| HKD | **218,590** | 2,369 |
| Other currencies | **375** | 2,049 |

# 36. FINANCIAL INSTRUMENTS – continued

## Financial risk management objectives and policies – continued

*Currency risk – continued*

The following table details the Group's sensitivity to a 5% appreciation and depreciation in the functional currencies of the relevant group entities against the above foreign currencies. 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. The sensitivity analysis adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the functional currency of the group entity strengthens 5% against the above foreign currencies. For a 5% weakening of functional currency of the group entity against the above foreign currencies, there would be an equal and opposite impact on the profit for the year.

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Increase (decrease) in profit for the year | | |
| – USD | **18,473** | (16,745) |
| – RMB | **4,351** | (4,084) |
| – HKD | **20,998** | (80) |

*Interest rate risk*

Interest rate risk arises from the potential changes in interest rates that may have an adverse effect on the Group's results for the current reporting period and in future years. The Group is exposed to cash flow interest rate risk arising from the volatility of Hong Kong Interbank Offered Rate, Best Lending Rate or Euro Interbank Offered Rate as all bank loans, cash and cash equivalents are at floating rates or at prevailing deposit rates. The Group generally does not take a speculative view on the movement in interest rates and, therefore, does not use interest rate derivative instruments to hedge exposed risks.

The sensitivity analysis below has been determined based on the exposure to interest rates on the Group's variable rate borrowings, restricted bank balances and bank balances at the end of the reporting period and prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used by management for the assessment of the reasonably possible change in interest rates.

If interest rates on restricted bank balances and bank balances had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 March 2018 would increase/decrease by HK$5,359,000 (2017: HK$6,989,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits.

# 36. FINANCIAL INSTRUMENTS – continued

## Financial risk management objectives and policies – continued

*Interest rate risk – continued*

If interest rates on bank borrowings had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 March 2018 would decrease/increase by HK$5,588,000 (2017: HK$4,478,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

In the opinion of the directors of the Company, exposure to interest rate on the restricted deposits are insignificant due to their short maturity.

*Credit risk*

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The Group has adopted procedures in extending credit terms to customers and in monitoring its credit risk.

The Group's current credit practices include assessing the customers' credit reliability and periodic review of their financial status to determine credit limits to be granted. In addition, most of the Group's exposure on trade receivables was covered by insurance. The Group has purchased a credit insurance from certain insurance corporations on most of overseas sales to compensate for losses from debts that are not collectible.

The credit risk on liquid funds is limited because the counterparties are banks which are reputable in the opinion of management.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position of the Group.

*Significant concentrations of credit risk*

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect the Group's counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

The Group has concentration of credit risk on its bank balances and trade receivables.

Over 80% (2017: 80%) of the Group's bank balance is deposited with three (2017: three) banks. The directors of the Company anticipated that the related credit risk is limited because the banks are with good reputations.

11% (2017: 12%) and 29% (2017: 33%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group also explores new markets and new customers in order to minimise the concentration of credit risk. Other than the above, no other concentration of credit risk exists on Group's trade receivables.

# 36. FINANCIAL INSTRUMENTS – continued

## Financial risk management objectives and policies – continued

*Liquidity risk management*

In managing 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. Management monitors the utilisation of borrowings on a regular basis.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate at the end of the reporting period.

*Liquidity tables*

| | Weighted average effective interest rate % | On demand or less than 1 year HK$'000 | 1–5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| **As at 31 March 2018** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | **–** | **976,660** | **–** | **976,660** | **976,660** |
| Bank borrowings – variable rate | **1.88** | **1,319,560** | **24,611** | **1,344,171** | **1,340,708** |
| | | **2,296,220** | **24,611** | **2,320,831** | **2,317,368** |

| | Weighted average effective interest rate % | On demand or less than 1 year HK$'000 | 1–5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|
| **As at 31 March 2017** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | – | 495,355 | – | 495,355 | 495,355 |
| Bank borrowings – variable rate | 1.54 | 1,049,879 | 28,911 | 1,078,790 | 1,074,930 |
| | | 1,545,234 | 28,911 | 1,574,145 | 1,570,285 |

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 year" time band in the above maturity analysis. There is no bank loan that is not repayable within one year from the end of the reporting periods but contains a repayable on demand clause for both years.

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

## 36. FINANCIAL INSTRUMENTS – continued

### Fair value measurements of financial instruments

*(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis*

The Group's held for trading investments are measured at fair value at the end of each reporting period. The fair values are categorised as level 2 which are quoted prices available from over-the-counter markets.

There is no transfer of financial assets or financial liabilities between level 1 to level 3 in the year.

*(ii) Financial assets and financial liabilities not measured at fair value on a recurring basis*

The directors of the Company consider that the carrying amounts of the Group's financial assets and financial liabilities carried at amortised cost in the consolidated financial statements approximate their fair values as at 31 March 2018 and 2017.

### Financial assets and financial liabilities subject to offsetting

During the year ended 31 March 2017, the Group entered into several agreements with a bank in the PRC to set off all its rights and obligations towards bank deposits amounted to RMB202,000,000 and USD169,588,000, bank borrowings amounted to USD 200,000,000 and a forward exchange contract. The agreements expired during the year ended 31 March 2018.

## 37. DERIVATIVE FINANCIAL INSTRUMENT

The Group had entered into a foreign currency forward contract on 30 March 2017, with the major terms as follows:

| Notional amount | Maturity | Exchange rates |
|---|---|---|
| Buy RMB in total of HKD100,088,000 | 28 April 2017 | HKD/RMB1.1268 |

The contract expired during the year ended 31 March 2018.

## 38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | **Variable-rate bank borrowings** HK$'000 | **Dividend Payable** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1 April 2017 | 1,074,930 | – | 1,074,930 |
| Financing cash flows | 253,224 | (1,028,840) | (775,616) |
| Foreign exchange translation | 12,554 | – | 12,554 |
| Dividend declared | – | 1,028,840 | 1,028,840 |
| At 31 December | 1,340,708 | – | 1,340,708 |

## 39. PARTICULAR OF THE PRINCIPAL SUBSIDIARIES

(a) Details of the Company's principal subsidiaries as at 31 March 2018 and 2017 are as follows:

| Name of subsidiary | Place/Country of incorporation or establishment/ operations | Issued and fully paid share capital/ registered capital | Attributable effective equity interest held by the Group 31 March 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| ***Directly owned*** | | | | | |
| Man Wah Group Limited | British Virgin Islands ("BVI") | USD50,000 | **100%** | 100% | Investment holding |
| Man Wah USA, Inc. | United States of America | USD310,000 | **100%** | 100% | Advertising and marketing of home furnishing products |
| Man Wah UK Ltd. | United Kingdom | GBP100 | **100%** | 100% | Advertising and marketing of home furnishing goods |
| ***Indirectly owned*** | | | | | |
| Man Wah Industrial Company Limited 敏華實業有限公司 | Hong Kong | HK$3,000,000 | **100%** | 100% | Investment holding, manufacturing and trading of sofas and other furniture |
| Man Wah Furniture (China) Co., Ltd.*[1] 敏華家具(中國)有限公司 | The PRC | USD60,000,000 | **100%** | 100% | Manufacturing and trading of sofas, bedding products, other furniture and foam |
| Man Wah (Macao Commercial Offshore) Limited 敏華(澳門離岸商業服務) 有限公司 | Macau | MOP100,000 | **100%** | 100% | Offshore sales, management business consultancy, back office support |
| Man Wah Industrial (Wujiang) Co., Ltd.*[1] 敏華實業(吳江)有限公司 | The PRC | USD60,000,000 | **100%** | 100% | Manufacturing and trading of sofas, bedding products, other furniture and foam |
| Man Wah Furniture Headquarter (Wujiang) Co., Ltd.*[1] 敏華家具總部(吳江)有限公司 | The PRC | USD110,000,000 | **100%** | 100% | Trading of sofas, bedding products, other furniture and foam |
| Remaco Machinery Technology (Wujiang) Co., Ltd.*[1] 鋭邁機械科技(吳江)有限公司 | The PRC | RMB150,000,000 | **93.75%** | 90% | Manufacturing of smart furniture components |
| Man Wah (International) Industrial Limited 敏華(國際)實業有限公司 | Hong Kong | HK$100 | **100%** | 100% | Trading of sofas and other furniture and property investment |

## 39. PARTICULAR OF THE PRINCIPAL SUBSIDIARIES – continued

(a) Details of the Company's principal subsidiaries as at 31 March 2018 and 2017 are as follows: – continued

| Name of subsidiary | Place/Country of incorporation or establishment/ operations | Issued and fully paid share capital/ registered capital | Attributable effective equity interest held by the Group 31 March 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| ***Directly owned – continued*** | | | | | |
| Man Wah Furniture Manufacturing (Huizhou) Co., Ltd.*1 敏華家具製造(惠州)有限公司 ("Man Wah Huizhou") | The PRC | USD102,000,000 | **100%** | 100% | Manufacturing and trading of sofas |
| Man Wah Home Furnishing (Huizhou) Co., Ltd.*1 敏華家居產業(惠州)有限公司 | The PRC | USD1,800,000 | **100%** | 100% | Manufacturing and trading of sofas, bedding products, other furniture and foam |
| Man Wah Brand Management (Tianjin) Co., Ltd*1 敏華品牌管理(天津)有限公司 | The PRC | RMB500,000,000 | **100%** | 100% | Trading of sofas, bedding products, other furniture and foam |
| Man Wah Home Center (Huizhou) Co., Ltd*1 敏華家居商場(惠州)有限公司 | The PRC | USD32,500,000 | **100%** | 100% | Operation of furniture mall, leasing and management |
| Man Wah Home Center (Suzhou) Company Limited*1 敏華家居(蘇州)有限公司 | The PRC | USD120,000,000 | **100%** | 100% | Manufacturing and trading of sofas, bedding products and other furniture |
| Suzhou Ju Long Ge Property Management Company Limited*1 蘇州聚瓏閣物業管理有限公司 | The PRC | RMB500,000 | **100%** | 100% | Providing property management service |
| Chongqing Man Wah Furniture Manufacturing Co., Ltd.*1 重慶敏華家具製造有限公司 | The PRC | RMB300,000,000 | **100%** | 100% | Manufacturing and trading of sofas, bedding products, other furniture and foam |
| Strongest Will Furniture Trading (Tianjin) Co., Ltd.*1 凌志家具銷售(天津)有限公司 | The PRC | RMB3,000,000 | **100%** | 100% | Trading of sofas, bedding products, other furniture and foam |
| Remaco Brand Management (Tianjin) Co., Ltd.*1 鋭邁品牌管理(天津)有限公司 | The PRC | RMB3,000,000 | **93.75%** | 90% | Trading of furniture components |
| Man Wah Intelligent Technology (Huizhou) Co., Ltd*2 敏華智能科技(惠州)有限公司 | The PRC | RMB13,000,000 | **100%** | – | Research and production of smart drive machine and electric regulator |

## 39. PARTICULAR OF THE PRINCIPAL SUBSIDIARIES – continued

(a) Details of the Company's principal subsidiaries as at 31 March 2018 and 2017 are as follows: – continued

| Name of subsidiary | Place/Country of incorporation or establishment/ operations | Issued and fully paid share capital/ registered capital | Attributable effective equity interest held by the Group 31 March 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| ***Indirectly owned – continued*** | | | | | |
| Chongqing Carnival Business Service Co., Ltd*[2] 重慶嘉年名華商務服務有限公司 | The PRC | RMB50,000,000 | **100%** | – | Providing business management service, advertising service and design service |
| Huizhou Man Wah Business Management Service Co., Ltd*[2] 惠州市敏華企業管理服務有限公司 | The PRC | RMB1,000,000 | **100%** | – | Providing business management service |
| Chongqing Man Wah Luohuang Industrial Co., Ltd*[2] 重慶敏華珞璜實業有限公司 | The PRC | RMB200,000,000 | **100%** | – | Providing business management service, advertising service and warehouse service |
| Chongqing Carnival Home Branding Management Co., Ltd*[2] 重慶嘉年名華品牌管理有限公司 | The PRC | RMB100,000,000 | **89%** | – | Providing brand management, business consulting and import & export service |
| Jiangsu Yulong Intelligent Technology Co., Limited*[3] 江蘇鈺龍智能科技有限公司 | The PRC | RMB20,000,000 | **75%** | – | Manufacturing of furniture components |
| Jiangsu Delanshi Furniture Co. Limited*[3] 江蘇德蘭仕傢俱有限公司 | The PRC | RMB50,000,000 | **80%** | – | Manufacturing and trading of sofa |
| Home Group Ltd.*[4] | Cayman Islands | EUR6,000 | **50%** [5] | 50% [5] | Investment holding |
| Home Group Holdings Ltd.*[4] | Hong Kong | HK$1 | **50%** [5] | 50% [5] | Investment holding |

* English translated name is for identification only.

1 These companies were established in the PRC in the form of wholly foreign-owned enterprise.

2 These companies were newly incorporated during the year ended 31 March 2018.

3 These companies were newly acquired during the year ended 31 March 2018.

4 Companies not audited by Deloitte Touche Tohmatsu. The financial statements of the subsidiaries not audited by Deloitte Touche Tohmatsu reflect total net assets and total revenue constituting 6% and 9% respectively of the related consolidated totals.

5 According to the Shareholders' Agreement, the Group has the majority voting power in the board of directors of Home Group, by which the relevant activities that significantly affect the return of Home Group are determined on a simple majority basis, and accordingly, Home Group is accounted for as a subsidiary of the Group.

The above table only lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

## 39. PARTICULAR OF THE PRINCIPAL SUBSIDIARIES – continued

(b) Details of non-wholly owned subsidiary of the Company that have material non-controlling interests

The table below shows details of non-wholly owned subsidiary of the Company that have material non-controlling interests:

| Name of subsidiary | Place of establishment and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | | **%** | % | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Home Group Ltd. | Cayman Islands | **50** | 50 | **7,206** | (2,522) | **415,525** | 346,130 |
| Individually immaterial subsidiaries with non-controlling interests | | | | **10,832** | 9,276 | **65,742** | 24,247 |
| Total | | | | **18,038** | 6,754 | **481,267** | 370,377 |

Summarised financial information in respect of the Company's subsidiary that have material non-controlling interests are set out below. The summarised financial information below represents amounts before intragroup eliminations.

**Home Group Ltd.**

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current assets | **189,428** | 176,408 |
| Non-current assets | **559,112** | 435,353 |
| Current liabilities | **208,259** | 195,580 |
| Non-current liabilities | **100,340** | 66,055 |
| Total equity | **439,941** | 350,126 |
| Equity attributable to owners of the Company | **24,416** | 3,996 |
| Non-controlling interests of Home Group Ltd. | **369,355** | 315,482 |
| Non-controlling interests of Home Group Ltd.'s subsidiaries | **46,170** | 30,648 |

## 39. PARTICULAR OF THE PRINCIPAL SUBSIDIARIES – continued

(b) Details of non-wholly owned subsidiary of the Company that have material non-controlling interests – continued

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Revenue | **874,799** | 202,488 |
| Other income (loss) | **5,808** | (115) |
| Expenses | **(869,321)** | (206,406) |
| Profit (loss) and total comprehensive income (expense) for the year | **11,286** | (4,033) |
| Profit (loss) attributable to owners of the Company | **4,080** | (1,511) |
| Profit (loss) attributable to the non-controlling interests | **7,206** | (2,522) |
| Net cash (outflow) from operating activities | **(6,082)** | (10,246) |
| Net cash (outflow) from investing activities | **(59,513)** | (21,471) |
| Net cash inflow from financing activities | **23,588** | 62,448 |
| Net cash (outflow) inflow | **(42,007)** | 30,731 |

# 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Non-current assets | | |
| Interests in subsidiaries | **1,697,620** | 252,479 |
| Held for trading investments | **–** | 156,216 |
| | **1,697,620** | 408,695 |
| Current assets | | |
| Other receivables and prepayments | **618** | 596 |
| Amounts due from subsidiaries | **72,581** | 622,711 |
| Cash and bank balances | **53** | 1 |
| | **73,252** | 623,308 |
| Current liabilities | | |
| Other payables and accruals | **12,757** | 9,366 |
| Net current assets | **60,495** | 613,942 |
| Net assets | **1,758,115** | 1,022,637 |
| Capital and reserves | | |
| Share capital | **1,531,511** | 1,530,256 |
| Reserves (Note) | **226,604** | (507,619) |
| Total equity | **1,758,115** | 1,022,637 |

## 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – continued

Note: Movement in reserves of the Company are as follows:

| | Treasury shares HK$'000 | Contributed surplus HK$'000 | Shares held under share award scheme HK$'000 | Share option reserve HK$'000 | (Accumulated losses) retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 April 2016 | (5,317) | 1,153,982 | (448) | 15,979 | (688,002) | 476,194 |
| Profit and total comprehensive income for the year | – | – | – | – | 892,179 | 892,179 |
| Cancellation of treasury shares | 5,317 | – | – | – | – | 5,317 |
| Repurchase of shares | – | (317,935) | – | – | – | (317,935) |
| Bonus issue | – | (770,545) | – | – | – | (770,545) |
| Recognition of equity-settled share-based payments | – | – | – | 11,067 | – | 11,067 |
| Issue of shares upon exercise of share options | – | 107,960 | – | (12,746) | – | 95,214 |
| Dividends paid | – | – | – | – | (899,110) | (899,110) |
| At 31 March 2017 | – | 173,462 | (448) | 14,300 | (694,933) | (507,619) |
| Profit and total comprehensive income for the year | – | – | – | – | 1,822,945 | 1,822,945 |
| Repurchase of shares | – | (158,525) | – | – | – | (158,525) |
| Recognition of equity-settled share-based payments | – | – | – | 8,734 | – | 8,734 |
| Issue of shares upon exercise of share options | – | 99,720 | – | (9,811) | – | 89,909 |
| Dividends paid | – | – | – | – | (1,028,840) | (1,028,840) |
| At 31 March 2018 | – | 114,657 | (448) | 13,223 | 99,172 | 226,604 |

# Particulars of Major Properties

| Location | | Existing use | Lease term | Attributable interest of the Group |
|---|---|---|---|---|
| **Investment properties** | | | | |
| 1. | All the portion of Ground Floor and whole of 1st Floor (and the flat roof appertaining thereto), Circle Court, Nos. 3 & 5 Java Road, North Point, Hong Kong | Commercial | Medium | 100% |
| 2. | Flat B (with A/C Room(s) pertaining thereto which is/are accessible from the flat itself) on 36th Floor of Tower 8, The Palazzo, No. 28 Lok King Street, Shatin, New Territories | Commercial | Medium | 100% |
| 3. | Praca Wong Chio L19, Alameda Dr. Carlos D' Assumpção Nºs 411-417, Em Macau | Commercial | Medium | 100% |
| 4. | Unit 1904, Tower 1, Huiyang World Trade Plaza, Baiyun Er Road, Danshui Town, Huiyang District, Huizhou City, Guangdong Province, the PRC | Commercial | Medium | 100% |
| 5. | Industrial Complex located at Man Wah Industrial Zone No. 189 Industrial District, Henggang Town, Longgang, Shenzhen City, Guangdong Province, the PRC | Industrial | Medium | 100% |

| | Location | Existing use | Lease term | Attributable interest of the Group |
|---|---|---|---|---|
| 6. | CHEERS Exhibition Hall Julongge Sales Depatment, No. 199 Yundong Avenue, Wujiang Economic and Technological Development Zone, Suzhou City, Jiangsu Province, the PRC | Commercial | Medium | 100% |
| 7. | Industrialna 10, Kvasyliv, Rivne, Ukraine | Industrial | Long | 40% |
| **Properties for the Group's own use** | | | | |
| 8. | Industrial Complex located at Man Wah Industrial District Western Section of Daya Bay Economic and Technological Development Zone, Huizhou City, Guangdong Province, the PRC | Industrial | Long | 100% |
| 9. | No. 5555, TongJin Road, Economic Development Zone, Wujiang City, Jiangsu Province, the PRC | Industrial | Long | 100% |
| 10. | CHEERS Flagship Store, CBD International Famous Store Street, 21 North Avenue, Hankou District, Wuhan City, Hubei Province, the PRC | Commercial | Long | 100% |
| 11. | Praca Wong Chio J19, Alameda Dr. Carlos D' Assumpção Nºs 411-417, Em Macau | Commercial | Medium | 100% |
| 12. | Praca Wong Chio K19, Alameda Dr. Carlos D' Assumpção Nºs 411-417, Em Macau | Commercial | Medium | 100% |
| 13. | 668 N. Main Street, High Point, NC 27260-5018, USA | Commercial | Long | 100% |

| Location | | Existing use | Lease term | Attributable interest of the Group |
|---|---|---|---|---|
| 14. | 78 Fuyuan Road,<br>Wuqing Development Zone,<br>Tianjin,<br>the PRC | Industrial | Long | 100% |
| 15. | Kopli St. 68/Volta St. 1 &/Kopli St. 70,<br>Tallinn,<br>Estonia | Industrial | Long | 40% |
| 16. | Kolejowa Street 13-100,<br>Nidzica,<br>Poland | Industrial | Long | 40% |
| 17. | Lesna Street 13-100,<br>Nidzica,<br>Poland | Industrial | Long | 40% |
| 18. | Silutės pl. 95,<br>Klaipeda,<br>Lithuania | Industrial | Long | 40% |
| 19. | Kriukai, Darbininku street 14A and 20A,<br>Sakiai,<br>Lithuania | Industrial | Long | 40% |
| 20. | Industrialna 12, Kvasyliv,<br>Rivne,<br>Ukraine | Industrial | Long | 40% |

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

Year ended 31 March

| | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | **2018**<br>**HK$'000** |
|---|---|---|---|---|---|
| Revenue | 5,991,060 | 6,554,811 | 7,327,590 | 7,779,015 | **10,026,573** |
| Cost of goods sold | (3,860,027) | (4,221,985) | (4,431,563) | (4,520,832) | **(6,283,633)** |
| Gross profit | 2,131,033 | 2,332,826 | 2,896,027 | 3,258,183 | **3,742,940** |
| Other income | 286,369 | 320,372 | 175,927 | 159,752 | **364,630** |
| Other gains and losses | 69,542 | (7,704) | 4,457 | 184,001 | **(26,168)** |
| Selling and distribution expenses | (972,706) | (1,012,242) | (1,229,313) | (1,173,878) | **(1,693,223)** |
| Administrative expenses | (338,568) | (351,976) | (344,913) | (365,441) | **(442,052)** |
| Share of profit of a joint venture | 8,877 | 1,075 | (221) | – | **–** |
| Share of (loss) profit of an associate | 12,314 | (1,020) | – | – | **–** |
| Finance costs | (43,160) | (22,594) | (11,964) | (10,271) | **(23,542)** |
| Profit before income tax | 1,153,701 | 1,258,737 | 1,490,000 | 2,052,346 | **1,922,585** |
| Income tax expense | (167,373) | (174,799) | (150,182) | (293,222) | **(368,639)** |
| Profit for the year | 986,328 | 1,083,938 | 1,339,818 | 1,759,124 | **1,553,946** |
| Other comprehensive (expense) income: | | | | | |
| Item that may be reclassified subsequently to profit or loss: | | | | | |
| Exchange differences arising on translation of financial statements of foreign operations | (29,632) | 7,099 | (216,966) | (305,526) | **522,536** |
| Reclassification of translation reserve upon disposal of subsidiaries | 535 | – | – | – | **–** |
| Items that will not be reclassified subsequently to profit or loss: | | | | | |
| Increase in fair value of property, plant and equipment | – | 2,845 | 517 | 21,786 | **3,578** |
| Total comprehensive income for the year | 957,231 | 1,093,882 | 1,123,369 | 1,475,384 | **2,080,060** |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March

| | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | **2018**<br>**HK$'000** |
|---|---|---|---|---|---|
| Profit for the year attributable to: | | | | | |
| Owners of the Company | 976,965 | 1,075,159 | 1,327,244 | 1,752,370 | **1,535,908** |
| Non-controlling interest | 9,363 | 8,779 | 12,574 | 6,754 | **18,038** |
| | 986,328 | 1,083,938 | 1,339,818 | 1,759,124 | **1,553,946** |
| Total comprehensive income (expenses) for the year attributable to: | | | | | |
| Owners of the Company | 948,061 | 1,085,032 | 1,111,431 | 1,467,215 | **1,999,700** |
| Non-controlling interest | 9,170 | 8,850 | 11,938 | 8,169 | **80,360** |
| | 957,231 | 1,093,882 | 1,123,369 | 1,475,384 | **2,080,060** |
| Earnings per share (Note) | | | | | |
| Basic (HK cents) | 26.82 | 27.83 | 34.15 | 45.64 | **40.22** |
| Diluted (HK cents) | 25.57 | 27.28 | 33.89 | 45.47 | **40.04** |
| Dividend per share (Note) | | | | | |
| Interim dividend (HK cents) | 6.25 | 6.25 | 8.0 | 14.0 | **13** |
| Special dividend (HK cents) | – | 18.75 | – | – | **–** |
| Final dividend (HK cents) | 6.25 | 6.5 | 9.5 | 14.0 | **12** |
| Full year dividend (HK cents) | 12.5 | 31.5 | 17.5 | 28.0 | **25** |
| Dividend Payout Ratio (%) | 47.6% | 114.9% | 51.0% | 61.0% | **62.1%** |

Note: During the year of FY2017, the company had issued bonus shares on the basis of one bonus share for every one existing shares held by the shareholders on 4 August 2016. For comparison purpose, earnings per share and dividend per share have been restated in each respective period.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March

| | 2014 HK$'000 | 2015 HK$'000 | 2016 HK$'000 | 2017 HK$'000 (restated) | **2018 HK$'000** |
|---|---|---|---|---|---|
| Non-current assets | | | | | |
| Property, plant and equipment | 1,606,740 | 1,987,681 | 2,033,774 | 2,267,824 | **3,167,900** |
| Investment properties | 17,200 | 53,500 | 52,156 | 170,781 | **210,853** |
| Lease premium for land | 542,855 | 534,323 | 318,598 | 451,219 | **787,109** |
| Other intangible assets | 852 | 626 | 382 | 189,994 | **245,540** |
| Interest in a joint venture | 10,365 | 221 | – | – | **–** |
| Interest in an associate | 12,318 | – | – | – | **–** |
| Loan to an associate | 56,539 | – | – | – | **–** |
| Available-for-sale investment | 3,740 | 3,748 | 1,794 | – | **–** |
| Deferred tax assets | 2,881 | 1,731 | 1,246 | 2,589 | **3,590** |
| Properties under development | – | – | 304,043 | 384,481 | **–** |
| Refundable earnest money paid for lease premium for land | 4,216 | 7,973 | 4,045 | 3,815 | **–** |
| Deposit paid for acquisition of a land lease | – | – | 38,489 | 11,280 | **4,225** |
| Derivative financial instruments | – | – | – | – | **–** |
| Deposits paid for acquisition of property, plant and equipment | 53,115 | 102,907 | 52,059 | 79,612 | **101,079** |
| Goodwill | – | – | – | 129,177 | **393,502** |
| | 2,310,821 | 2,692,710 | 2,806,586 | 3,690,772 | **4,913,798** |
| Current assets | | | | | |
| Inventories | 701,959 | 781,231 | 607,199 | 749,253 | **1,067,133** |
| Properties under development | – | – | – | – | **383,415** |
| Trade receivables | 500,897 | 622,052 | 590,609 | 639,674 | **956,097** |
| Other receivables and prepayments | 214,930 | 215,404 | 153,530 | 235,129 | **397,030** |
| Lease premium for land | 12,028 | 12,109 | 7,386 | 9,648 | **18,326** |
| Derivative financial instruments | 23,103 | 4,067 | – | – | **–** |
| Held for trading investments | – | – | – | 367,862 | **311,754** |
| Tax recoverable | 996 | 1,372 | 5,102 | 1,744 | **7,924** |
| Structured deposits | – | 165,059 | 26,313 | – | **–** |
| Restricted bank balances | 2,929 | 2,698 | 875 | 9,364 | **8,303** |
| Bank balances and cash | 2,362,450 | 1,599,028 | 1,447,508 | 1,808,298 | **1,406,959** |
| | 3,819,292 | 3,403,020 | 2,838,522 | 3,820,972 | **4,556,941** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March

| | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000<br>(restated) | **2018**<br>**HK$'000** |
|---|---|---|---|---|---|
| Current liabilities | | | | | |
| Trade payables | 290,472 | 280,647 | 266,529 | 427,780 | **753,902** |
| Other payables and accruals | 357,227 | 371,439 | 374,912 | 485,312 | **748,446** |
| Receipt in advance from sales of properties under development | – | – | – | – | **50,011** |
| Variable-rate bank borrowing | 537,870 | 937,912 | 250,000 | 1,047,636 | **1,316,799** |
| Tax payable | 45,970 | 45,327 | 40,034 | 64,636 | **72,892** |
| Convertible Bonds – current portion | 5,218 | – | – | – | **–** |
| Derivative financial instruments | 3,796 | 3,006 | – | – | **–** |
| | 1,240,553 | 1,638,331 | 931,475 | 2,025,364 | **2,942,050** |
| Net current assets | 2,578,739 | 1,764,689 | 1,907,047 | 1,795,608 | **1,614,891** |
| Total assets less current liabilities | 4,889,560 | 4,457,399 | 4,713,633 | 5,486,380 | **6,528,689** |
| Non-current liabilities | | | | | |
| Deferred tax liabilities | 4,877 | 5,068 | 3,280 | 42,830 | **56,158** |
| Variable-rate bank borrowing | – | – | – | 27,294 | **23,909** |
| Other Non-current liabilities | – | – | – | 7,337 | **4,138** |
| Derivative financial instruments Convertible bonds – non-current portion | 251,412 | – | – | – | **–** |
| Government subsidies receipt in advance | 130,960 | – | – | – | **–** |
| | 387,249 | 5,068 | 3,280 | 77,461 | **84,205** |
| | 4,502,311 | 4,452,331 | 4,710,353 | 5,408,919 | **6,444,484** |
| Capital and reserves | | | | | |
| Share capital | 380,039 | 778,426 | 774,745 | 1,530,256 | **1,531,511** |
| Reserves | 4,074,541 | 3,617,324 | 3,937,591 | 3,508,286 | **4,431,706** |
| Equity attributable to owners of the Company | 4,454,580 | 4,395,750 | 4,712,336 | 5,038,542 | **5,963,217** |
| Non-controlling interest | 47,731 | 56,581 | (1,983) | 370,377 | **481,267** |
| | 4,502,311 | 4,452,331 | 4,710,353 | 5,408,919 | **6,444,484** |