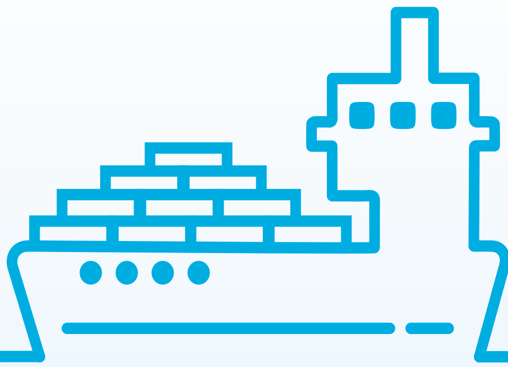
**DAISHO MICROLINE HOLDINGS LIMITED**

**大昌微綫集團有限公司**

Stock Code : 0567

# ANNUAL REPORT 2017/18



# CONTENTS

# CORPORATE INFORMATION AND FINANCIAL CALENDAR

## Board of Directors

### Executive directors

Cheung Lai Na *(Re-designated as Chairman on 3 July 2017)*
Cheung Lai Ming
Lee Man Kwong *(Re-designated as executive director on 1 June 2018)*

### Independent non-executive directors

Leung King Fai
Yeung Chi Shing, Bret *(Resigned on 30 September 2017)*
Chou Yuk Yan
Law Ping Wah *(Appointed on 16 November 2017)*

## Company Secretary

Chan Tsz Hong *(Resigned on 9 October 2017)*
Siu Ching Hung *(Appointed on 9 October 2017)*

## Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Xiamen International Bank Co., Ltd

## Auditor

Mazars CPA Limited
*Certified Public Accountants*
42nd Floor, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

## Legal Advisers in Hong Kong

Sidley Austin

## Legal Advisers in Bermuda

Appleby

## Registered Office

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## Head Office and Principal Place of Business

Units 1-2, 16/F.
Nan Fung Commercial Centre
19 Lam Lok Street
Kowloon Bay
Hong Kong

## Principal Registrar

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## Branch Registrar in Hong Kong

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

## Stock Code

0567

## Company Website

www.irasia.com/listco/hk/daisho

## Financial Calendar

### Interim Results:

24 November 2017

### Annual Results:

12 June 2018

## Annual General Meeting

24 August 2018 (Friday)

## Dividends

| | |
|---|---|
| Interim dividend: | Nil |
| Proposed final dividend: | Nil |

# MESSAGE FROM THE CHAIRMAN

Manufacturing and trading of printed circuit board ("PCB") is our main business but in the past ten years, our performance is far from satisfactory. Environmental issues forced us to implement a total reform. We will streamline our production line and work flow, reorganise our working force, provide incentives to staff and workers and develop new customers from the local market. Our main objective presently is not to chase after sales volume, but rather to achieve a turn-around as soon as possible. With the present management team settled in since mid-2017, we are prepared to stand up for future challenges.

While we are fielding in our experienced crew to pilot the PCB venture, it is prudent to build up a reliable and steady source of income into the Group. The new management team has a great line up of experts and also has excellent contacts with renowned international buyers and suppliers on petroleum and oil business. We will focus on oil-related cargo trade to start with. This business struck a promising note right from the beginning. We will proceed carefully and target for very low risk trades on petroleum and oil business. When we are more entrenched in the trade circle, we will start to strengthen our logistic capability and expand our product portfolio. The acquisition of four vessels is our first major move towards this direction. We will keep on looking at investments in logistics-related assets and mergers and acquisitions opportunities so as to empower our competitiveness, widen our scope of service, broaden our customer base and improve our profit margin.

Here, I express my gratitude to my staffs, friends and business partners who have been always supportive and considerate. Thank you and good luck.

**Cheung Lai Na**
*Chairman*

Hong Kong
12 June 2018

# BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Cheung Lai Na**, aged 42, has been an executive director of Daisho Microline Holdings Limited (the "Company") since 9 June 2015. She was appointed as interim chairman of the Company on 28 December 2016 and been re-designated as chairman of the Company since 3 July 2017. She is responsible for the overall strategic planning for the Company and its subsidiaries (together the "Group"). Apart from being the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company, she is also a director of all subsidiaries of the Company.

After her study in Canada, Ms. Cheung returned to Hong Kong and completed the Diploma course in China Finance from Hong Kong Management Association.

Ms. Cheung is the founder and chief executive officer of a bunkering company in Hong Kong. She is also the founder and director of a bunkering company in Singapore. She is the daughter of Mr. Cheung Ling Mun who is a major shareholder of the Company and a senior management of the Group.

**Cheung Lai Ming**, aged 35, has been an executive director and a member of the Nomination Committee of the Company since 7 November 2016. She had graduated with a Bachelor of Pharmacy degree in 2009 from the Monash University, Melbourne, Australia. She is the Head of Sales of a bunkering company in Hong Kong. She is also the founder and director of a bunkering company in Singapore. She is the daughter of Mr. Cheung Ling Mun who is a major shareholder of the Company and a senior management of the Group, and also the younger sister of Ms. Cheung Lai Na who is an executive director of the Company.

**Lee Man Kwong**, aged 63, has been redesignated as an executive director since 1 June 2018. He was appointed as an independent non-executive director on 14 December 2016 and re-designated as a non-executive director on 1 March 2017. He was admitted as a solicitor in Hong Kong in 1983, and is also a solicitor qualified in England and Wales and Singapore. Mr. Lee is the senior partner of Messrs. Chan, Lau & Wai, Solicitors, a Hong Kong law firm established in 1980. Mr. Lee was an executive director of CCT Fortis Holdings Limited (stock code: 138) from 1996 to 1997, an independent non-executive director of Mei Ah Entertainment Group Limited (stock code: 391) from 1993 to 2003, an independent non-executive director of Uni-Bio Science Group Limited (stock code: 690) from 2001 to 2005, an independent non-executive director of Asia Standard Hotel Group Limited (stock code: 292) from 2000 to 2003, the chairman and executive director of Neo Telemedia Limited (stock code: 8167) from 2004 to 2007, and an executive director of Sau San Tong Holdings Limited (stock code: 8200) from 2006 to 2007.

# BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

## Independent Non-Executive Directors

**Leung King Fai**, aged 46, has been an independent non-executive director, a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company since 9 June 2015. He has been appointed as the chairman of the Audit Committee of the Company with effect from 2 April 2016 and the chairman of the Remuneration Committee of the Company with effect from 12 December 2016.

Mr. Leung graduated from the Deakin University with a Bachelor degree in Commerce in 1996. He is a member of the Hong Kong Institute of Certified Public Accountants, CPA Australia and Chartered Institute of Management Accountants. He has over 20 years of experience in accounting, audit and finance.

Mr. Leung is currently an executive director of Kirin Group Holdings Limited, a company listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and an independent director of Chineseinvestors.com Inc., a company listed on the OTCQB of United States. Mr. Leung was an independent director of Biostar Pharmaceuticals Inc., a company listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) Stock Market, from April 2011 to December 2017.

**Chou Yuk Yan**, aged 73, has been an independent non-executive director, a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company since 21 June 2016.

Mr. Chou was educated in Hong Kong and the Mainland China. He joined Kincheng Banking Corporation in Hong Kong in 1973 and his last position before his retirement at the same bank in 2000 was assistant manager. He started a new business in promoting health products in Hong Kong afterwards. He has considerable years of experience in banking industry and business management, particularly his invaluable experience in capital finance and his business acumen.

**Law Ping Wah**, aged 59, has been an independent non-executive director, a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company since 16 November 2017.

Mr. Law is currently an executive director of Celestial Asia Securities Holdings Limited, a company listed on the Main Board of the Stock Exchange and also an executive director of CASH Financial Services Group Limited, a company listed on the Main Board of the Stock Exchange. Mr. Law serves as a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants and a member of Hong Kong Securities and Investment Institute.

# BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

## Senior Management

**Cheung Ling Mun**, aged 64, has been the general manager of a major subsidiary of the Company in Hong Kong and the president of a major subsidiary of the Company in Mainland China since July 2015. He has been the managing director of the aforesaid major subsidiary of the Company in Mainland China since October 2015. He is a substantial shareholder of the Company holding about 20% equity interests in the Company and he is also the father of Ms. Cheung Lai Na and Ms. Cheung Lai Ming who are executive directors of the Company.

Mr. Cheung is one of the founders of two companies engaging in oil trading or bunkering business in Hong Kong and Singapore respectively. He carried on petroleum import and export trading business in Mainland China in his middle age with customers spreading over Mainland China and various South East Asia countries.

**Hu Lei**, aged 40, has been the chief executive officer of the major subsidiary of the Company in Mainland China. He graduated from Harbin Institute of Technology with a Bachelor of electronics and communication engineering degree in Mainland China. He is a veteran management in the electronic and technology industry, with proven track record in building business operations on both strategic and operation levels. He has over 17 years of experience in electronic products development, operation management and business development and he had taken senior positions in various State Owned Enterprises. He joined the Group in February 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business and Financial Review

The Group's total revenue for the current year was approximately HK$412 million, representing an increase of 142% as compared with approximately HK$170 million for the last year. The increase was resulted from the Group engaging in the trading of petroleum and energy products and related business commenced since June 2017. The revenue generated from PCB segment was approximately HK$200 million, a significantly increase of 17.4% as compared with the last year and the revenue generated from trading of petroleum and energy products and related business segment was approximately HK$212 million.

The Group recorded net loss for the year ended 31 March 2018 was approximately HK$80 million, a significantly increase of 56.99% as compared to the last year.

The Group has continuously made the improvement on gross profit margin of approximately 0.04% in last year to a gross profit margin of approximately 3.01% in current year. Gross profit margin of the trading of petroleum and energy products and related business segment was approximately 0.97%. Gross profit margin of PCB segment was approximately 5.18%. The aforesaid continuously improvement on gross profit on PCB segment was mainly due to the success enhancement of the manufacturing process, including (i) the implementation of the tight control on various manufacturing cost; (ii) the improvement in production efficiency so as to reduce in scrap rate; (iii) the reduction in the purchase price of certain major raw material by sourcing different suppliers and (iv) the new marketing team plays a role to canvass for new sales orders from both existing and potential customers. Administrative expenses improved by 5% compared with the last year was mainly due to the reduction on the directors' emolument. Selling and distribution expenses decreased by 9% compared with the last year was mainly due to the decrease in the customer compensation on product quality and cost savings in carriage outwards on PCB. Other operating expenses significantly decreased by 71% compared with the last year was mainly due to the decrease in the loss on foreign currency translation.

The increase in loss for the year as compared to the loss for the last year was mainly attributable to, among other factors, the combined effects of (i) non-cash impairment loss on property, plant and equipment of approximately HK$24 million (2017: Nil). During the year ended 31 March 2018, the Group has the intention of relocating the existing PCB manufacturing plant. In views of this, certain non-current assets of the Group might be impaired; (ii) non-cash fair values loss of derivative financial instruments of approximately HK$17 million (2017: Nil); and (iii) loss on disposal of available-for-sale financial assets of approximately HK$3 million (2017: Nil).

The Group's gearing ratio (defined as interest-bearing borrowings, promissory note payable and liability component of convertible bonds divided by total capital) as at 31 March 2018 was 135% (2017: 55%). The Group's current ratio as at 31 March 2018 and 2017 was 1.64 times and 1.56 times respectively. The Group's operations had a net cash outflow of approximately HK$32 million during the year ended 31 March 2018 (2017: approximately HK$25 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business and Financial Review (continued)

As at 31 March 2018, the Group's total cash and bank balances (including pledged bank deposits) were approximately HK$214 million (2017: HK$198 million) and the Group's total interest-bearing borrowings amounting to approximately HK$106 million (2017: HK$114 million). Therefore, the Group had a net cash balance of approximately HK$108 million (2017: HK$84 million). Besides, the total credit facilities available to the Group were approximately HK$218 million (2017: HK$360 million) and, therefore, the unutilised credit facilities were approximately HK$112 million (2017: HK$246 million).

### Capital structure

The capital structure of the Group for the year ended 31 March 2018 is summarised as below:

*Bank borrowings*

The interest rate structure, maturity profile, currency structure and underlying security of the Group's interest-bearing borrowings as at 31 March 2018 and 2017 are detailed in note 24 to the consolidated financial statements in this report.

*Promissory note*

As at 31 March 2018, the Group had outstanding promissory note in the principal amount of HK$33 million (2017: Nil) issued on 27 March 2018 upon the completion of acquisition of one of four vessels and fulfillment of the conditions set out in the sale and purchase agreement. The promissory note is interest free and will be matured in 2 years from the issue date.

*Convertible bonds*

As at 31 March 2018, the Company had 6% interest-bearing convertible bonds. Summary of the movement of the convertible bonds is as follow, further details are set out in note 26 to the consolidated financial statements in this report.

| Date of issue | Principal amount (HK$) | Maturity date | Conversion price per share (HK$) | Amount convert into shares during the year (HK$) | Balance (HK$) | Number of shares to be issued upon full conversion |
|---|---|---|---|---|---|---|
| 22 September 2017 | 80,000,000 | 21 September 2020 | 0.36 | – | 80,000,000 | 222,222,222 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business and Financial Review (continued)

### Capital structure (continued)

*Use of proceeds from the placing of new shares under general mandate*

The net proceeds from issue of new shares under placing agreement (as defined in the Company's announcement dated 28 February 2017) dated 28 February 2017 were approximately HK$46.6 million and completed on 20 March 2017. Up to 31 March 2018, the use of net proceeds are as follows:

| Date of particulars of the placing | Net proceeds raised (approximately) (HK$) | Intended use of proceeds | Actual use of proceeds (approximately) |
|---|---|---|---|
| Placing of 96,000,000 new shares under general mandate on 20 March 2017 at a placing price of HK$0.5 per share | 46.6 million | (1) Business development<br>(2) Repayment of bank borrowings | (1) Bank loan repayment of HK$22 million<br>(2) Marketing department establishment of HK$5.2 million<br>(3) Purchase of machineries of HK$5 million<br>(4) Factory and machineries improvement program of HK$13.1 million<br>(5) Information system improvement of HK$0.15 million<br>(6) Consultants for business development of HK$1.2 million |

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business and Financial Review (continued)

### Capital structure (continued)

*Use of proceeds from the placing of convertible bonds under specific mandate*

The net proceeds from issue of convertible bonds under the supplemental placing agreement dated 26 May 2017 were approximately HK$77.2 million and completed on 22 September 2017. Up to the date of this report, the use of net proceeds are as follows:

| Date of particulars of the convertible bonds | Net proceeds raise (approximately) (HK$) | Intended use of proceeds | Actual use of proceeds (approximately) |
|---|---|---|---|
| 222,222,222 new shares to be issued upon full conversion on 21 September 2020 at conversion price of HK$0.36 per share | 77.2 million | (1) Marketing development<br>(2) Purchase of new machineries and equipment of the existing PCB business<br>(3) Purchase on petroleum related products<br>(4) Purchase of vessels<br>(5) Bank facility line secured for petroleum trading<br>(6) Working capital for petroleum trading | (1) Deposit for purchase of vessels of HK$29.5 million<br>(2) Purchase of Petroleum related products of HK$30 million<br>(3) Purchase of new machineries of existing PCB business of HK$1.39 million<br>(4) Marketing development of HK$0.17 million |

### Foreign exchange exposure

The Group's transaction and monetary assets are principally denominated in Renminbi, Hong Kong dollars and United States dollars. The Group has not experienced any difficulties or effects on its operations or liquidity as a result of the fluctuations in currency exchange rates during the year ended 31 March 2018. The Group did not enter any foreign exchange derivative contract to manage the currency translation risk of Renminbi against United States dollars and United States dollars against Hong Kong dollars during the year ended 31 March 2018, but the Group will continue to review its foreign exchange exposure regularly and might consider using financial instruments to hedge against foreign exchange exposure at appropriate time.

## Litigation

Save as disclosed outstanding litigation set out in note 36 to the consolidated financial statements, the Group is not a party to any other significant legal proceedings.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Capital Commitments

As at 31 March 2018, the Group had a total capital commitments of approximately HK$129 million, contracted for but not provided for in the consolidated financial statements, of which mainly consisted of the remaining capital commitments for acquisition of vessels.

## Share Option Scheme

A share option scheme (the "Share Option Scheme") was approved and conditionally adopted by an ordinary resolution of the shareholder of the Company on 22 November 2016. On 23 June 2017, the Share Option Scheme was confirmed by the Stock Exchange.

No share options had been granted by the Company under the Share Option Scheme since its adoption.

## Contingent Liabilities

As at 31 March 2018, the Group did not have any material contingent liability (2017: Nil).

## Employee Benefits

As at 31 March 2018, the Group had 461 (2017: 468) employees, including directors, working mainly in Mainland China. For the year ended 31 March 2018, the Group's total staff costs including directors' emoluments were approximately HK$46 million (2017: approximately HK$49 million). The decrease in employee benefits for the year was mainly attributable to, among other factors, the combined net effects of (i) the decrease in directors' emolument; (ii) the increase of salary increment in Mainland China; and (iii) the increase of the foreign exchange translation on Renminbi against Hong Kong dollars.

## Significant Investment, Material Acquisition and Disposals of Subsidiaries and Associated Companies

For the year ended 31 March 2018, the Group had made the disposal of its equity interests in Daisho Denshi Co., Ltd. ("Daisho Denshi") to Daisho Denshi at a consideration of Japanese Yen 80 million (equivalent to approximately HK$5.9 million). Accordingly, a loss on disposal of HK$3.4 million was recognised in consolidated profit or loss.

On 29 September 2017, the Group (the "Purchaser") entered into the sale and purchase agreement with Inter-Pacific Group Pte. Limited (the "Vendor"), pursuant to which, the Vendor conditionally agreed to dispose the vessels at an aggregate consideration of HK$196,480,000; and the master lease agreement. Details of the acquisition are set out in the Company's circular dated 27 December 2017. On 27 March 2018, the first vessel was delivered to the Group and the promissory note in the principal amount of HK$33,310,000 was issued to the Vendor upon fulfillment of the conditions set out in the sale and purchase agreement. The remaining three vessels were estimated to deliver to the Group during the coming financial year and the Company will further require to issue two promissory notes in aggregate principal amount of HK$113,170,000 to the Vendor.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Outlook

### Printed circuit board segment

The new policies of urban development and environmental protections by the Huizhou Government revealed some of the problems of operation of our PCB factory in Huizhou. During the year ended 31 March 2018, the Group conducted an initial feasibility study in relation to the relocation of the current PCB manufacturing facility. On 28 March 2018, the Group entered into a lease agreement with an independent third party (the "Independent Third Party") located in the city of Huizhou. The Company simultaneously explores any further cooperation opportunities with the Independent Third Party which is also engaged in PCB manufacturing (the "Cooperation"). The expected synergy would achieve through the Cooperation can benefit each with its respective technological advantages, customer bases or cost reduction.

As a result of these initiatives, it is estimated that more efficient resources are realised and expected to maximise the profit to fulfil the expectation of shareholders. In additions, the sales orders are making satisfactory progress and our existing customers have shown their strong continuous support to the Group once the plant resume production later on.

On 25 May 2018, the Group entered into a memorandum of understanding to sell entire issued shares in Da Feng Hua Microline Technology (Huizhou) Company Ltd.* (大鋒華微綫科技(惠州)有限公司), a wholly-owned subsidiary of the Company, which owns the Group's prepaid lease payments and buildings with an independent third party (the "Potential Disposal"). The provisional consideration of the Potential Disposal is HK$200,000,000 as reference to the Company's announcement dated 25 May 2018. The Company intends to use the amount of the provisional consideration of the Potential Disposal for reducing the debts of the Company and as funding for general working capital purpose. As at the date of this report, the Company does not have any specific investment plan which requires the use of the amount of the provisional consideration of the Potential Disposal.

The directors of the Company believe that the Potential Disposal represents a good opportunity for the Company to realise the value of the prepaid lease payments and buildings. In addition, upon the completion of the Potential Disposal, the Company will be able to reduce its overall debts and its net current assets position will improve significantly.

Looking further ahead, the operating environment in the People's Republic of China (the "PRC") remains challenging but business opportunity is still there. The Group believes that after the relocation of plant, streamlining the production line and augmented with Cooperation with strategic partners, the Group will have a good chance to turnaround.

In addition, to improve the sale progress, the Group has been continuously implementing various sale strategies to increase the revenue and profit margin of the Group. The Group will keep to enhance its marketing efforts to expand its market coverage and will further improve its product mix and further expand the PRC's market so as to widen its market coverage. To strengthen the market competitive, the Group has been continuously taking various cost control measures to tighten the costs of operations and various general and administrative expenditure especially after the completion of the relocation of production facilities.

* *English name is for identification purpose only.*

# MANAGEMENT DISCUSSION AND ANALYSIS

## Outlook (continued)

### Trading of petroleum and energy products and related business segment

The Group has commenced the operating of the trading of petroleum and energy products and related business in mid-June 2017 and rendered a stabilised profit to the Group. Afterwards, the Group entered into the sale and purchase agreement in relation to the acquisition of four vessels. The first vessel received on 27 March 2018 upon fulfillment of the conditions set out in the sales and purchase agreement and the remaining three vessels were estimated to delivery to the Group during the coming financial year. Once completion, the leasing income generated from the master lease agreement will further broaden revenue base, derive reasonable rate of return and with the outcome of stable income of the Group in the foreseeable future.

Going forward, the Group will continue to develop the petroleum trading business in Hong Kong and further expand the Singapore market. Our management team members have evidenced experience to run the petroleum business and have long been working with the Singapore reputable and large petroleum companies and their experiences will enhance the Group's opportunity to increase the market share of the Singapore market.

In January 2018, the Group incorporated a wholly-owned subsidiary in Singapore and it will form the business team on trading of petroleum and energy products. Expectantly, the team will be committed to establish the long-term sustainable development, build up the partnerships with the upstream and downstream petroleum suppliers, and enable the Group to achieve the impressive growth of profit and trade volume of petroleum business. With a clear development plan, the Group believes that the trading of petroleum and energy products business will play a key role of the Group and bring an important contributions to the Group's revenue and also more satisfactory returns to shareholders of the Group in the future.

Shareholders can therefore expect to see the Group continue to transform its business model in the coming years to more diversified business, manufacturing and trading of printed circuit boards and trading of Petroleum business and vessel leasing. The diversification of business will be looked forward to turn a potential profitability to the Group in the future.

# REPORT OF THE DIRECTORS

The directors submit herewith their report and the audited financial statements of the Company and its subsidiaries for the year ended 31 March 2018.

## Principal Activities

The principal activity of the Company is investment holding. The activities of its principal subsidiaries consist of investment holding, manufacturing and trading of printed circuit boards, and trading of petroleum and energy product and related business and vessel leasing.

## Results and Dividends

The Group's results for the year ended 31 March 2018 are set out in the consolidated statement of profit or loss on page 53 of this report.

The directors do not recommend the payment of any dividend in respect of the year (2017: Nil).

## Business Review

A review of the business of the Group during the year and a discussion on the Group's outlook are provided in Management Discussion and Analysis on pages 12 to 13 of this report.

Details of the discussion of environmental policies and performance, compliance with the relevant laws and regulations and key relationships with employees, customers and suppliers are set out in the Environmental, Social and Governance Report on pages 23 to 38 of this report.

The financial risk management of the Group are shown in note 33 to the consolidated financial statements.

# REPORT OF THE DIRECTORS

## Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the consolidated financial statements, is set out below.

### Results

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| REVENUE | **411,859** | 170,245 | 206,940 | 238,559 | 244,372 |
| (LOSS) PROFIT BEFORE TAXATION | **(80,077)** | (51,009) | (60,901) | 17,797 | (37,545) |
| Income tax expenses | **–** | – | – | (3,505) | – |
| (LOSS) PROFIT FOR THE YEAR | **(80,077)** | (51,009) | (60,901) | 14,292 | (37,545) |
| Attributable to: | | | | | |
| Owners of the Company | **(80,077)** | (51,009) | (60,901) | 14,292 | (37,545) |

### Assets and Liabilities

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TOTAL ASSETS | **483,822** | 381,147 | 529,752 | 611,264 | 630,682 |
| TOTAL LIABILITIES | **(333,402)** | (172,782) | (299,468) | (298,918) | (323,936) |
| | **150,420** | 208,365 | 230,284 | 312,346 | 306,746 |

## Donations

During the year, the Group made no charitable and other donation (2017: Nil).

## Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the consolidated financial statements.

# REPORT OF THE DIRECTORS

## Share Capital

Details of the Company's authorised and issued share capital are set out in note 28 to the consolidated financial statements.

## Share Options Scheme

Pursuant to the Company's special general meeting on 22 November 2016 (the "Date of Adoption"), an ordinary resolution was passed to approve and adopt the new share option scheme of the Company (the "Scheme") which was further subject to approval by the Listing Committee of the Stock Exchange (the "Listing Committee") granting the approval for the listing of, and permission to deal in, any ordinary share of the Company which may fall to be issued pursuant to the exercise of the options (the "Listing Approval"). On 23 June 2017, the Listing Approval was confirmed by the Listing Committee.

The purpose of the Scheme is to provide the incentives or rewards to the eligible persons for their contribution to, and continuing efforts to promote interests of, the Company and to enable the Group to recruit and retain high-calibre employees. Eligible persons of the Scheme include (i) any director (whether executive or non-executive, including independent non-executive director) or employee (whether full time or part time) of the Company or any of its subsidiaries or associated companies; (ii) consultant, adviser, supplier or customer of the Company or any of its subsidiaries or associated companies; and (iii) any other group of classes of participants which the Board of Director may, from time to time in its absolute discretion, consider appropriate on basis of such participants' contribution or potential contribution to the development, growth or benefit of the Company or any of its subsidiaries or associated companies. The Scheme will remain in force for 10 years from the Date of Adoption, unless otherwise terminated or altered.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not exceed 10% of the total number of shares in issue as at the Date of Adoption of the Scheme (the "10% Limit") or the date of any shareholders' meeting in refreshing the 10% Limit, if applicable. The maximum number of shares issued and issuable to each eligible person under the Scheme in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue as at proposed grant date. Any further grant of share options in excess of this limit is subject to shareholders' approval 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. In addition, any share options granted to an independent non-executive director or a substantial shareholder of the Company, or to any of their associates, in excess of 0.1% of the total number of shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5,000,000 within any 12-month period, are subject to shareholders' approval in advance in general meeting.

The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board of Directors and commences from the date on which the offer of share options is duly accepted by the grantee in accordance with the Scheme.

The exercise price of share options is determined by the Board of Directors, and shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation on the date of the office of the share options; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of the share options; and (iii) the nominal value of the Company's shares.

No share options had been granted, exercised or lapsed during the year ended 31 March 2018 and there were no outstanding share options as at 31 March 2018.

# REPORT OF THE DIRECTORS

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## Management Contracts

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

## Equity-Linked Agreements

No equity-linked agreements into which the Company entered or subsisted at any time during the year.

## Purchase, Redemption or Sale of Listed Securities of the Company

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

## Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 37(a) to the consolidated financial statements and in the consolidated statement of changes in equity on page 57 of this report, respectively.

## Distributable Reserves

As at 31 March 2018, the Company's reserves available for cash distribution and distribution in specie were Nil (2017: HK$22,139,000). In addition, the Company's share premium account, in the amount of HK$128,492,000 (2017: HK$128,492,000), may be distributed in the form of fully paid bonus shares.

## Major Suppliers and Customers

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

a. Percentage of purchases attributable to the:

| | |
|---|---|
| – Largest supplier | 50% |
| – Five largest suppliers | 76% |

b. Percentage of sales attributable to the:

| | |
|---|---|
| – Largest customer | 45% |
| – Five largest customers | 85% |

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers and customers.

# REPORT OF THE DIRECTORS

## Directors

The directors who held office during the year and to the date of this report were:

**Executive directors:**

Cheung Lai Na *(Re-designated as Chairman on 3 July 2017)*
Cheung Lai Ming
Lee Man Kwong *(Re-designated as executive director on 1 June 2018)*

**Independent non-executive directors:**

Leung King Fai
Yeung Chi Shing, Bret *(Resigned on 30 September 2017)*
Chou Yuk Yan
Law Ping Wah *(Appointed on 16 November 2017)*

According to the Company's private act known as "The Juko Laboratories Holdings Limited Company Act 1990", which is an Act of the Company established when the Company was first established under the former name of Juko Laboratories Holdings Limited, the Chairman of the Company is not required to be subject to rotation in accordance with the Bye-Laws of the Company. However, in the spirit of good corporate governance practice, the existing Chairman of the Company, Ms. Cheung Lai Na, has agreed to retire at least once every three years.

In accordance with Bye-Law 102 of the Company's Bye-Laws, Mr. Lee Man Kwong and Mr. Law Ping Wah will retire from their offices and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Bye-Law 99(A) of the Company's Bye-Laws, Mr. Leung King Fai will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Leung King Fai and Mr. Law Ping Wah, as well as written confirmation of independence from Mr. Chou Yuk Yan and as at the date of this report still considers them to be independent.

## Directors' Biographies

Biographical details of the directors of the Company are set out on pages 4 to 5 of this report.

## Directors' Service Contracts

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

## Litigation

Save as disclosed outstanding litigation set out in note 36 to the consolidated financial statements, the Group is not a party to any other significant legal proceedings.

# REPORT OF THE DIRECTORS

## Directors' Remuneration

The Company's Remuneration Committee makes recommendations to the Board on the specific remuneration packages of individual directors with reference to such factors as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the justification of performance-based remuneration.

## Permitted Indemnity Provisions

A permitted indemnity provision for the benefit of the directors and officers of the Company is currently in force and was in force throughout the year. Pursuant to the Bye-Laws of the Company, the directors and the officers of the Company 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 they may incur or sustain by reasons of any act done, concurred in or omitted in or about the execution of their duties. The Company has maintained liability insurance to provide appropriate cover for the directors and officers of the Group.

## Directors' Materials Interests in Transactions, Arrangement or Contracts

On 29 September 2017, the Company (the "Purchaser") entered into the sale and purchase agreement with Inter-Pacific Group Pte. Limited (the "Vendor" or "Inter-Pacific"), pursuant to which, the Vendor conditionally agreed to dispose, the vessels at an aggregate consideration of HK$196,480,000; and the master lease agreement.

Ms. Cheung Lai Na ("Ms. Cheung"), an Executive Director of the Company and Ms. Cheung's sister, Cheung Lai Ming, an Executive Director of the Company, are also the director of Inter-Pacific. On 16 January 2018, the transactions contemplated under the agreements are passed by independence shareholder board of the Company through Special General Meeting.

Save as disclosed the above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

# REPORT OF THE DIRECTORS

## Directors' Interests and Short Positions in Shares and Underlying Shares

As at 31 March 2018, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

**Long positions in ordinary shares of the Company:**

| Name of director | Trustee | Number of ordinary shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| Cheung Lai Na | 120,068,000 (Note) | 120,068,000 | 20.84% |

Note: Cheung Lai Na holds 120,068,000 shares of the Company in trust for Cheung Ling Mun.

Save as disclosed above, as at 31 March 2018, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## Directors' Rights to Acquire Shares or Debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

# REPORT OF THE DIRECTORS

## Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

As at 31 March 2018, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

**Long positions:**

| Name | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital |
|---|---|---|---|
| Cheung Ling Mun | Beneficially owned | 120,068,000 | 20.84% |
| Alexis Consortium Ltd | Beneficially owned | 50,000,000 | 8.68% |

Save as disclosed above, as at 31 March 2018, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## Directors' Interest in a Competing Business

During the year and up to the date of this report, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

## Corporate Governance

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 39 to 47 of this report.

# REPORT OF THE DIRECTORS

## Auditor

The consolidated financial statements for the year ended 31 March 2018 have been audited by Mazars CPA Limited, *Certified Public Accountants*, who will retire and, being eligible, offers itself for re-appointment and a resolution for its re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

## Environmental, Social and Governance

The Environmental, Social and Governance ("ESG") exercise for the year ended 31 March 2018 have been undertaken by a third party consultant which enable the Company to present a succinct and balanced account of our ESG related matters to our stakeholders in a transparent manner which are set out in the ESG Report on pages 23 to 38 of this report.

On behalf of the Board

**Cheung Lai Na**
*Chairman*

Hong Kong
12 June 2018

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1. Scope

The reporting period of this Environmental, Social and Governance Report is from 1 April 2017 to 31 March 2018. It contains information covering the factory of the Group located in Huizhou, the PRC, for the manufacturing of PCB.

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and is published on an annual basis.

## 2. Stakeholder Engagement

The Group holds shareholders' meetings every year, providing an effective platform for the board of directors to exchange opinions with shareholders. In addition to the general meeting of shareholders, in order to maintain a close relationship with customers, suppliers and other stakeholders, the Group from time to time communicates with stakeholders through visits and teleconferences, or via corporate electronic mailboxes, customer service personnel, and industry exhibitions, to listen to their opinions and needs. The Group will also report our overall business performance to investors annually in the annual report.

## 3. Environmental, Social and Governance Performance

### 3.1 Environmental

The Group is convinced that, in order to solve the problem of resource shortages and environmental pollution, we must start tackling with energy and resources and, in dealing with environmental pollution, we must protect the environment and maintain the natural ecology in original state, both of which must complement each other. In view of this, the Group actively responds to the global concerns for emissions reduction and is committed to the effective use of resources and control of greenhouse gas emissions in daily operations. The Group is well aware of the fact that pollutants will generally be produced in the process of manufacturing PCB and therefore has taken the initiative in successfully gaining the ISO 14001 certification, an international standard for a sound environmental management system ("Environmental Management System"). We follow the ISO 14001 Environmental Management System and the Plan-Do-Check-Act management cycle to systematically execute and manage the prevention of various types of pollution. Through the following measures, we will work harder to continuously reduce the impact of our operations on the environment in moving toward the vision of sustainable development.

#### *3.1.1 Emissions*

Reducing greenhouse gas emissions

Business travel saving policy

The Group understands that long-distance transportation in business travel will increase energy consumption and accordingly an increase in carbon emissions. The Group strives to make use of teleconferences, mailing, express delivery and other communication methods to reduce travel or avoid meetings requiring long-distance travel. If an application for business travel has to be made, departmental heads shall strictly monitor the applications to minimise long-distance travel.

## 3. Environmental, Social and Governance Performance (continued)

### 3.1 Environmental (continued)

*3.1.1 Emissions (continued)*

Reducing greenhouse gas emissions (continued)

Supporting procurement from local suppliers

In the light of reducing the time and distance of transportation, the Group will consider giving priority to local suppliers in the absence of any supplier specifically designated by customers and under the same business conditions (such as cost, quality, technology and service, environmental protection). Local suppliers account for as high as over 90% of our total number of suppliers and this reduces additional greenhouse gas emissions caused by overseas transportation.

The sources and density of greenhouse gas emissions produced by the Group during the reporting period were as follows:

| **Sources of greenhouse gas emissions** | **Total annual consumption** |
|---|---|
| Diesel consumption (l) | 213,909 |
| Facility power consumption (Kwh) | 24,160,855 |
| Waste paper disposed of at landfills (kg) | 1,359 |
| **Total greenhouse gas emissions** (tonne of carbon dioxide equivalent) | 21,531.5 |
| **Average greenhouse gas emissions per square metre of floor area** (tonne of carbon dioxide equivalent/sq.m.) | 0.40 |

Reducing other emissions

Full classification and zero waste are the ultimate waste management goals of the Group. Aside from using waste resourcification as the strategy in addition to source management measures such as reducing raw materials and developing green production technologies to reduce waste, the Group plays a more active role in promoting the recycling of waste to implement the waste resourcification cycle (Reduce, Reuse, Recycle, 3R) and reduce waste disposal costs.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. Environmental, Social and Governance Performance (continued)

### 3.1 Environmental (continued)

*3.1.1 Emissions (continued)*

Reducing other emissions (continued)

Policy on reducing waste generated from operations

The Group has followed the Environmental Management System regarding the impact of the manufacturing business on the environment, including waste treatment and treatment on the consumption of electricity and other resources in the production process. At the same time, the Group has taken measures to fully recover recyclable waste so as to reduce the impact of waste discharges being environmental hazards to land and water sources.

In order to reduce unnecessary waste generated from our operations, the Group is committed to promoting policies to save, recycle and reuse paper, electricity and drinking water. At the same time, employees are required to use the double-sided printing when printing documents, and reuse one-side used paper based on the principle of waste reduction. In daily operations, we also actively promote electronic documentation via replacing paper documents by computer files, making all attempts to create a paperless office to reduce the use of paper-based office supplies.

Non-hazardous waste control policy

In accordance with the Law on the Prevention and Control of Environmental Pollution by Solid Waste, Administrative Measures for Urban Living Garbage and other national regulations, the Group identifies and sorts various types of non-hazardous solid wastes and sends the reusable wastes to recyclers for proper disposal, including paper, metal, personal protective equipment and valuable chemicals. These recyclable wastes are regularly recorded for analysis of our environmental performance and are handled by third-party recycling companies. In addition, the Group controls non-hazardous solid wastes through internal operations such as management, publicity, training, identification, classification, recycling and other policies.

Hazardous waste control policy

For proper treatment of hazardous waste generated in production, hazardous wastes generated from the factory are identified with reference to the 2016 National Hazardous Waste List, and qualified contractors are engaged for proper disposal in accordance with the requirements in the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Administrative Measures for Hazardous Waste Transfer Manifest and other regulations. Moreover, the Group has established management procedures for hazardous wastes requiring our factories to implement them as provided in regulations. The relevant procedures are compliant with QC080000, a certification for quality assessment specification introduced and implemented by the International Electrotechnical Commission (IEC), providing a framework for the control of hazardous substances to ensure that hazardous wastes are stored centrally and segregated and that qualified recycling companies are engaged for disposal. Among which, hazardous wastes, including chemicals, metals, and electronic wastes, are managed through controlling at the sources, acting in concert with optimisation technologies, reducing usage and measures at various levels to prevent adverse impacts on the environment.

## 3. Environmental, Social and Governance Performance (continued)

### 3.1 Environmental (continued)

*3.1.1 Emissions (continued)*

Reducing other emissions (continued)

Hazardous waste control policy (continued)

The total volume and density of hazardous and non-hazardous wastes produced by the Group during the reporting period were as follows:

| **Types of waste** | **Annual emissions Overall figure for the Group** |
|---|---|
| Hazardous waste (tonne) | 1,716.74 |
| Non-hazardous waste (tonne) | N/A |
| **Average hazardous waste per square metre of floor area** (kg/sq.m.) | 0.032 |
| **Average non-hazardous waste per square metre of floor area** (kg/sq.m.) | N/A |

Air pollution control policy

The Group strictly controls the air pollutants emitting from the factory production. Therefore, the Group is committed to improving and installing purification towers for the control of gas emissions generated and the absorption of pollutants such as volatile organic compounds and acidic/alkaline mist before the exhausted air is emitted to the atmosphere so as to help eliminate hazardous components in the exhausted air. In addition, the purified air quality is regularly monitored by an independent third-party body to ensure strict compliance with the national regulations.

The Group has strictly complied with relevant environmental laws and no incidence that the Group was charged with violations of laws relating to environmental protection during the period is identified.

## 3. Environmental, Social and Governance Performance (continued)

### 3.1 Environmental (continued)

#### *3.1.2 Use of Resources*

The Group pays attention to environmental protection and upholds the business philosophy of "Saving First, Governing at Sources". Energy and drinking water are the most important resources for the operation of manufacturing facilities. To improve the efficiency of their usage and to seek room for improvement, the Group has set key performance indicators for energy and drinking water consumed in production processes and constantly monitors the use of energy and drinking water on a monthly basis to see if the standards are met. Therefore, appropriate measures are implemented to improve the efficiency of the use of resources:

Saving energy

The Group requires all employees to take action in energy conservation and emissions reduction, shutting down equipment or machinery in the area responsible by them when they are not needed, and conducting a more comprehensive check of all energy-consuming equipment before leaving the office. In addition, the Group carries out publicity on energy conservation and emissions reduction knowledge to foster employees to develop energy-saving and environmentally-friendly working habits.

Energy conservation and emissions reduction are of top priority to the Group in purchasing equipment. In addition, we strive to pursue equipment and component upgrades to increase the energy conversion rate and the utilisation rate of equipment. We also actively upgrade and transform production process technologies to enhance production efficiency and material utilisation and to reduce product losses.

The Group measures the use of equipment in production and offices to ensure that the purchase, installation and use of equipment are rational and necessary, and integrates redundant and non-essential equipment to avoid unnecessary energy consumption. Furthermore, conventional lighting fixtures in offices, production workshops and conference rooms are gradually replaced by LED energy-saving lamps, saving an average of approximately RMB120,000 in electricity bills each year.

Saving water

The Group has been promoting water conservation measures. No issue relating to applicable water sources and difficulties in water intake is identified in daily operations. "Please Save Water" labels have also been posted on all water faucets to remind employees to shut off the water supply after use. In addition, the Group has specially assigned personnel for managing water equipment as well as regular cleaning, maintenance and inspection. If any leakage or deterioration of equipment and accessories is identified during the inspection, it will be timely repaired or replaced to reduce water consumption.

To reduce the amount of water used in the manufacturing process, the Group has established a water recirculating system for cleaning equipment and mixing ingredients. Among which, efficient wastewater treatment technologies are deployed and such facilities and technologies can greatly reduce water consumption and increase wastewater recycling. Wastewater reuse is implemented by the Group after the production process. After being treated by the wastewater recovery system, wastewater meeting the standard can be treated with pharmaceutical water and sludge filter press cleaning water and treatment has been improved by changing from using tap water only to using tap water and RO concentrated water, thereby increasing the water recycling rate and reducing wastewater discharges. Nevertheless, production units recorded a year-on-year decrease of 25% in water consumption this year. The remaining effluents are properly treated through the industrial and domestic wastewater treatment facilities. Constant monitoring on the quality of effluents is also conducted by qualified third-party to ensure 100% in compliance with the discharge standards.

## 3. Environmental, Social and Governance Performance (continued)

### 3.1 Environmental (continued)

*3.1.2 Use of Resources (continued)*

Packaging materials reduction policy

The Group is committed to promoting the reduction of excessive packaging. Before a product is produced, graphic designers must follow the requirements of the operational guide in the customer packaging requirements summary and shall, as much as possible, integrate green packaging concepts into the packaging design process. At the same time, in purchasing materials, the Group gives priority to the use of production technologies resulting in relatively less pollution and low waste and actively makes improvements to reduce waste pollution and accordingly the consumption of energy and resources.

In the reporting period, the types and density of major resources consumed by the Group during operation are set out as follows:

| **Types of major resources consumed** | **Total annual consumption** |
|---|---|
| Electricity consumption (Kwh) | 24,160,855 |
| Diesel consumption (l) | 213,909 |
| Water consumption (tonne) | 529,870 |
| Finished product packaging materials (plastic) (tonne) | 22.44 |
| Finished product packaging materials (paper) (tonne) | 37.36 |
| Finished product packaging materials (metals) (tonne) | 147.73 |
| Finished product packaging materials (others) (tonne) | 6.55 |

| **Types of major resources consumed** | **Average density consumption per square metre of floor area** |
|---|---|
| Electricity consumption (Kwh/sq.m.) | 477.42 |
| Diesel consumption (l/sq.m.) | 3.96 |
| Water consumption (tonne/sq.m.) | 9.81 |
| Finished product packaging materials (plastic) (kg/sq.m.) | 0.42 |
| Finished product packaging materials (paper) (kg/sq.m.) | 0.69 |
| Finished product packaging materials (metals) (kg/sq.m.) | 2.74 |
| Finished product packaging materials (others) (kg/sq.m.) | 0.12 |

## 3. Environmental, Social and Governance Performance (continued)

### 3.1 Environmental (continued)

*3.1.3 The Environment and Natural Resources*

With the understanding that the society and our customers are concerned with environmental issues, the Group promotes green manufacturing and green procurement policies:

Green procurement policy

Subject to compliance with the Group's operational requirements, priority is given to suppliers who can provide environmental-friendly equipment and materials. The Group will implement the details specified in the DML Green Procurement Standards guide. For the equipment and facilities to be procured, the Group requires suppliers to comply with national regulations and policies on eliminating obsolete equipment and updating energy-saving technologies, and the energy-saving performance of suppliers will be one of the important evaluation factors in making procurement decisions.

Policy on the use of environmental-friendly materials

To ensure that the hazardous substances contained in a product are compliant with international requirements, all the packaging materials used by the Group for finished products must be in line with the standard operations of the ROHS Management Regulations and the internal Operational Guide for the Packaging Department and Customer Packaging Requirements Summary to reduce significant impacts on the environment.

Green operation policy

As for the manufacturing of PCB, the Group has formulated the Environmental Management System, an operational guide for energy conservation, which is certified with ISO 14001 to achieve a green and efficient operation. The system is maintained with the commitment from senior management, subject to examination in the management review meeting. In case of any major environmental aspect being identified, the Group will immediately take appropriate control measures to avoid damages to the environment. In addition, the Group strives for a continuous improvement in the environmental performance. An environmental department has been set up to constantly evaluate the environmental risks in operation, and a third-party testing agency will be regularly engaged to monitor pollutant emissions and to conduct energy audits in order to assist the Group in seeking more energy-saving and emissions reduction solutions.

Providing environmental protection training for employees

The Group has been certified with ISO14001 for the environmental management system which has promoted the Group's continuous improvement in performing self-initiated environmental undertakings, enabling the Group to identify key environmental issues in operational processes and formulate appropriate measures for resolution or mitigation. In order to effectively cope with environmental emergencies, an environmental emergency plan has been developed for the workers to follow in case of emergencies. This includes precautionary measures and emergency responses for the identified workplace environmental hazard sources, which consists of both man-made and natural categorised scenarios such as fire and leakage of hazardous chemicals and liquids. Training is also provided to ensure all workers clearly understand the best response to crisis with minimal impacts to the environment and people.

## 3. Environmental, Social and Governance Performance (continued)

### 3.1 Environmental (continued)

*3.1.3 The Environment and Natural Resources (continued)*

Green office policy

In addition to implementing green operations at the factory, the Group pays great attention to the consumption of resources in the office to ensure that the environmental impact is minimised. There are three aspects to resource consumption at the management level: employees' awareness enhancement, administrative measures, and equipment management. Notices on energy conservation are issued to employees in office premises; small slogans are posted to remind employees to save energy; and employees are required to switch off lights and equipment in their respective areas after work.

### 3.2 Social

*3.2.1 Employment*

In addition to complying with local employment regulatory requirements applicable to any place where we operate, the Group has formulated a series of employment policies, including the Personnel Management System and the Recruitment Management System, to ensure that employees receive fair and reasonable treatment. For the year ended 31 March 2018, the Group had 601 employees, comprising 461 full-time employees and 140 temporary employees.

Equal employment opportunity and promotion policy

In the recruitment process, the Group will not require applicants to disclose irrelevant or inapplicable personal data, such as religious belief. The Group treats employees equally and considers matters of employment, wages, benefits, rewards, promotions, dismissals and the like based entirely on their education levels, professional qualifications and capabilities, so that men and women are equally treated.

Work-life balance policy

The Group pays attention to the work-life balance among employees. Annual free health check is provided to all workers who work in the manufacturing production line. Biennially health check is provided to all office staff. Every three years the Group will contract a professional third-party organisation to assess the professional health and safety work environment of the manufacturing process.

The Group is concerned not only with employees' health and safety at work but also their mental health and personal needs. To this end, the Group has developed a variety of family-friendly leaves such as marriage and maternity leaves for our employees to coordinate with their family needs. The Group also provides other welfare policies to enhance the sense of belonging among employees. For example, (1) setting up a rest and gym area so that employees can spend their spare time effectively and improve physical fitness; (2) holding monthly staff birthday parties, (3) organising the Chinese New Year dinner and commendation ceremony every year, (4) distributing festive food and meal snacks every year, and (5) sponsoring short company trips for employees.

Compensation and retirement policy

Labour contracts are formulated in accordance with the regulatory requirements. Where either party, the employer or the employee, cancels the contract within the agreed period, except as otherwise specified in the contract, the party shall make due compensation to the other party pursuant to the terms and conditions of the contract, and the amount of compensation shall be determined as provided in the contract. Furthermore, the Group has certain restrictions on the retirement age and employees are required to complete retirement formalities in accordance with the requirements of national laws for entitlement to retirement benefits.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. Environmental, Social and Governance Performance (continued)

### 3.2 Social (continued)

#### *3.2.1 Employment (continued)*

Anti-discrimination policy

The Group embraces employees regardless of ethnic group, skin colour, age, gender, sexual orientation, race, disability, pregnancy, belief, political affiliation, membership in certain social groups and marital status. We do not tolerate any form of discrimination, and we respect the individual liberty of employees and protect their personal privacy.

Employee welfare policy

The Group's working hours are set in accordance with the PRC laws and regulations. The Group also makes contributions to social insurance for employees in accordance with the laws and purchases group accident insurance for some employees. In addition, the Group has a sound remuneration system to formulate a competitive remuneration package for employees to safeguard the quality of life of employees.

During the reporting period, the Group had not identified or received any irregularities or complaints on discrimination and recruitment.

#### *3.2.2 Health and Safety*

To manage and control the impact of production on the health of employees and to prevent the occurrence of safety incidents, the Group has established a health and safety system for supervising and implementing effective preventive and improvement programmes.

Occupational health and safety policy

The Group regularly conducts a comprehensive evaluation of incidents and risks in the factory operations, proposing plans for improvement and establishing health and safety monitoring objectives. At the same time, a safety department has been set up to provide safety training for employees and develop safety production implementation rules and operating procedures covering various aspects of management, including fire-fighting facilities management and fire drills, dangerous goods and waste management, employee safety education, protective equipment usage and precautionary incident management.

Workplace safety management

With the commitment of achieving zero accidents at work, the Group implements 6S management policy in operations and production in accordance with the Procedures for the Implementation of 6S Management and the 6S Visual and Common Standards, conducive to enhancing corporate image, reducing unnecessary waste, improving staff efficiency, safeguarding product quality, shortening operational cycle, ensuring timely delivery, and ultimately achieving sustainable growth in the enterprise's economic efficiency. 6S management allows employees to spontaneously participate in the management, thereby improving the quality of employees, and enhancing their sense of belonging.

## 3. Environmental, Social and Governance Performance (continued)

### 3.2 Social (continued)

*3.2.2 Health and Safety (continued)*

Employee safety training

Suitable training is organised to ensure effective implementation of procedures and safe operation of equipment. New employees, temporary workers and apprentices must first receive production safety training before they are allowed to assume an operational position. The relevant training covers correct protective equipment usage, production safety and occupational health knowledge and cases, job/equipment safety operations and other aspects. Operators assuming special positions that require relevant qualifications must undergo special training. The Group also arranges employees to conduct firefighting and emergency drills on a regular basis to familiarise them with the emergency escape routes.

Codes of practice are formulated on the use of protective equipment. Free personal protective equipment is provided to employees and instructions are given on how to wear the equipment properly. All these aim at reducing impacts on the health of employees. An employee who has no understanding of the purpose and performance of protective equipment is strictly prohibited from any formal operations.

Each year, a company-wide training is organised on fire safety knowledge and hazardous chemicals and the precautions.

During the reporting period, the Group had not identified any incidence of violation of relevant local laws and regulations concerning occupational health and safety applicable to the places in which we operate.

| | **Overall figure of the Group** |
|---|---|
| Number of work-related fatalities | 0 |
| Number of working days lost due to work-related injuries | 281 |

## 3. Environmental, Social and Governance Performance (continued)

### 3.2 Social (continued)

*3.2.3 Development and Training*

Career development policy

The Group has developed a series of career development programmes for employees. Comprehensive training including ISO 9001, ISO14001, TS16949 and QC80000 training, is provided to employees to ensure workers to deliver high quality products to our customers, through which the skills of employees are improved. In training new joiners, the Group implements the concept of mentoring, making it easy for new staff to adapt to the work environment. The Group also requires that employees to be trained prior to their assumption of office or relocation, and that they can only formally take office after passing the examination. Furthermore, to enhance production quality, specified orientation and internal training have also been provided according to their respective position within the manufacturing process. Weekly and monthly departmental trainings will be conducted to ensure workers and staff are up to date on the standard operating procedures.

Training programmes for employees in different positions

In accordance with the internal Training Management Regulations, the Group has formulated the Annual Training Programme to provide job skills training and annual training for employees in different positions to bring up employees to tackle different types of skills. The total number of employees trained within the Group and the average number of training hours per employee are set out as follows:

| Gender/Employee's grading | Total number of employees trained |
|---|---|
| Male | 761 |
| Female | 409 |
| Senior management | 14 |
| Middle management | 15 |
| Supervisor | 35 |
| General staff | 1,106 |

During the reporting period, the total number of employees trained by the Group was 1,170, and the total number of training hours for all employees was 3,510. The average number of training hours per employee was approximately 3 hours.

## 3. Environmental, Social and Governance Performance (continued)

### 3.2 Social (continued)

*3.2.4 Labour Standards*

Child labour protection policy

The Group's policy is to recruit adults aged 18 or above. To this end, in recruiting activities, the applicant's age certification and other reliable reference documents will be examined. The human resources department will also remove job applicants under the age of 18 when reviewing the resumes. Through annual child labour reviews and day-to-day management, the Group will immediately stop any child labour when found.

Forced labour prevention policy

The Group prohibits the use of any form of forced labour (including prison labour, indentured labour and bonded labour). The Group will never detain an employee's original identity card and will not require an employee to pay any security deposit, nor will any employment-related costs and expenses, such as visa, health check and work permit expenses and recruiting/employment agency fees, be deducted from the employee's wages.

In daily operations, the Group will not force employees to work overtime. Additional overtime beyond normal working hours is allowed only when an application is voluntarily made by the employee and that the daily overtime hours shall not exceed the requirements of local laws and regulations. If any irregularities are identified, the Group will investigate immediately. In addition, we ensure that employees can move around in their work area during working hours and that they are allowed to leave the workplace during meals and after work.

During the reporting period, the Group had not identified any incidence of child labour and violation of relevant laws and regulations concerning forced labour.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3. Environmental, Social and Governance Performance (continued)

### 3.2 Social (continued)

*3.2.5 Supply Chain Management*

The Group has established a supplier management policy to express our expectations and requirements for them and their employees. The scope of this policy covers product quality, social responsibility, business ethics and other aspects, which are also the important criteria for selecting suppliers.

Suppliers review

The Group has established a system for selecting and reviewing suppliers. In addition to business considerations, we review the qualifications of new suppliers and conduct regular assessments of the performance of existing major suppliers.

However, new suppliers are selected through a comprehensive assessment process and are subject to on-site audits, though only qualified suppliers are included in the "list of qualified suppliers". As for existing suppliers, regular performance evaluations are conducted on four major areas: product quality, product price, service performance, and overdue rates.

Any supplier failing to meet the requirements is required to formulate the "Eight Remedial Actions Report" for rectification. Agreements such as the Letter of Commitment to Restricted Substances and the DML Green Procurement Standards must be signed with all qualified suppliers for supervision on the quality of their products, so that the final product will not only meet the requirements of laws and regulations but will also satisfy customers. In addition, suppliers are also required to post labels on the outer packaging of the materials they provide in accordance with the Substance Marking Requirements of Suppliers for Environmental Management.

The geographical distribution of the Group's suppliers during the reporting period is set out as follows:

| **Geographical region** | **Number of suppliers** |
|---|---|
| Hong Kong | 6 |
| The PRC | 250 |
| Others | 4 |
| **Total** | 260 |

## 3. Environmental, Social and Governance Performance (continued)

### 3.2 Social (continued)

*3.2.6 Product Responsibility*

The Group fully understands that improving the health-friendliness and safety of our products and services is a key factor supporting the long-term development of the business. In countries where our products are manufactured and sold, regulations applicable to the local jurisdiction and the place where the customer is located are strictly observed.

Product quality assurance policy

The Group also strictly monitors the quality assurance of products, exercising quality control from the import of raw materials to the shipment of products. Unless other requests are specified by the customers, we have standard procedures on approving the use of raw materials. In addition to material quality testing, we also take into consideration the factors such as material safety and its adverse impacts on the environment. For example, given that halogens can contribute to ozone depletion and the greenhouse effect, the Group opts for halogens free raw materials and so at the end of the product lifecycles, they do not contribute to these environmental issues. For all new laminates, Production Part Approval Process Report is needed to ensure its product quality and hence, reducing the risk of unexpected failure due to defects in design and manufacture.

In addition, the Group has established the quality management system in accordance with the international quality management system ("QMS") ISO 9001:2008 and ISO/TS16949:2009, with the commitment to providing customers with higher quality guarantees, strictly implementing production quality management practices, improving product quality management and development planning, and strengthening product quality management records to every detail in the course of production and distribution.

Product safety policy

To ensure the safety of products, the Group will conduct a comprehensive product safety inspection which must be certified by UL.

Fair promotional information policy

The Group ensures that the product information published on our website and other promotional materials is true and accurate. Some of the Group's products are attached with operating instructions, the contents of which are supported by justifiable grounds. In addition, the Group requires that all information about the advantages of a product released by the sales staff when promoting the product is confirmed by the Group and that no negative statement is made against a competitor company or product in order to stop customers from being misled at the time of purchase.

## 3. Environmental, Social and Governance Performance (continued)

### 3.2 Social (continued)

#### *3.2.6 Product Responsibility (continued)*

Handling of customer complaints

The Group has established a complaint handling mechanism. When a customer complaint is received, it will be handled in accordance with the procedures of the Operational Guide for Handling Customer Complaints. The Quality Department will conduct analysis and make a reply to the customer on the analysis results and follow-up actions within a specified period. The Group also has a designated department responsible for following up customer complaints and, if necessary, launching a product recall procedure in accordance with the Unqualified Product Management Procedures.

Protection of intellectual property rights

The Group recognises the importance of intellectual property rights. Whether it is a product designed by ourselves or made based on customer specification, the relevant information will be strictly protected. The Group has developed provisions on the confidentiality of information and data, which cover the responsibilities and obligations of all departments and managers at all levels in the areas of protecting employee data, business assets and customer information. At the same time, employees are prohibited from disclosing confidential information from the time when they are employed until they leave the Group. An employee violating the provisions will be subject to disciplinary action, and may face (inclusive of) dismissal in the worst case.

With regard to commercial software for office applications, the Group promises not to purchase any form of pirated software but only from authorised suppliers.

Customer data privacy policy

On the basis of protecting customer data and keeping the data confidential, confidential data and documents relating to the customer's intellectual property rights such as drawings and technical specifications must be strictly managed and maintained by a specially designated department. Without permission, employees are not allowed to copy, store or take them away from our premises.

The Group had not identified any incidence of violation of any legislation or any customer complaints relating to product responsibility during the reporting period. Moreover, among the products sold, no product is needed to be recalled for safety and health reasons.

## 3. Environmental, Social and Governance Performance (continued)

### 3.2 Social (continued)

*3.2.7 Anti-corruption*

The Group has established a series of sound internal control frameworks and rigorous policies with the aim of preventing fraud and stopping unethical business practices, which have been properly implemented to avoid the occurrence of corruption and fraud.

Conflict of interest reporting policy

For our directions in corruption prevention and business ethics, the Group has a system to supervise the conduct of employees and commits to manage all business without undue influence and regards honesty, integrity, and fairness as our core value. All directors and employees are required to strictly follow the stipulated Code of Conduct to prevent potential bribery, extortion, fraud and money laundering. The Group's Code of Conduct states clearly that:

(1) All directors and employees should avoid conflicts of personal interest and their professional duties.

(2) Employees who exercise authority, influence decisions and actions or gain access to company assets and information through their employment in the Group to achieve private and personal gain are strictly prohibited.

(3) Employees are required to declare any conflict of interest by completing the required form as instructed by the Group's Human Resources Department.

(4) Neither directors nor employees shall obtain or provide benefits to customers, contractors, suppliers, or people with business relationship with the Group.

(5) Accepting voluntary gifts must be declared and complete the approval process as administered by the Group's Human Resources Department.

Third-party auditing policy

The Group engages a third-party audit agency to perform financial and other audits on the internal financial records which can be effectively audited by independent organisations to see whether or not they comply with the relevant legislations and financial requirements in terms of aspects including authenticity and evidence in order to prove that the Group's operations are true and fair.

The Group strictly complies with relevant anti-corruption and anti-bribery legislation. The Group had not identified any incidence of breach of relevant laws during the reporting period. In addition, fair dealing and good faith are the core values that the Group has always upheld.

*3.2.8 Community Investment*

The Group's investments in the community are primarily aimed at providing assistance to disadvantaged groups. By collaborating with local community organisations such as Hong Kong Federation of Dongguan Associations, we have shown our support and care through donations to improve the lives of people in less privileged communities.

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practices

The Company recognises that good corporate governance is vital to the success and the sustained development of the Group.

The Company aims at complying with, where appropriate, all code provisions of the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company's corporate governance practices are based on the principles and the code provisions ("Code Provisions") as set out in the CG Code of the Listing Rules. The Company has applied and complied with most of the applicable Code Provisions throughout the year ended 31 March 2018, except for certain deviations from the Code Provisions in respect of Code Provisions A.2.1 and A.4.2, details of which are explained below.

## Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") as its code of conduct regarding directors' securities transactions. The Company has made specific enquiries of all directors and all directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 March 2018.

The Company has also adopted a code for dealing in the Company's securities by relevant employees, who are likely to be in possession of unpublished inside information in relation to the securities of the Group, on no less exacting terms than the Model Code.

## Board of Directors

### Board composition and practice

The directors of the Company during the year and up to the date of this report were as follows:

**Executive directors:**

| | |
|---|---|
| Cheung Lai Na | *(Re-designated as Chairman on 3 July 2017)* |
| Cheung Lai Ming | |
| Lee Man Kwong | *(Re-designated as executive director on 1 June 2018)* |

**Independent non-executive directors:**

| | |
|---|---|
| Leung King Fai | |
| Yeung Chi Shing, Bret | *(Resigned on 30 September 2017)* |
| Chou Yuk Yan | |
| Law Ping Wah | *(Appointed on 16 November 2017)* |

The biographical details of the Board members are set out on pages 4 to 5 of this report.

The Board is responsible for the strategic planning for the Group and the monitoring of the Group's operating performance while day-to-day management of the Group is delegated to the management team.

# CORPORATE GOVERNANCE REPORT

## Board of Directors (continued)

### Board composition and practice (continued)

The Board supervises the management of business and affairs of the Group. It has established self-regulatory and monitor mechanisms to ensure that effective corporate governance is practised. The Board oversees the Group's overall strategic plans, reviews and approves the interim and annual reports, declares dividend, ensures good corporate governance and compliance, monitors the performance of the management, reviews and approves any material acquisition and disposal of assets.

The Company complies with Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related finance management expertise. The Board considers that each independent non-executive director is independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules. Moreover, each independent non-executive director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the directors and officers of the Group from their risk exposure arising from the operation of the Group.

Directors' training is an on-going process. The Company is responsible for arranging and funding suitable training and all directors are encouraged to attend relevant training courses. Effective from 1 April 2012, all directors are required to provide the Company with his training record on an annual basis.

Based on the records of the Company and having his/her training record, the Company believes that the Directors have received the following training and/or rules update and/or professional development during the year ended 31 March 2018:

| **Name of directors** | | **Type of Training** |
|---|---|---|
| *Executive directors* | | |
| Cheung Lai Na | *(Re-designated as Chairman on 3 July 2017)* | B |
| Cheung Lai Ming | | B |
| Lee Man Kwong | *(Re-designated as executive director on 1 June 2018)* | A |
| | | |
| *Independence non-executive directors* | | |
| Leung King Fai | | A |
| Yeung Chi Shing, Bret | *(Resigned on 30 September 2017)* | B |
| Chou Yuk Yan | | B |
| Law Ping Wah | *(Appointed on 16 November 2017)* | A |

Remarks:

A: attending seminars and/or conferences and/or forums.

B: reading newspapers, materials and updates relating to the economy, general business or director's duties and responsibilities etc.

# CORPORATE GOVERNANCE REPORT

## Litigation

Save as disclosed outstanding litigation set out in note 36 to the consolidated financial statements, the Group is not a party to any other significant legal proceedings.

## Chairman and Chief Executive Officer

According to the Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Group has not appointed the CEO. The daily operations of the Group are delegated to the executive directors and the senior management. The Board is of the view that the current management structure can effectively facilitate the Company's operation and business development.

## Re-election of Directors

Under the Code Provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Company's private act known as "The Juko Laboratories Holdings Limited Company Act 1990", which is an Act under the Company's former name of Juko Laboratories Holdings Limited when the Company was first established, the Chairman of the Company is not required to be subject to rotation in accordance with the bye-laws of the Company. However, in the spirit of good corporate governance practice, the existing Chairman of the Company, Ms. Cheung Lai Na has agreed to retire at least once every three years.

## Board Committees

### Audit Committee

The Audit Committee was established in 1999 and comprises the three independent non-executive directors of the Company at present. The Board considers that each Audit Committee member has broad commercial experience and technical knowledge and there is a suitable mix of expertise in business, accounting and financial management within the Audit Committee. The composition of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. Its members are:

| | |
|---|---|
| *Independent non-executive directors* | |
| Leung King Fai | |
| Yeung Chi Shing, Bret | *(Resigned as member on 30 September 2017)* |
| Chou Yuk Yan | |
| Law Ping Wah | *(Appointed as member on 16 November 2017)* |

The Audit Committee's primary responsibility includes reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee also acts as a communication channel between the Company's external auditors and management for all essential issues identified during the course of the audit. The Board has delegated the responsibility for reviewing the corporate governance matters of the Group to the Audit Committee.

## Board Committees (continued)

### Audit Committee (continued)

During the year, there were three Audit Committee meetings from the Audit Committee members. The attendance details of each member are set out on page 44 of this report. The major work performed by the Audit Committee during the year included the following:

– Reviewed interim and annual financial statements;

– Reviewed continuing connected transactions;

– Reviewed internal audit reports on the internal controls, risk management and financial reporting matters;

– reviewed the remuneration and terms of engagement of the Company's external auditors;

– reviewed the Company's compliance with the CG code under the Listing Rules.

### Remuneration Committee

The Remuneration Committee was established on 22 December 2005 and comprises four members as at 31 March 2018, the majority of whom are independent non-executive directors and its members are:

*Independent non-executive directors*
Leung King Fai
Yeung Chi Shing, Bret *(Resigned as member on 30 September 2017)*
Chou Yuk Yan
Law Ping Wah *(Appointed as member on 16 November 2017)*

*Executive director*
Cheung Lai Na

The Remuneration Committee is responsible for formulating and reviewing the remuneration policy and the specific remuneration packages of all directors and senior management of the Group.

The Remuneration Committee makes recommendations to the Board on the specific remuneration packages of individual director and senior management of the Group, including benefits in kind, pension rights and compensation payments. In determining the emolument payable to directors, it takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the justification of performance-based remuneration.

During the year, there were one Remuneration Committee meeting and two written resolutions from the Remuneration Committee members, in which the level of remuneration for all newly appointed directors and senior management was reviewed and fixed.

# CORPORATE GOVERNANCE REPORT

## Remuneration of Senior Management

For the year ended 31 March, 2018, the remuneration paid to the members of senior management by bands is set out below:

| Remuneration Bands | Number of individuals |
|---|---|
| Up to HK$1,000,000 | 2 |
| HK$1,000,001 to HK$2,000,000 | 1 |

Further particulars regarding directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 10 to the consolidated financial statements.

## Nomination Committee

The Nomination Committee was established on 26 March 2012 and comprises five members as at 31 March 2018, the majority of whom are independent non-executive directors and its members are:

*Executive directors*
Cheung Lai Na
Cheung Lai Ming

*Independent non-executive directors*
Leung King Fai
Yeung Chi Shing, Bret *(Resigned as member on 30 September 2017)*
Chou Yuk Yan
Law Ping Wah *(Appointed as member on 16 November 2017)*

The Nomination Committee is responsible for formulating director nomination policy for the Board's consideration and implementing the Board's approved director nomination policy.

During the year, there were one Nomination Committee meeting and three written resolutions from the Nomination Committee members, in which the nomination of candidates for the directors was reviewed and recommended to the Board.

A copy of the Company's Policy on Board Diversity has been posted to the Company's website at www.irasia.com/listco/hk/daisho.

The Company recognises and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. All appointments of the members of the Board are made on merit, in the context of the skills and experience the Board as a whole requires to be effective. In designing the Board composition, the Company is committed to equality of opportunity in all aspects and does not discriminate on the grounds, including but not limited to, ethnicity, gender, age, cultural and religious background.

The Nomination Committee discussed and agreed the measurable objectives for achieving diversity on the Board and recommended them to the Board for adoption. During the year, the Committee reviewed the existing composition of the Board and received and accepted the progress report from the management in relation to identified business skills and experience required and their ranking and the action plan for recruiting new Board member.

# CORPORATE GOVERNANCE REPORT

## Directors' Attendance at Board Meetings, Board Committee Meetings and General Meeting

During the year, there were five Board meetings, three Audit Committee meetings, one Remuneration Committee meeting, one Nomination Committee meeting, three General meetings.

The names and individual attendance of each director at each Board meeting and Board Committee meeting during the year are set out below:

| Name of director | Attendance/ Number of Board Meeting | Attendance/ Number of Audit Committee Meeting | Attendance/ Number of Remuneration Committee Meeting | Attendance/ Number of Nomination Committee Meeting | Attendance/ Number of General Meeting |
|---|---|---|---|---|---|
| Cheung Lai Na | 5/5 | N/A | 1/1 | 1/1 | 3/3 |
| Cheung Lai Ming | 5/5 | N/A | N/A | 1/1 | 3/3 |
| Lee Man Kwong (Note (a)) | 5/5 | N/A | N/A | N/A | 0/3 |
| Leung King Fai | 5/5 | 3/3 | 1/1 | 1/1 | 3/3 |
| Yeung Chi Shing, Bret (Note (b)) | 2/5 | 2/3 | 1/1 | 1/1 | 2/3 |
| Chou Yuk Yan | 5/5 | 3/3 | 1/1 | 1/1 | 3/3 |
| Law Ping Wah (Note (c)) | 3/5 | 1/3 | 0/1 | 0/1 | 1/3 |

Note:

a) Mr. Lee Man Kwong was appointed as an independent non-executive director of the Company on 14 December 2016 and was re-designated as a non-executive director of the Company on 1 March 2017 and has been re-designated as executive director of the Company with effective from 1 June 2018.

b) Mr. Yeung Chi Shing, Bret resigned as an independent non-executive director, the member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company on 30 September 2017.

c) Mr. Law Ping Wah has been appointed as an independent non-executive director, the member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company with effective from 16 November 2017.

# CORPORATE GOVERNANCE REPORT

## Auditor's Remuneration

The services provided by the auditor to the Group and associated remuneration were as follows:

| | Group | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| Audit service | **1,080** | 890 |
| Non-audit service (Note) | **370** | 73 |

Note:

Non-audit services during the year mainly included agreed-upon procedures report on the Group's interim report for the period ended 30 September 2017 and professional services in relation to the acquisition of four vessels which constituted a major acquisition transaction.

The Audit Committee is of the view that the auditor's independence was not affected by the provision of non-audit related services.

## Risk management and Internal Controls

The Board is responsible for ensuring that appropriate and effective risk management and internal control systems are established and maintained.

Through the Audit Committee, the Board is responsible for continuous review of the effectiveness of the Group's risk management and internal control systems which include financial, operational, compliance and risk management controls.

During the year, the Board had engaged reputable internal control advisors (the "Advisors") to perform a review of the Group's internal controls (the "Internal Controls Review") and assist the Company to perform a Group's risk assessment (the "risk assessment"). The scope of work of the Advisors was to conduct a gap analysis of the Company's internal controls system to identify potential areas of improvement, and to perform a high-level Internal Controls Review of certain business processes to identify potential internal controls design gaps, and to recommend practical actions to be taken. The reports of the Internal Controls Review (the "Review Reports") containing the risk analysis, observations, recommendations and corresponding management responses was issued.

The Company accepts most of the Advisors' recommendations in the Review Reports and the Company believes that after the implementation of such recommendations, the Group would be able to further enhance its internal controls system and its risk assessment process. As at the date of this report, the implementation is in progress and expected the major recommendations would be fully implemented in the second half of 2018.

# CORPORATE GOVERNANCE REPORT

## Risk management and Internal Controls (continued)

The Audit Committee, supported by the Review Reports from the Advisors, reviews the adequacy of resources, qualifications, experiences and training requirements of staff responsible for financial, operational and compliance processes and for the year under review, the Board considers that the risk management and internal control systems of the Group are adequate and effective and the Company has compiled with the risk management and internal control code provisions set out in the CG Code.

## Internal Code on Dealing in Securities

(a) The Company has adopted the code of conduct regarding securities transactions by the Directors and relevant employees (as defined in the Hong Kong Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the HK Listing Rules (the "Model Code"). A copy of the internal memorandum is circulated to each Director and relevant employees, at least 30 days, 30 days and 60 days respectively before the date of the board meeting to approve the Company's interim results and annual results, with a reminder that the Directors and relevant employees cannot deal in the securities of the Company until after such results have been published.

(b) Directors and officers are also prohibited from dealing in the Company's securities when they are in possession of unpublished inside or price sensitive information of the Group. Directors and officers are also advised not to deal in the Company's securities for short term considerations and they are expected to observe insider trading laws at all times.

(c) Following specific enquiry made by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct throughout FY2018.

## Corporate Disclosure Policy

The Company conducts its business affairs according to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Future Commission. The Company strictly prohibits the unauthorised use of confidential or inside information by Directors, employees and other relevant persons (for example external service providers and project working team members).

The Board is responsible for the handling and dissemination of inside information. In order to ensure the market, shareholders and stakeholders are fully and promptly informed about the material developments in the Company's business, the Board has adopted continuous disclosure policy and procedures to handle proper information disclosure. Release of inside information is subject to the approval of the Board. All staff of the Company shall not communicate inside information to any external parties unless with approval from the Board. As such, staff shall not respond to market speculation and rumours unless authorised. In addition, all external presentation materials or publication must be pre-vetted before released.

# CORPORATE GOVERNANCE REPORT

## Directors' Responsibility for the Financial Statements

The directors acknowledge their responsibility for preparing financial statements for each financial year, which give a true and fair view of the state of affairs of the Group. The directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and all applicable disclosure provisions of the Listing Rules. The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

A statement by the auditors about their reporting responsibilities is set out on pages 51 to 52 of this report.

## Company Secretary

Mr. Siu Ching Hung ("Mr. Siu") has been appointed as the Company Secretary of the Company since 9 October 2017 and Mr. Chan Tsz Hong ("Mr. Chan") resigned as Company Secretary on 9 October 2017. Mr. Siu is responsible to the Board for coordinating and suppling of information to the Directors and ensuring that board procedures and all applicable rules and regulations are followed for all board meetings. During the year, Mr. Siu and Mr. Chan have duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

## Shareholder Communication Policy

The Board acknowledges that the effective communication with the shareholders of the Company (the "Shareholders") could enhance the mutual understanding between the Company and the Shareholders. The Board also recognises that the transparency and timely disclosure of corporate information could enable the Shareholders to make the most informed investment decision. Accordingly, the Company has formulated the shareholder communication policy which has been posted to the Company's website at www.irasia.com/listco/hk/daisho.

## Shareholders' Rights

The Shareholders have the rights of convening special general meeting, sending enquiries to the Board, proposing resolution at general meeting and proposing a person for election as a director of the Company. The procedures for the Shareholders to exercise these rights are contained in the Company's website at www.irasia.com/listco/hk/daisho.

## Constitutional Documents

A copy of the Company's Memorandum of Association and New Bye-Laws has been posted to both the website of the Hong Kong Stock Exchange at www.hkexnews.hk and the website of the Company at www.irasia.com/listco/hk/daisho. There was no change to the Company's Memorandum of Association and New Bye-Laws during the year.

# INDEPENDENT AUDITOR'S REPORT

MAZARS
中 审 众 环

MAZARS CPA LIMITED
中審眾環(香港)會計師事務所有限公司
42nd Floor, Central Plaza,
18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道18號中環廣場42樓

**To the members of Daisho Microline Holdings Limited**
*(incorporated in Bermuda with limited liability)*

## Opinion

We have audited the consolidated financial statements of Daisho Microline Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 53 to 120, which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 financial position of the Group as at 31 March 2018, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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.

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment of property, plant and equipment (other than vessels) and prepaid lease payments*** | |
| As at 31 March 2018, the Group has property, plant and equipment (other than vessels) of approximately HK$65,205,000 and prepaid lease payments of approximately HK$12,972,000 respectively.<br><br>For the purpose of assessing impairment of these non-current assets, being the printed circuit board manufacturing facility, the Group engaged an independent professional valuer to provide assistance in assessing the recoverable amount of these non-current assets. The recoverable amount of these non-current assets was determined by management based on fair value less costs of disposal calculation.<br><br>We have identified the impairment assessment of these non-current assets as a key audit matter because of their significance to the consolidated financial statements and the significant judgement involved in determining assumptions.<br><br>Related disclosures are included in Notes 4(i) and 12(b) to the consolidated financial statements. | Our procedures, among others, included:<br><br>a) Assessing the appropriateness of using fair value less costs of disposal calculation in estimating the recoverable amount of these non-current assets;<br><br>b) Evaluating the competence, capabilities and objectivity of the independent professional valuer;<br><br>c) Assessing the methodologies used by the independent professional valuer;<br><br>d) Challenging the reasonableness of key assumptions based on our knowledge of the industry and market; and<br><br>e) Checking, on a sample basis, the accuracy and relevance of the input data provided by management to the independent professional valuer. |

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of embedded derivatives of the convertible bonds*** | |
| Management engaged an independent professional valuer to estimate the fair value of the Group's embedded derivatives of convertible bonds which have a net liability amount of approximately HK$10,250,000 and HK$27,386,000 as at 22 September 2017 (date of issuance) and 31 March 2018 respectively, with fair value loss of approximately HK$17,136,000 recorded in the consolidated statement of profit or loss for the year ended 31 March 2018.<br><br>We have identified the valuation of the derivatives as a key audit matter because of their significance to the consolidated financial statements and the significant judgement involved in determining assumptions.<br><br>Related disclosures are included in Notes 4(vi), 26 and 34 to the consolidated financial statements. | Our procedures, among others, included:<br><br>a) Evaluating of the independent professional valuer's competence, capabilities and objectivity;<br><br>b) Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the convertible bonds; and<br><br>c) Checking the accuracy and relevance of the input data used. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the 2017-2018 annual report of the Company 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.

# INDEPENDENT AUDITOR'S REPORT

## Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement 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.

# INDEPENDENT AUDITOR'S REPORT

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 and 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.

**Mazars CPA Limited**
*Certified Public Accountants*
Hong Kong, 12 June 2018

The engagement director on the audit resulting in this independent auditor's report is:
**She Shing Pang**
Practising Certificate number: P05510

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 March 2018

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **411,859** | 170,245 |
| Cost of sales | | **(399,461)** | (170,172) |
| **Gross profit** | | **12,398** | 73 |
| Other income | 7 | **11,354** | 7,949 |
| Selling and distribution expenses | | **(7,176)** | (7,874) |
| Administrative expenses | | **(43,310)** | (45,490) |
| Other operating expenses | | **(844)** | (2,939) |
| Impairment loss of property, plant and equipment | 12(b) | **(24,291)** | – |
| Loss on disposal of available-for-sale financial assets | 15 | **(3,357)** | – |
| Fair value gains on financial assets at fair value through profit or loss, net | | **–** | 356 |
| Fair value loss on derivative financial instruments | 26 | **(17,136)** | – |
| Finance costs | 8 | **(7,715)** | (3,084) |
| **Loss before taxation** | 8 | **(80,077)** | (51,009) |
| Income tax expense | 9 | **–** | – |
| **Loss for the year** | | **(80,077)** | (51,009) |
| **Loss per share** | 11 | | |
| Basic and diluted | | **HK(13.90) cents** | HK(10.55) cents |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2018

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Loss for the year** | **(80,077)** | (51,009) |
| **Other comprehensive income (loss):** | | |
| *Item that may be reclassified subsequently to profit or loss:* | | |
| Exchange difference on translation of functional currency to presentation currency | **22,132** | (17,519) |
| **Other comprehensive income (loss) for the year** | **22,132** | (17,519) |
| **Total comprehensive loss for the year** | **(57,945)** | (68,528) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **104,847** | 87,994 |
| Prepaid lease payments | 13 | **12,972** | 12,029 |
| Deposits paid for acquisition of property, plant and equipment | | **23,501** | 2,005 |
| Available-for-sale financial assets | 15 | **–** | 9,281 |
| | | **141,320** | 111,309 |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | 16 | **–** | 1,615 |
| Inventories | 17 | **31,504** | 26,082 |
| Trade receivables | 18 | **83,538** | 29,259 |
| Other receivables, deposits and prepayments | 19 | **13,412** | 14,486 |
| Pledged bank deposits | 20 | **154,441** | 123,943 |
| Cash and cash equivalents | 21 | **59,607** | 74,453 |
| | | **342,502** | 269,838 |
| **Current liabilities** | | | |
| Trade payables | 22 | **77,044** | 34,391 |
| Other payables and accruals | 23 | **25,846** | 24,049 |
| Interest-bearing borrowings | 24 | **105,543** | 114,342 |
| | | **208,433** | 172,782 |
| **Net current assets** | | **134,069** | 97,056 |
| **Total assets less current liabilities** | | **275,389** | 208,365 |
| **Non-current liabilities** | | | |
| Promissory note payable | 25 | **28,272** | – |
| Derivative financial instruments | 26 | **27,386** | – |
| Convertible bonds | 26 | **69,311** | – |
| | | **124,969** | – |
| **NET ASSETS** | | **150,420** | 208,365 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

| | Note | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 28 | **57,624** | 57,624 |
| Reserves | 29 | **92,796** | 150,741 |
| **TOTAL EQUITY** | | **150,420** | 208,365 |

The consolidated financial statements on pages 53 to 120 were approved and authorised for issue by the Board of Directors on 12 June 2018 and signed on its behalf by

**Cheung Lai Na**
*Director*

**Cheung Lai Ming**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2018

| | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 (Note 28) | Share premium HK$'000 (Note 29(a)) | Contributed surplus HK$'000 (Note 29(b)) | Exchange translation reserve HK$'000 (Note 29(c)) | Accumulated losses HK$'000 | Sub-total HK$'000 | Total HK$'000 |
| At 1 April 2016 | 48,024 | 91,483 | 9,379 | 105,741 | (24,343) | 182,260 | 230,284 |
| Loss for the year | – | – | – | – | (51,009) | (51,009) | (51,009) |
| **Other comprehensive loss** | | | | | | | |
| *Exchange difference on translation of functional currency to presentation currency* | – | – | – | (17,519) | – | (17,519) | (17,519) |
| **Total comprehensive loss for the year** | – | – | – | (17,519) | (51,009) | (68,528) | (68,528) |
| **Transaction with owners** | | | | | | | |
| *Contributions and distributions* | | | | | | | |
| Issue of shares upon placing of shares (Note 28(b)) | 9,600 | 37,009 | – | – | – | 37,009 | 46,609 |
| At 31 March 2017 | 57,624 | 128,492 | 9,379 | 88,222 | (75,352) | 150,741 | 208,365 |
| At 1 April 2017 | 57,624 | 128,492 | 9,379 | 88,222 | (75,352) | 150,741 | 208,365 |
| Loss for the year | – | – | – | – | (80,077) | (80,077) | (80,077) |
| **Other comprehensive income** | | | | | | | |
| *Exchange difference on translation of functional currency to presentation currency* | – | – | – | 22,132 | – | 22,132 | 22,132 |
| **Total comprehensive loss for the year** | – | – | – | 22,132 | (80,077) | (57,945) | (57,945) |
| **At 31 March 2018** | **57,624** | **128,492** | **9,379** | **110,354** | **(155,429)** | **92,796** | **150,420** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2018

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss before taxation | **(80,077)** | (51,009) |
| Adjustments for: | | |
| Interest income | **(2,392)** | (3,808) |
| Depreciation | **12,074** | 12,582 |
| Amortisation of prepaid lease payments | **305** | 296 |
| Dividend income from listed equity investments | **(80)** | (220) |
| Fair value gains on financial assets at fair value through profit or loss, net | **–** | (356) |
| Fair value loss on derivative financial instruments | **17,136** | – |
| Gain on disposal of financial assets at fair value through profit or loss, net | **(310)** | – |
| Impairment loss of property, plant and equipment | **24,291** | – |
| Loss on disposal of available-for-sale financial assets | **3,357** | – |
| Loss on disposal of property, plant and equipment | **160** | 285 |
| Reversal of impairment loss on trade receivables | **–** | (14) |
| Reversal of write down of inventories | **–** | (41) |
| Finance costs | **7,715** | 3,084 |
| **Operating cash flows before changes in working capital** | **(17,821)** | (39,201) |
| Changes in working capital: | | |
| Financial assets at fair value through profit or loss | **1,925** | 2,807 |
| Inventories | **(2,410)** | (4,505) |
| Trade receivables | **(54,274)** | (9,797) |
| Other receivables, deposits and prepayments | **2,346** | 19,696 |
| Trade payables | **40,520** | 4,274 |
| Other payables and accruals | **(2,768)** | 1,536 |
| **Cash used in operations** | **(32,482)** | (25,190) |
| Interest received | **2,476** | 6,787 |
| **Net cash used in operating activities** | **(30,006)** | (18,403) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2018

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Dividend income from listed equity investments | | **80** | 220 |
| Payment for purchase of property, plant and equipment, including deposits paid | | **(35,474)** | (9,137) |
| Proceeds from disposal of property, plant and equipment | | **210** | 48 |
| Proceeds from disposal of available-for-sale financial assets | | **5,924** | – |
| (Increase) Decrease in pledged bank deposits | | **(17,477)** | 106,917 |
| **Net cash (used in) from investing activities** | | **(46,737)** | 98,048 |
| **FINANCING ACTIVITIES** | | | |
| New bank loans raised | | **107,676** | 9,000 |
| Repayment of bank loans | | **(116,475)** | (135,207) |
| Interest paid | | **(5,348)** | (3,084) |
| Proceeds from issue of convertible bonds, net of issue costs | 26 | **77,194** | – |
| Proceeds from issue of shares upon placing of shares, net of issue costs | | **–** | 46,609 |
| **Net cash from (used in) financing activities** | | **63,047** | (82,682) |
| **Net decrease in cash and cash equivalents** | | **(13,696)** | (3,037) |
| **Cash and cash equivalents at beginning of year** | | **74,453** | 74,199 |
| Effect of foreign exchange rate changes, net | | **(1,150)** | 3,291 |
| **Cash and cash equivalents at end of year, represented by bank balances and cash** | 21 | **59,607** | 74,453 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 1. General Information

Daisho Microline Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda as an exempted company with limited liability. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the Company's registered office is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and its principal place of business is located at Units 1-2, 16/F., Nan Fung Commercial Centre, No. 19 Lam Lok Street, Kowloon Bay, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in investment holding, manufacturing and trading of printed circuit boards, and trading of petroleum and energy products and related business. The principal activities of its subsidiaries are set out in Note 14 to the consolidated financial statements.

## 2. Significant Accounting Policies

### Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2017 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year as detailed in Note 3 to the consolidated financial statements. A summary of the significant accounting policies adopted by the Group is set out below.

### Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost, except for financial assets at fair value through profit or loss and derivative financial instruments, which are measured at fair value as explained in the accounting policies set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Non-controlling interests are presented, separately from equity holders of the Company, in consolidated income statement and the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. The non-controlling interests in the acquiree, that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in event of liquidation, are measured initially either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. This choice of measurement basis is made on an acquisition-by-acquisition basis. Other types of non-controlling interests are initially measured at fair value, unless another measurement basis is required by HKFRSs.

*Allocation of total comprehensive income*

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

*Changes in ownership interests*

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary.

When the Group loses control of a subsidiary, the profit or loss on disposal 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 determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the Group had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset or liability, interest in associate, interest in joint venture or others as appropriate from the date when control is lost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

### Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented within these notes, an interest in subsidiary is stated at cost less impairment loss. The carrying amount of the interest is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

| | |
|---|---|
| Buildings | 50 years |
| Vessels | 25 years |
| Leasehold improvements | Over the lease term (i.e. 3 years to 10 years) |
| Machinery and equipment | 10 years |
| Furniture and fixtures | 5 years |
| Motor vehicles | 5 years |
| Computers | 5 years |

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

### Prepaid lease payments

Prepaid lease payments are up-front payments to acquire fixed term interests in lessee-occupied land that are classified as operating leases. The premiums are stated at cost less accumulated amortisation and accumulated impairment losses and are amortised over the period of the lease on a straight-line basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

### Financial instruments

*Recognition and derecognition*

Financial assets and financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

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.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises the financial asset to the extent of its continuing involvement and an associated liability for amounts it may have to pay.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

*Classification and measurement*

Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

*(1) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and derivative financial instruments. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which excludes any dividend or interest earned on the financial assets.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) 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 (iii) derivatives that are not financial guarantee contracts or not designated and effective hedging instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

**Financial instruments** (continued)

*Classification and measurement (continued)*

*(2) Loans and receivables*

Loans and receivables including cash and cash equivalents, pledged bank deposits, trade receivables and other receivables, deposits and prepayments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

*(3) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income shall be reclassified to profit or loss as a reclassification adjustment.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

*(4) Financial liabilities*

The Group's financial liabilities include trade and other payables, interest-bearing borrowings, promissory note payable and convertible bonds. All financial liabilities, except for derivative financial instruments, are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

*Effective interest method*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

### Financial instruments (continued)

*Impairment of financial assets*

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

### Convertible bonds

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative and do not contain an equity component, it is separate from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently re-measured in accordance with the accounting policies applicable to "Derivative financial instruments" set out below. The liability component is subsequently carried at amortised cost. The interest expenses recognised in profit or loss on the liability component is calculated using the effective interest method.

If the convertible bonds are converted, the carrying amounts of the derivative and the liability components, at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued.

If the convertible bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

### Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

### Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts, if any.

### Revenue recognition

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

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and title has been passed.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Hong Kong dollars ("HK$") and majority of its subsidiaries used HK$ as their functional currency, except for the subsidiaries operated in the People's Republic of China (the "PRC"), which have Renminbi ("RMB") as their functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

### Foreign currency translation (continued)

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented, are translated at the closing rate at the end of the reporting period.

- Income and expenses for each statement of comprehensive income are translated at the average exchange rates.

- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity.

- On the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest is no longer equity-accounted for, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

- On the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss.

- On all other partial disposals, which includes partial disposal of associates or joint ventures that do not result in the Group losing significant influence or joint control, the proportionate share of the cumulative amount of exchange differences recognised in the separate component of equity is reclassified to profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## 2. Significant Accounting Policies (continued)

### Impairment of other assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment, prepaid lease payments and deposits paid for acquisition of property, plant and equipment may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment losses is recognised as an income in profit or loss immediately.

### Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

### Leases

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.

*As lessee*

Assets held under finance leases are recognised as assets of the Group at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as finance lease obligation. Finance charges, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Lease incentives are recognised in profit or loss as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

### Employee benefits

*Short term employee benefits*

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

*Defined contribution plans*

The obligations for contributions to defined contribution retirement scheme are recognised as expenses in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested fully in those employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

*Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

### Share-based payment transactions

*Equity-settled transactions*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in share options reserve in equity.

At the end of each reporting period, the Group revises its estimates of the number of options 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 share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options 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 share options reserve will be transferred to retained profits.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

### Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arises from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on interest in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 2. Significant Accounting Policies (continued)

### Related parties

A related party is a person or entity that is related to the Group:

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of the holding company of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each holding company, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the holding company of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the Group and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

## 2. Significant Accounting Policies (continued)

### Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management, which is the Group's chief operating decision maker, for the purposes of allocating resources to, and assessing the performance of, the Group's various geographical locations.

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

### Future changes in HKFRSs

At the date of authorisation of these consolidated financial statements, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

| | |
|---|---|
| Annual Improvements to HKFRSs | *2014–2016 Cycle: HKFRS 1 and HKAS 28* [1] |
| Amendments to HKAS 40 | *Transfers of Investment Property* [1] |
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions* [1] |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* [1] |
| HKFRS 9 | *Financial Instruments* [1] |
| HKFRS 15 | *Revenue from Contracts with Customers* [1] |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* [1] |
| Annual Improvements to HKFRSs | *2015–2017 Cycle* [2] |
| HKFRS 16 | *Leases* [2] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* [2] |
| Amendments to HKAS 19 | *Employee benefits* [2] |
| Amendments to HKAS 28 | *Investments in Associates and Joint Ventures* [2] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation* [2] |
| HKFRS 17 | *Insurance Contracts* [3] |
| Amendments to HKFRS 10 and HKAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [4] |

[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 1 January 2021
[4] The effective date to be determined

The management is in the process of assessing the possible impact on the future adoption of these new/revised HKFRSs. So far the management is of the opinion that except for HKFRSs 9, 15 and 16 which are explained below, the adoption of the new/revised HKFRSs will not have any significant impact on the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

### Future changes in HKFRSs (continued)

*HKFRS 9 Financial Instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39 *Financial Instruments: Recognition and Measurement.*

HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 April 2018.

The Group has reviewed its financial assets and liabilities and anticipates the following potential impact on initial application of HKFRS 9:

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, revenue from contracts with customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses and will need to perform a more detailed analysis to determine the impact on the Group's consolidated financial statements.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

*HKFRS 15 Revenue from Contracts with Customers*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

### Future changes in HKFRSs (continued)

*HKFRS 15 Revenue from Contracts with Customers (continued)*

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

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

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

The Group anticipates that the application of HKFRS 15 in the future may result in more disclosures. However, the Group does not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the future reporting periods.

*HKFRS 16 Leases*

HKFRS 16 significantly changes, among others, the lessee accounting by replacing the dual model under HKAS 17 with a single model which requires a lessee to recognise right-of-use and lease liabilities for the rights and obligations created by all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, HKFRS 16 substantially carry forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently. HKFRS 16 also requires enhanced disclosures to be provided by lessees and lessors.

The application of HKFRS 16 will result in recognition of right-of-use assets and lease liabilities for certain leases of the Group that are currently classified as operating leases under HKAS 17. Subsequently, depreciation (and, if applicable, impairment loss) and interest will be recognised on the right-of-use assets and the lease liabilities respectively. The total amount charged to profit or loss for each reporting period is not expected to be significantly different from the operating lease expenses recognised under HKAS 17.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 2. Significant Accounting Policies (continued)

**Future changes in HKFRSs** (continued)

*HKFRS 16 Leases (continued)*

As at 31 March 2018, the Group has non-cancellable operating lease commitments of HK$4,265,000 as disclosed in Note 35(b). A preliminary assessment indicated that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new arrangements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Group complete a detailed review.

## 3. Adoption of New/Revised HKFRSs

In the current year, the Group has applied, for the first time, the following new/revised HKFRSs that are relevant to the Group:

| | |
|---|---|
| Amendments to HKAS 7 | *Disclosure Initiative* |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Annual Improvements to HKFRSs | *2014–2016 Cycle: HKFRS 12* |

**Amendments to HKAS 7: *Disclosure Initiative***

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

The adoption of the amendments results in the additional disclosures in Note 31(b) to the consolidated financial statements. In accordance with the transitional provisions therein, the comparative information is not presented in the first year of adoption.

**Amendments to HKAS 12: *Recognition of Deferred Tax Assets for Unrealised Losses***

The amendments clarify, among others, how to account for deferred tax assets related to debt instruments measured at fair value.

The adoption of the amendments did not have any significant impact on the consolidated financial statements.

**Annual Improvements 2014-2016 Cycle: *HKFRS 12 – Clarification of the scope***

The amendments clarify that except for the summarised financial information for subsidiaries, joint ventures and associates in which the interests are classified or included in a disposal group that is classified as held for sale in accordance with HKFRS 5, the requirements of HKFRS 12 apply to interests in entities within the scope of HKFRS 5.

The adoption of the amendments did not have any significant impact on the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 4. Critical Accounting Estimates and Judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

### Key sources of estimation uncertainty

*(i)* *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period in accordance with the accounting policies as disclosed in Note 2 to the consolidated financial statements. In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the management has to assess whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence. If any such indication exists, the recoverable amounts of the asset would be determined as the greater of the fair value less costs of disposal and value in use, the calculations of which involve the use of estimates. Owing to inherent risk associated with estimations in the timing and amounts of the future cash flows and fair value less costs of disposal, the estimated recoverable amount of the asset may be different from the amount actually received and profit or loss could be affected by accuracy of the estimations.

*(ii)* *Deferred tax assets*

No deferred tax asset in relation to unused tax losses has been recognised in the consolidated statement of financial position. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In cases where the actual future profits generated are different from the original estimate, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss in the period in which such estimate is changed.

*(iii)* *Impairment of trade receivables, and other receivables, deposits and prepayments*

The Group makes impairment loss for doubtful debts based on an assessment of the recoverability of trade receivables, and other receivables, deposits and prepayments. Impairment provision is made for trade receivables, and other receivables, deposits and prepayments where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation on the recoverability is different from the original estimates, such difference will impact the carrying value of receivables and the impairment provision in the periods in which such estimate has been changed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 4. Critical Accounting Estimates and Judgements (continued)

**Key sources of estimation uncertainty** (continued)

*(iv) Depreciation*

The Group depreciates property, plant and equipment on the straight-line basis over the respective estimated useful lives as set out in Note 2 to the consolidated financial statements, with the depreciation charge commencing from the date an item of the property, plant and equipment is available for use. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

*(v) Write down of inventories*

The Group reviews the inventory ageing analysis periodically to write down obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and writes down obsolete and slow-moving items through management's estimation of the net realisable value for such obsolete and slow-moving items based primarily on the latest market prices and current market conditions.

*(vi) Derivative financial instruments*

The management uses their judgements in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. In determining the fair value of derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

## 5. Revenue

The Group's revenue represents net invoiced value of goods sold after allowance for returns, trade discounts and value-added tax during the year.

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Sales of printed circuit boards | **199,876** | 170,245 |
| Sales of petroleum and energy products | **211,983** | – |
| | **411,859** | 170,245 |

## 6. Segment Information

In order to realise business diversification, the Group has commenced the business of trading of petroleum and energy products and related business during the year ended 31 March 2018. The directors of the Company have been identified as the chief operating decision makers to evaluate the performance of operating segments and to allocate resources to those segments. Based on risks and returns and the Group's internal financial reporting, the directors of the Company consider that the operating segments of the Group comprise:

(i) Manufacturing and trading of printed circuit boards; and

(ii) Trading of petroleum and energy products and related business.

Segment results represent the results before taxation earned by each segment without allocation of other income generated, finance costs, administrative expenses and other operating expenses incurred by the corporate office, loss on disposal of available-for-sale financial assets, fair value loss on derivative financial instruments and net fair value gains on financial assets at fair value through profit or loss.

All assets are allocated to reportable segments other than unallocated assets which are mainly available-for-sale financial assets, financial assets at fair value through profit or loss, pledged bank deposits, cash and cash equivalents and other corporate assets. All liabilities are allocated to reportable segments other than interest-bearing borrowings, derivative financial instruments, convertible bonds and other corporate liabilities.

In determining the Group's geographical segments, revenue is attributed to the segments based on the location of customers; assets and capital expenditure are attributed to the segments based on the locations of the assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 6. Segment Information (continued)

### (A) By Business Segments

**Year ended 31 March 2018**

| | Manufacturing and trading of printed circuit boards HK$'000 | Trading of petroleum and energy products and related business HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| **Segment revenue** | | | |
| Major customer A | – | 186,168 | 186,168 |
| Major customer B | 91,280 | – | 91,280 |
| Other customers | 108,596 | 25,815 | 134,411 |
| | 199,876 | 211,983 | 411,859 |
| **Segment results** | (40,978) | 627 | (40,351) |
| Unallocated other income | | | 6,592 |
| Unallocated administrative expenses | | | (17,927) |
| Unallocated other operating expenses | | | (183) |
| Loss on disposal of available-for-sale financial assets | | | (3,357) |
| Fair value loss on derivative financial instruments | | | (17,136) |
| Finance costs | | | (7,715) |
| Loss before taxation | | | (80,077) |
| Income tax expense | | | – |
| Loss for the year | | | (80,077) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 6. Segment Information (continued)

### (A) By Business Segments (continued)

Year ended 31 March 2017

| | Manufacturing and trading of printed circuit boards HK$'000 | Trading of petroleum and energy products and related business HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| **Segment revenue** | | | |
| Major customer B | 71,874 | – | 71,874 |
| Major customer C | 30,435 | – | 30,435 |
| Major customer D | 19,438 | – | 19,438 |
| Major customer E | 18,377 | – | 18,377 |
| Other customers | 30,121 | – | 30,121 |
| | 170,245 | – | 170,245 |
| **Segment results** | (35,547) | – | (35,547) |
| Unallocated other income | | | 4,167 |
| Unallocated administrative expenses | | | (13,962) |
| Unallocated other operating expenses | | | (2,939) |
| Fair value gains on financial assets at fair value through profit or loss, net | | | 356 |
| Finance costs | | | (3,084) |
| Loss before taxation | | | (51,009) |
| Income tax expense | | | – |
| Loss for the year | | | (51,009) |

A major customer is a customer (including a group of entities under common control) with whom revenue from transactions amounted to 10% or more of the Group's revenue.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 6. Segment Information (continued)

### (A) By Business Segments (continued)

An analysis of the Group's assets and liabilities by operating segments is set out below:

**As at 31 March 2018**

| | Manufacturing and trading of printed circuit boards HK$'000 | Trading of petroleum and energy products and related business HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **Segment assets** | 166,288 | 98,263 | 219,271 | 483,822 |
| **Segment liabilities** | 65,235 | 58,447 | 209,720 | 333,402 |
| **Other segment information:** | | | | |
| Amortisation | (305) | – | – | (305) |
| Depreciation | (11,487) | – | (587) | (12,074) |
| Gain on disposal of financial assets at fair value through profit or loss, net | – | – | 310 | 310 |
| Fair value loss on derivative financial instruments | – | – | (17,136) | (17,136) |
| Loss on disposal of available-for-sale financial assets | – | – | (3,357) | (3,357) |
| Gain (Loss) on disposal of property, plant and equipment | 96 | – | (256) | (160) |
| Reversal of impairment loss on other receivables, deposits and prepayments | 996 | – | – | 996 |
| Impairment loss on property, plant and equipment | (24,291) | – | – | (24,291) |
| Deposits paid for acquisition of property, plant and equipment | 731 | 22,770 | – | 23,501 |
| Additions to property, plant and equipment | 3,843 | 39,642 | 1,776 | 45,261 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 6. Segment Information (continued)

### (A) By Business Segments (continued)

As at 31 March 2017

| | Manufacturing and trading of printed circuit boards HK$'000 | Trading of petroleum and energy products and related business HK$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|
| **Segment assets** | 168,941 | – | 212,206 | 381,147 |
| **Segment liabilities** | 49,186 | – | 123,596 | 172,782 |
| **Other segment information:** | | | | |
| Amortisation | (296) | – | – | (296) |
| Depreciation | (12,486) | – | (96) | (12,582) |
| Fair value gains on financial assets at fair value through profit or loss, net | – | – | 356 | 356 |
| Loss on disposal of property, plant and equipment | (283) | – | (2) | (285) |
| Reversal of impairment loss on trade receivables | 14 | – | – | 14 |
| Reversal of written down of inventories | 41 | – | – | 41 |
| Deposits paid for acquisition of property, plant and equipment | 2,005 | – | – | 2,005 |
| Additions to property, plant and equipment | 5,850 | – | 1,118 | 6,968 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 6. Segment Information (continued)

### (B) Geographical Information

*(i) Revenue form external customers*

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Singapore | **186,168** | – |
| North America | **103,037** | 77,067 |
| Hong Kong | **40,425** | 22,826 |
| Japan | **37,834** | 30,457 |
| The PRC | **34,551** | 24,923 |
| Europe | **3,528** | 13,455 |
| Other countries | **6,316** | 1,517 |
| | **411,859** | 170,245 |

The revenue information is based on the locations of the customers.

*(ii) Non-current assets*

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Hong Kong | **2,244** | 1,334 |
| Singapore | **62,412** | – |
| The PRC | **76,664** | 100,694 |
| | **141,320** | 102,028 |

The non-current assets information above is based on the locations of assets and excluded available-for-sale financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 7. Other Income

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Bank and other interest income | **2,392** | 3,808 |
| Dividend income from listed equity investments | **80** | 220 |
| Exchange gain, net | **3,796** | – |
| Gain on disposal of scrap materials | **2,466** | 3,189 |
| Gain on disposal of financial assets at fair value through profit or loss | **310** | – |
| Reversal of impairment loss on trade receivables | **–** | 14 |
| Reversal of impairment loss on other receivables, deposits and prepayment | **996** | – |
| Others | **1,314** | 718 |
| | **11,354** | 7,949 |

## 8. Loss Before Taxation

This is stated after charging (crediting):

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Finance costs** | | |
| Interest on bank borrowings | **2,968** | 3,084 |
| Interest on convertible bonds (Note 26) | **4,747** | – |
| | **7,715** | 3,084 |
| **Staff costs (excluding directors' emoluments in Note 10)** | | |
| Salaries, allowances and other employee benefits | **39,972** | 37,036 |
| Contribution to defined contribution plans | **4,231** | 4,312 |
| Contractual termination benefits | **–** | 120 |
| | **44,203** | 41,468 |
| **Other items** | | |
| Auditor's remuneration | **1,080** | 890 |
| Amortisation of prepaid lease payments | **305** | 296 |
| Cost of inventories (Note (i)) | **399,461** | 170,213 |
| Depreciation | **12,074** | 12,582 |
| Exchange (gain) loss, net | **(3,796)** | 1,998 |
| Loss on disposal of property, plant and equipment, net, included in other operating expenses | **160** | 285 |
| Operating lease charges for premises | **1,320** | 1,167 |
| Reversal of write down of inventories, included in cost of sales | **–** | (41) |

Note:

(i) Cost of inventories excludes write down of inventories and related reversal but includes HK$37,446,000 *(2017: HK$37,724,000)* relating to staff costs and depreciation, which are included in the respective total amounts disclosed separately above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 9. Income Tax Expense

PRC Enterprise Income Tax has not been provided as the Group's entities incurred a loss for taxation purposes for the year *(2017: Nil)*.

Hong Kong Profits Tax has not been provided as the Group's entities incurred a loss for taxation purposes for the year *(2017: Nil)*.

Where there are assessable profits, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits and PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profits for both years.

### Reconciliation of income tax expense

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Loss before taxation | **(80,077)** | (51,009) |
| Notional tax on loss before tax, calculated at the rates applicable to loss in the relevant tax jurisdiction | **(17,176)** | (9,901) |
| Non-deductible expenses | **1,448** | 1,067 |
| Tax exempted revenue | **(120)** | (68) |
| Unrecognised temporary differences | **3,332** | (2,970) |
| Unrecognised tax losses | **12,579** | 12,118 |
| Utilisation of previously unrecognised tax losses | **(59)** | (290) |
| Others | **(4)** | 44 |
| Income tax expense | **–** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 10. Directors' Emoluments and Emoluments of Five Highest Paid Individuals

### 10(a) Directors' emoluments

The emoluments paid or payable to each of the following directors were as follows:

**For the year ended 31 March 2018**

| | Directors' fees HK$'000 | Salaries, allowance and benefits-in-kind HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Executive directors:** | | | | |
| Cheung Lai Na (Note (a)) | – | 600 | 30 | 630 |
| Cheung Lai Ming (Note (b)) | – | 600 | 30 | 630 |
| **Non-executive director:** | | | | |
| Lee Man Kwong (Note (c)) | 240 | – | – | 240 |
| **Independent non-executive directors:** | | | | |
| Leung King Fai | 240 | – | – | 240 |
| Yeung Chi Shing, Bret (Note (d)) | 120 | – | – | 120 |
| Chou Yuk Yan (Note (e)) | 240 | – | – | 240 |
| Law Ping Wah (Note (f)) | 90 | – | – | 90 |
| | 930 | 1,200 | 60 | 2,190 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 10. Directors' Emoluments and Emoluments of Five Highest Paid Individuals (continued)

### 10(a) Directors' emoluments (continued)

For the year ended 31 March 2017

| | Directors' fees HK$'000 | Salaries, allowance and benefits-in-kind HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Executive directors:** | | | | |
| Cheung Lai Na (Note (a)) | – | 600 | 30 | 630 |
| Cheung Lai Ming (Note (b)) | – | 240 | 12 | 252 |
| Chan Sik Ming, Harry (Note (g)) | – | 4,442 | 222 | 4,664 |
| Au-Yeung Wai Hung (Note (h)) | – | 795 | 18 | 813 |
| **Non-executive director:** | | | | |
| Lee Man Kwong (Note (c)) | 72 | – | – | 72 |
| **Independent non-executive directors:** | | | | |
| Leung King Fai | 240 | – | – | 240 |
| Yeung Chi Shing, Bret (Note (d)) | 240 | – | – | 240 |
| Chou Yuk Yan (Note (e)) | 153 | – | – | 153 |
| Li Chi Kwong (Note (i)) | 155 | – | – | 155 |
| Chong Chi Wah (Note (j)) | – | – | – | – |
| | 860 | 6,077 | 282 | 7,219 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 10. Directors' Emoluments and Emoluments of Five Highest Paid Individuals (continued)

### 10(a) Directors' emoluments (continued)

Notes:

a) Ms. Cheung Lai Na was appointed as an executive director of the Company on 9 June 2015 and as the Interim Chairman of the Company with effect from 28 December 2016 and was re-designated as the Chairman on 3 July 2017.

b) On 7 November 2016, Ms. Cheung Lai Ming was appointed as an executive director of the Company.

c) On 14 December 2016, Mr. Lee Man Kwong was appointed as an independent non-executive director of the Company and was re-designated as a non-executive director of the Company with effect from 1 March 2017. On 1 June 2018, Mr. Lee Man Kwong was re-designated as an executive director of the Company.

d) On 30 September 2017, Mr. Yeung Chi Shing, Bret resigned as an independent non-executive director of the Company.

e) On 21 June 2016, Mr. Chou Yuk Yan was appointed as an independent non-executive director of the Company.

f) On 16 November 2017, Mr. Law Ping Wah was appointed as an independent non-executive director of the Company.

g) On 23 December 2016, Mr. Chan Sik Ming, Harry ("Mr. Harry Chan") was removed as an executive director of the Company and ceased to be the Chairman and Chief Executive Officer of the Company.

h) On 28 November 2016, Mr. Au-Yeung Wai Hung resigned as an executive director of the Company.

i) On 22 November 2016, Dr. Li Chi Kwong retired as an independent non-executive director of the Company.

j) On 1 April 2016, Mr. Chong Chi Wah resigned as an independent non-executive director of the Company.

For the years ended 31 March 2018 and 2017, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments in respect of the years ended 31 March 2018 and 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 10. Directors' Emoluments and Emoluments of Five Highest Paid Individuals (continued)

### 10(b) Emoluments of five highest paid individuals

The five highest paid individuals of the Group for the year included two *(2017: two)* directors whose emoluments are reflected in the analysis presented above and three *(2017: three)* non-director individuals whose emoluments are disclosed as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Salaries, allowances and other employee benefits | 3,198 | 3,293 |
| Retirement scheme contributions | 66 | 142 |
| Contractual termination benefits | – | 120 |
| | 3,264 | 3,555 |

The emoluments fell within the following bands:

| | Number of individuals 2018 | 2017 |
|---|---|---|
| Up to HK$1,000,000 | 2 | 1 |
| HK$1,000,001 to HK$1,500,000 | – | 1 |
| HK$1,500,001 to HK$2,000,000 | 1 | 1 |

For the year ended 31 March 2018, no emoluments were paid by the Group to the highest paid individuals as a payment for loss of office. For the year ended 31 March 2017, a payment for loss of office amounting to HK$120,000 was paid to one of the highest paid individuals by a subsidiary of the Company.

For the years ended 31 March 2018 and 2017, no emoluments were paid by the Group to the highest paid individuals as an inducement to join or upon joining the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 11. Loss Per Share

### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to the owners of the Company and the weighted average number of ordinary shares in issue during the year as follows:

| | **2018** | 2017 |
|---|---|---|
| Loss attributable to owners of the Company (HK$'000) | **(80,077)** | (51,009) |
| Weighted average number of ordinary shares for the purpose of calculating basic loss per share | **576,243,785** | 483,391,326 |
| Basic loss per share (HK cents) | **(13.90)** | (10.55) |

### (b) Diluted loss per share

As the Company's outstanding convertible bonds had an anti-dilutive effect to the basic loss per share calculation for the year ended 31 March 2018, the conversion of the potential dilutive ordinary shares is not assumed in the computation of the diluted loss per share for the year ended 31 March 2018. There were no potential dilutive ordinary shares in issue during the year ended 31 March 2017. The diluted loss per share is the same as the basic loss per share for the years ended 31 March 2018 and 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 12. Property, Plant and Equipment

| | Buildings HK$'000 (Note (a)) | Leasehold improvements HK$'000 | Machinery and equipment HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Computers HK$'000 | Vessels HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| Reconciliation of carrying amount – year ended 31 March 2017 | | | | | | | | |
| At the beginning of the reporting period | 27,810 | 2,756 | 67,425 | 34 | 761 | 171 | – | 98,957 |
| Additions | – | – | 5,434 | 370 | 980 | 184 | – | 6,968 |
| Disposals | – | – | (314) | – | (9) | – | – | (323) |
| Depreciation | (934) | (549) | (10,595) | (95) | (253) | (156) | – | (12,582) |
| Exchange realignment | (1,495) | (139) | (3,371) | – | (18) | (3) | – | (5,026) |
| At the end of the reporting period | 25,381 | 2,068 | 58,579 | 309 | 1,461 | 196 | – | 87,994 |
| **Reconciliation of carrying amount – year ended 31 March 2018** | | | | | | | | |
| At the beginning of the reporting period | **25,381** | **2,068** | **58,579** | **309** | **1,461** | **196** | **–** | **87,994** |
| Additions | **–** | **–** | **3,738** | **856** | **898** | **127** | **39,642** | **45,261** |
| Disposals | **–** | **–** | **(91)** | **–** | **(279)** | **–** | **–** | **(370)** |
| Depreciation | **(1,004)** | **(569)** | **(9,736)** | **(252)** | **(452)** | **(61)** | **–** | **(12,074)** |
| Impairment loss | **–** | **(1,538)** | **(22,585)** | **(47)** | **(121)** | **–** | **–** | **(24,291)** |
| Exchange realignment | **2,605** | **188** | **5,477** | **8** | **45** | **4** | **–** | **8,327** |
| **At the end of the reporting period** | **26,982** | **149** | **35,382** | **874** | **1,552** | **266** | **39,642** | **104,847** |
| At 31 March 2017 | | | | | | | | |
| Cost | 49,157 | 13,328 | 398,526 | 2,798 | 1,736 | 2,290 | – | 467,835 |
| Accumulated depreciation and impairment losses | (23,776) | (11,260) | (339,947) | (2,489) | (275) | (2,094) | – | (379,841) |
| Net carrying amount | 25,381 | 2,068 | 58,579 | 309 | 1,461 | 196 | – | 87,994 |
| **At 31 March 2018** | | | | | | | | |
| Cost | **54,321** | **14,720** | **415,497** | **3,885** | **2,304** | **2,552** | **39,642** | **532,921** |
| Accumulated depreciation and impairment losses | **(27,339)** | **(14,571)** | **(380,115)** | **(3,011)** | **(752)** | **(2,286)** | **–** | **(428,074)** |
| **Net carrying amount** | **26,982** | **149** | **35,382** | **874** | **1,552** | **266** | **39,642** | **104,847** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 12. Property, Plant and Equipment (continued)

Notes:

(a) All buildings are situated on land in the PRC. A building with carrying amount of approximately HK$3,567,000 was frozen by a court in the PRC to provide security for the property preservation from November 2013 to December 2015. As at 31 March 2018, such property preservation order was expired.

(b) During the year ended 31 March 2017, in view of the reduction of revenue and continuous operating losses over past years, the management considered that non-current assets of the Group might be impaired. In view of this, the management estimated the recoverable amount of the cash-generating unit based on the valuation report prepared by an independent professional valuer. The cash-generating unit consisted of the Group's printed circuit board ("PCB") manufacturing facility (the "Existing PCB Plant"), which is composed of prepaid lease payments and property, plant and equipment (the "Existing PCB CGU") with carrying values in aggregate amount of approximately HK$100,023,000.

The estimates of the recoverable amount of the Existing PCB CGU as at 31 March 2017 were determined based on the fair value less costs of disposal which was calculated using cash flow projections based on the five-year financial forecast approved by the directors of the Company with terminal value estimated based on the disposal value in the terminal year. The terminal values of the prepaid lease payments and buildings (the "Real Estate") are determined using market comparison approach by reference to recent sale price of comparable properties on a price per square meter basis, adjusted for differences that are specific to the quality, locations and plot ratio of the Real Estate compared to the recent sales.

The other key assumptions used for estimating the fair value less costs of disposal as at 31 March 2017 are as follow:

Sales volume growth rate: 5%
Gross profit margin rate: 15%
Discount rate: 16%

The directors of the Company determined the sales volume growth rate and gross profit margin rate based on the expectation of future market development.

No impairment loss was recognised during the year ended 31 March 2017.

With the introduction of new policies and regulations of urban development and environmental protections by the local government, chemical pollution and noises inherent from production activities at the Existing PCB CGU and the increasing number of complaints brought by neighbouring residents and potential sanctions enacted by the local government, the Group is exposed to the risk of production suspension. In view of this, the Group initiated a feasibility study for the relocation of the Existing PCB Plant during the year ended 31 March 2018 and on 28 March 2018, 華鋒微綫電子(惠州)工業有限公司 (Huafeng Microline (Huizhou) Circuits Limited*) ("Huafeng"), a wholly-owned subsidiary of the Company, entered into a lease agreement with an independent third party in relation to the potential relocation of the Existing PCB CGU to vacant plant spaces (the "New PCB Plant") of the independent third party which is also engaged in PCB manufacturing, in Dongjiang Industrial Zone, Huizhou (the "Relocation"), although a formal detailed plan of the relocation is yet to be approved by the directors of the Company.

As production activities of the Group would be relocated to the New PCB Plant, the management has delinked the Group's prepaid lease payments and buildings (the "Land and Buildings") from the Existing PCB CGU. The remaining portion of the Existing PCB CGU that would be relocated to the New PCB Plant was identified as a new cash-generating unit (the "New PCB CGU") as at 31 March 2018.

During the year ended 31 March 2018, the management considered that the existence of above conditions indicated that certain non-current assets of the Group might be impaired. In view of this, the Group estimated the recoverable amount of the Land and Buildings and the New PCB CGU based on the valuation report prepared by an independent professional valuer.

The estimates of the recoverable amount of the Land and Buildings as at 31 March 2018 were determined based on a fair value less costs of disposal calculation by reference to recent sale price of comparable assets adjusted for differences that are specific to the conditions of the relevant assets. Since the recoverable amount of the Land and Buildings exceeded its carrying amount as at 31 March 2018, no impairment loss was recognised.

* *English name is for identification purpose only.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 12. Property, Plant and Equipment (continued)
Notes: (continued)

(b) The estimates of the recoverable amount of the New PCB CGU as at 31 March 2018 were determined based on a fair value less costs of disposal calculation by reference to replacement cost adjusted for the physical conditions and the relocation plan of the relevant assets. The valuation technique was changed from a market approach to a cost approach following the Relocation. The significant inputs into this valuation approach are the relevant price indices and expected useful life of the relevant assets. Accordingly, impairment loss of approximately HK$24,291,000 was recognised in profit or loss during the year ended 31 March 2018.

The fair value of the New PCB CGU was categorised into the level 3 fair value hierarchy as defined in HKFRS 13, *Fair Value Measurement*.

Details of the relocation plan are set out in Note 38 to the consolidated financial statements.

## 13. Prepaid Lease Payments
Prepaid lease payments represent cost paid for leasehold land with lease term of 50 years since the renewal of the lease term in 2009 in the PRC that is classified as an operating lease. The cost is amortised over the lease term.

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| At the beginning of the reporting period | **12,319** | 13,312 |
| Amortisation | **(305)** | (296) |
| Exchange realignment | **1,279** | (697) |
| **At the end of the reporting period** | **13,293** | 12,319 |
| Current portion included in prepayments | **321** | 290 |
| Non-current portion | **12,972** | 12,029 |
| | **13,293** | 12,319 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 14. Subsidiaries

Details of principal subsidiaries at the end of reporting period are as follows:

| Name of subsidiary | Class of shares held | Place of incorporation and business | Attributable equity interest indirectly held by the Company | Issued/registered and fully paid-up capital | Principal activities | Legal form of corporate existence |
|---|---|---|---|---|---|---|
| Daisho Microline Limited | Ordinary | Hong Kong | 100% *(2017: 100%)* | HK$2 | Trading of printed circuit boards and petroleum and energy products | Private limited liability company |
| Daisho Microline Investment Limited | Ordinary | Hong Kong | 100% *(2017: 100%)* | HK$100,000 | Investment holding | Private limited liability company |
| Pacific Dragon Energy Limited | Ordinary | Hong Kong | 100% *(2017: 100%)* | HK$100,000 | Trading of petroleum and energy products | Private limited liability company |
| PE28 Pte. Limited | Ordinary | Singapore | 100% *(2017: Nil)* | United States Dollars ("US$") 50,001 | Holding of vessels | Private limited liability company |
| Huafeng | Registered | The PRC | 100% *(2017: 100%)* | US$57,200,000 (Note) | Manufacture of printed circuit boards | Wholly foreign-owned enterprise |
| 大鋒華微綫科技(惠州)有限公司 (Da Feng Hua Microline Technology (Huizhou) Company Ltd.)* ("Da Feng Hua") | Registered | The PRC | 100% *(2017: Nil)* | US$4,800,000 (Note) | Property holding | Wholly foreign-owned enterprise |

* *English name is for identification purpose only.*

Note: Pursuant to a resolution passed by shareholders of Huafeng in January 2018 and following completion of a spin-off restructuring, the registered capital of Huafeng has been reduced from US$62,000,000 to US$57,200,000 for setting up a new company, Da Feng Hua, with registered capital of US$4,800,000 under common shareholders.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding during the year or at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 15. Available-for-Sale Financial Assets

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Unlisted equity investment, at costs | – | 19,281 |
| Impairment losses | – | (10,000) |
| | – | 9,281 |

As at 31 March 2017, the above unlisted equity investment which was designated as available-for-sale financial assets represented 7.46% equity interests in Daisho Denshi Co., Ltd. ("Daisho Denshi"), a former substantial shareholder of the Company, which was incorporated in Japan. This unlisted equity investment was stated at cost less impairment because the directors of the Company are of the opinion that the fair value cannot be measured reliably given that the range of reasonable fair value estimates is so significant and the probabilities of the various estimates cannot be reasonably assessed.

In March 2018, the Group disposed of its equity interests in Daisho Denshi to Daisho Denshi at a consideration of Japanese Yen 80,004,000 (equivalent to approximately HK$5,924,000). Accordingly, a loss on disposal of HK$3,357,000 was recognised in profit or loss during the year ended 31 March 2018.

## 16. Financial Assets at Fair Value through Profit or Loss

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Equity securities, listed in Hong Kong | – | 1,615 |

The investments were classified as held for trading as at 31 March 2017 and were fully disposed of during the year ended 31 March 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 17. Inventories

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Raw materials | **11,260** | 12,711 |
| Work in progress | **15,592** | 10,577 |
| Finished goods | **4,652** | 2,794 |
| | **31,504** | 26,082 |

## 18. Trade Receivables

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Trade receivables from third parties | | **83,757** | 29,458 |
| Allowance for doubtful debts | 18(a) | **(219)** | (199) |
| | | **83,538** | 29,259 |

### 18(a) Allowance for doubtful debts

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| At the beginning of the reporting period | **199** | 230 |
| Amount recovered | **–** | (14) |
| Amounts written off as uncollectible | **–** | (6) |
| Exchange realignment | **20** | (11) |
| **At the end of the reporting period** | **219** | 199 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 18. Trade Receivables (continued)

### 18(a) Allowance for doubtful debts (continued)

The Group's business with its trade debtors is mainly on credit basis and the credit period is ranging from 7 to 120 days *(2017: 60 days)*. At the end of the reporting period, the ageing analysis of trade receivables (before allowance for doubtful debts) by invoice date is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Less than 1 month | **50,129** | 19,827 |
| 1 to 2 months | **20,467** | 8,850 |
| 2 to 3 months | **5,994** | 455 |
| Over 3 months | **7,167** | 326 |
| | **83,757** | 29,458 |

At the end of the reporting period, the ageing analysis of trade receivables (net of allowance for doubtful debts) by due date is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Not past due | **69,104** | 28,775 |
| Less than 1 month past due | **11,704** | 438 |
| 1 to 2 months past due | **2,419** | – |
| 2 to 3 months past due | **33** | 16 |
| Over 3 months past due | **278** | 30 |
| | **83,538** | 29,259 |

The trade receivables that are past due but not impaired related to a number of independent customers that have a good track record with the Group. The Group has not recognised impairment on these balances as there has not been a significant change in credit quality and the directors of the Company believe that the amounts are recoverable. The Group does not hold any collateral over these balances.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 19. Other Receivables, Deposits and Prepayments

| | Note | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| Deposits and other receivables | | **20,352** | 18,048 |
| Less: impairment losses | 19(a) | **(13,003)** | (12,725) |
| | | **7,349** | 5,323 |
| Prepayments | | **4,128** | 3,176 |
| Bank interest receivables on time deposits | | **886** | 970 |
| Value-added tax recoverable | | **1,049** | 5,017 |
| | | **6,063** | 9,163 |
| | | **13,412** | 14,486 |

### 19(a) Impairment losses

The movements on the allowance of the other receivables, deposits and prepayments are as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| At the beginning of the reporting period | **12,725** | 13,432 |
| Amount recovered | **(996)** | – |
| Exchange realignment | **1,274** | (707) |
| **At the end of the reporting period** | **13,003** | 12,725 |

## 20. Pledged Bank Deposits

The bank deposits amounting to approximately HK$154,441,000 *(2017: HK$123,943,000)* were placed with banks in the PRC to secure short-term bank loans of the Group. Therefore, those pledged bank deposits were classified as current assets. The pledged bank deposits earn interests at prevailing short-term deposit rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 21. Cash and Cash Equivalents

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows | **59,607** | 74,453 |

Bank balances in total of approximately HK$59,536,000 *(2017: HK$74,387,000)* carry interest at floating rates based on daily bank deposit rates.

As at 31 March 2018, bank balances that were placed with banks in the PRC amounted to approximately HK$5,803,000 *(2017: HK$23,046,000)*. Remittance of funds out of the PRC is subject to the exchange controls imposed by the PRC government.

## 22. Trade Payables

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Trade payables to third parties | **77,044** | 34,391 |

The trade payables are non-interest bearing and the Group is normally granted with a credit term ranging from 7 to 90 days *(2017: 90 days)*.

The ageing analysis of trade payables, at the end of the reporting period based on the invoice date, is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Less than 1 month | **39,676** | 12,530 |
| 1 to 2 months | **9,465** | 5,673 |
| 2 to 3 months | **14,128** | 4,824 |
| Over 3 months | **13,775** | 11,364 |
| | **77,044** | 34,391 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 23. Other Payables and Accruals

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Salaries and welfare payables | **2,568** | 2,638 |
| Deposits received from customers | **1,146** | 746 |
| Payables for purchase of property, plant and equipment | **5,169** | 2,158 |
| Accrual for utilities expenses | **1,970** | 3,210 |
| Others | **14,993** | 15,297 |
| | **25,846** | 24,049 |

## 24. Interest-Bearing Borrowings

At the end of the reporting period, the details of the interest-bearing borrowings of the Group are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Effective interest rate (%)** | **HK$'000** | Effective interest rate (%) | HK$'000 |
| Secured bank loans | **HIBOR + 1.2% to LIBOR + 3.924%** | **105,543** | HIBOR + 1.2% to LIBOR + 1.5% | 114,342 |

As at 31 March 2018, all bank loans of HK$105,543,000 *(2017: HK$114,342,000)* are secured by the Group's pledged bank deposits amounting to HK$154,441,000 *(2017: HK$123,943,000)* (Note 20).

All bank loans are repayable within one year as at 31 March 2018 and 2017.

## 25. Promissory Note Payable

On 27 March 2018, a promissory note in the principal amount of HK$33,310,000 was issued by the Company to Inter-Pacific Group Pte. Limited (the "Vendor"), a company incorporated in Singapore with limited liability which is principally engaged in trading of petrochemical products and owned as to 50% by Ms. Cheung Lai Na, the Chairman and an executive director of the Company, and 50% by independent third parties as part of consideration amounting HK$44,680,000 for acquisition of one of four vessels, named Pacific Energy 28, upon fulfillment of the conditions set out in the sale and purchase agreement (the "Agreement") entered with the Vendor on 29 September 2017. The promissory note may be redeemed by the Company at any time by giving the Vendor prior notice. HK$6,702,000 was paid to the Vendor by cash as deposit at the date of the Agreement and the remaining consideration of HK$4,668,000 was subsequently settled by payment of cash on 18 May 2018. Refundable deposits of HK$22,770,000 in relation to the remaining three vessels which were paid on 29 September 2017 by the Company in according with the Agreement were recognised as deposits paid for acquisition of property, plant and equipment.

Details of the acquisition of four vessels have been disclosed in the Company's circular dated 27 December 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 25. Promissory Note Payable (continued)

The fair value of the promissory note at issue date was approximately HK$28,272,000, based on the valuation performed by an independent professional valuer. The promissory note is interest free and will be matured in 2 years from the issue date. The effective interest rate of the promissory note is determined to be approximately 8.54% per annum. The promissory note is classified under non-current liabilities and measured at amortised cost.

## 26. Convertible Bonds

On 26 May 2017, the Company has entered into the supplemental placing agreement with the placing agent (the "Supplemental Placing Agreement") to amend certain terms of the conditional placing agreement dated 28 November 2016 entered into between the Company and the placing agent in relation to the placing of the convertible bonds of the Company in the principal amount of up to HK$130,000,000 on a best effort basis (the "2016 Placing Agreement").

Pursuant to the Supplemental Placing Agreement, the maximum principal amount of the convertible bonds to be placed, on a best effort basis, by the placing agent pursuant to the 2016 Placing Agreement has been revised from HK$130,000,000 to HK$80,000,000, the conversion price of the convertible bonds has been revised from HK$0.65 per share (subject to adjustment) to HK$0.36 per share (subject to adjustment), the interest rate attached to the convertible bonds has been revised from 8% per annum to 6% per annum on the principal amount of the convertible bonds outstanding from time to time, and the default interest rate has been revised from 5% per annum to 6% per annum.

Convertible bonds with coupon interest rate of 6% per annum payable quarterly in arrears in the principal of HK$80,000,000 will mature on the third anniversary of the issue date.

Details of the placing of the convertible bonds, including the placing agreement, Supplemental Placing Agreement, conditions precedent, revised use of proceeds, change in shareholdings structure of the Company and effect of full conversion of the convertible bonds have been disclosed in the Company's announcements dated 24 January 2017 and 26 May 2017.

On 22 September 2017, convertible bonds with an aggregated principal amount of HK$80,000,000 have been successfully placed. The net proceeds were approximately HK$77,194,000.

Upon issuance, the holder of the convertible bonds at any time up till 21 September 2020, could convert the convertible bonds into the Company's shares at HK$0.36 per share, subject to adjustments (i.e., the conversion option). The Company has the right to redeem the convertible bonds in whole or in part at any time before the maturity date at its face value (i.e., the call option). Both the conversion option and call option are classified as derivative financial instruments and stated at fair value. The excess of proceeds over the derivative financial instruments is recognised as the liability component. The fair values of the derivative financial instruments were determined with reference to a valuation conducted by an independent professional valuer.

## 26. Convertible Bonds (continued)

The fair values of the derivative financial instruments were valued using the Binomial Option Pricing Model, with the following key inputs:

| | 22 September 2017 (At the issue date) | **31 March 2018** |
|---|---|---|
| Stock price | HK$0.400 | **HK$0.465** |
| Exercise price | HK$0.360 | **HK$0.360** |
| Volatility | 86.50% | **91.34%** |
| Option life | 36 months | **29 months** |
| Risk-free interest rate | 0.99% | **1.47%** |
| Discount rate | 6.82% | **8.56%** |

The movement of the convertible bonds is as follows:

### Derivative components, classified as net financial liabilities at fair value through profit or loss

| | **Conversion option** HK$'000 | **Call option** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At the issue date | 54,442 | (44,192) | 10,250 |
| Fair value changes | 10,336 | 6,800 | 17,136 |
| **At 31 March 2018** | **64,778** | **(37,392)** | **27,386** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 26. Convertible Bonds (continued)

**Liability component, classified as financial liability at amortised costs**

| | HK$'000 |
|---|---|
| Nominal value of the convertible bonds issued | 80,000 |
| Derivative components | (10,250) |
| Transaction costs allocated | (2,806) |
| At the issue date | 66,944 |
| Effective interest expenses | 4,747 |
| Interest paid | (2,380) |
| **At 31 March 2018** | **69,311** |

The effective interest rate of the liability component on initial recognition is 12.62% per annum.

## 27. Deferred Taxation

**Unrecognised deferred tax assets arising from**

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Deductible temporary differences | **50,139** | 34,407 |
| Tax losses arising in Hong Kong | **164,616** | 139,806 |
| Tax losses arising in the PRC | **94,525** | 65,299 |
| | **309,280** | 239,512 |

Neither the tax losses arising in Hong Kong nor the deductible temporary differences expire under current tax legislation, while the tax losses arising in the PRC will expire in one to five years. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 28. Share Capital

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| | Note | No. of shares | HK$'000 | No. of shares | HK$'000 |
| Authorised: | | | | | |
| At the beginning of the reporting period | | **2,000,000,000** | **200,000** | 600,000,000 | 60,000 |
| Increase | 28(a) | – | – | 1,400,000,000 | 140,000 |
| **At the end of the reporting period** | | **2,000,000,000** | **200,000** | 2,000,000,000 | 200,000 |
| Issued and fully paid: | | | | | |
| At the beginning of the reporting period | | **576,243,785** | **57,624** | 480,243,785 | 48,024 |
| Shares issued upon placing | 28(b) | – | – | 96,000,000 | 9,600 |
| **At the end of the reporting period** | | **576,243,785** | **57,624** | 576,243,785 | 57,624 |

28(a) Pursuant to an ordinary resolution passed in the annual general meeting of the Company held on 22 November 2016, the authorised share capital of the Company was increased from HK$60,000,000 to HK$200,000,000, by creation of additional 1,400,000,000 ordinary shares of HK$0.1 each.

28(b) On 20 March 2017, the Company issued 96,000,000 placing shares (the "Placing Shares") by way of placing (the "Placing"), at a placing price of HK$0.50 per Placing Share. The difference of HK$37,009,000 between the net proceeds from the Placing after deducting related expenses of approximately HK$46,609,000 and the nominal value of share capital of the Company issued of HK$9,600,000 was recognised in share premium reserve. The Placing Shares rank pari passu with all existing shares in all respects.

## 29. Reserves

### (a) Share premium

The application of share premium is governed by section 40 of the Bermuda Companies Act 1981. Where the Company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to the share premium account.

### (b) Contributed surplus

The Group's contributed surplus represents the difference between the nominal value of the Company's shares issued pursuant to the Group's reorganisation in 1989 and the nominal value of the shares and the share premium account of the subsidiaries acquired.

### (c) Exchange translation reserve

Exchange translation reserve has been set up and is dealt with in accordance with the accounting policies adopted for foreign currency translation as set out in Note 2 to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 30. Share-Based Payments

Pursuant to the Company's special general meeting on 22 November 2016 (the "Date of Adoption"), an ordinary resolution was passed to approve and adopt the new share option scheme of the Company (the "Scheme") which was further subject to approval by the Listing Committee of the Stock Exchange (the "Listing Committee") granting the approval for the listing of, and permission to deal in, any ordinary share of the Company which may fall to be issued pursuant to the exercise of the options (the "Listing Approval"). On 23 June 2017, the Listing Approval was confirmed by the Listing Committee.

The purpose of the Scheme is to provide incentives or rewards to the eligible persons for their contribution to, and continuing efforts to promote interests of, the Company and to enable the Group to recruit and retain high-calibre employees. Eligible persons of the Scheme include (i) any director (whether executive or non-executive, including independent non-executive director) or employee (whether full time or part time) of the Company or any of its subsidiaries or associated companies; (ii) consultant, adviser, supplier or customer of the Company or any of its subsidiaries or associated companies; and (iii) any other group of classes of participants which the Board of Directors may, from time to time in its absolute discretion, consider appropriate on basis of such participants' contribution or potential contribution to the development, growth or benefit of the Company or any of its subsidiaries or associated companies. The Scheme will remain in force for 10 years from the Date of Adoption, unless otherwise terminated or altered.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not exceed 10% of the total number of shares in issue as at the Date of Adoption of the Scheme (the "10% Limit") or the date of any shareholders' meeting in refreshing the 10% Limit, if applicable. The maximum number of shares issued and issuable to each eligible person under the Scheme in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue as at proposed grant date. Any further grant of share options in excess of this limit is subject to shareholders' approval 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. In addition, any share options granted to an independent non-executive director or a substantial shareholder of the Company, or to any of their associates, in excess of 0.1% of the total number of shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5,000,000 within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board of Directors and commences from the date on which the offer of share options is duly accepted by the grantee in accordance with the Scheme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 30. Share-Based Payments (continued)

The exercise price of share options is determinable by the Board of Directors, and shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation on the date of the offer of the share options; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of the share options; and (iii) the nominal value of the Company's shares.

No share options had been granted, exercised or lapsed during the year ended 31 March 2018 and there were no outstanding share options as at 31 March 2018.

## 31. Other Cash Flow Information

### (a) Major non-cash transaction

During the year ended 31 March 2018, a promissory note in the principal amount of HK$33,310,000 was issued by the Company as part of consideration for the acquisition of a vessel (Note 25).

### (b) Reconciliation of liabilities arising from financing activities

Details of the changes in the Group's liabilities from financing activities are as follows:

| | Interest-bearing borrowings HK$'000 | Promissory note payable HK$'000 | Derivative financial instruments HK$'000 | Convertible bonds HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2017 | 114,342 | – | – | – | 114,342 |
| Fair value loss on derivative financial instruments | – | – | 17,136 | – | 17,136 |
| Finance costs | 2,968 | – | – | 4,747 | 7,715 |
| Payment for purchase of property, plant and equipment | – | 28,272 | – | – | 28,272 |
| **Cash inflow (outflow) in financing activities:** | | | | | |
| New bank loans raised | 107,676 | – | – | – | 107,676 |
| Repayment of bank loans | (116,475) | – | – | – | (116,475) |
| Proceeds from issue of convertible bonds, net of issue costs | – | – | 10,250 | 66,944 | 77,194 |
| Interest paid | (2,968) | – | – | (2,380) | (5,348) |
| **At 31 March 2018** | **105,543** | **28,272** | **27,386** | **69,311** | **230,512** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 32. Significant Related Party Transactions

In addition to the transactions information disclosed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| **(a) Related party transactions** | | |
| Sales of printed circuit boards to a related party (Note) | – | 29,044 |
| Consultancy fee paid to a former independent non-executive director | **300** | – |

Note: Printed circuit boards were sold to a subsidiary of Daisho Denshi, which was no longer a related party of the Company upon completion of placing of new shares of the Company on 20 March 2017. Those products sold were unique and tailor-made according to the customer's requirements and specifications. The selling price of the printed circuit boards was determined based on the complexity of the specifications and was agreed between the respective parties.

### (b) Key management personnel remuneration

Remuneration for key management personnel of the Group, representing amounts paid to the Company's directors and certain of the highest paid employees as disclosed in Note 10 to the consolidated financial statements, is as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Salaries, allowances and other employee benefits | **5,145** | 9,302 |
| Retirement scheme contributions | **116** | 384 |
| Contractual termination benefits | – | 120 |
| | **5,261** | 9,806 |

The remuneration was based on the terms mutually agreed between the Group and the related parties.

In the opinion of the Company's directors, these related party transactions were conducted in the ordinary course of business of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 33. Financial Risk Management

The Group's principal financial instruments comprise available-for-sale financial assets, financial assets at fair value through profit or loss, pledged bank deposits, cash and cash equivalents, interest-bearing borrowings, promissory note payable, derivative financial instruments, convertible bonds, other receivables and other payables. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The accounting policies for financial instruments have been applied to the line items below:

| | Loans and receivables HK$'000 |
|---|---|
| **As at 31 March 2018** | |
| **Assets** | |
| Refundable deposits included in deposits paid for acquisition of property, plant and equipment | 22,770 |
| Trade receivables | 83,538 |
| Financial assets included in other receivables, deposits and prepayments | 8,235 |
| Pledged bank deposits | 154,441 |
| Cash and cash equivalents | 59,607 |
| **Total** | 328,591 |

| | Financial liabilities at fair value through profit or loss HK$'000 | Financial liabilities at amortised costs HK$'000 |
|---|---|---|
| **As at 31 March 2018** | | |
| **Liabilities** | | |
| Trade payables | – | 77,044 |
| Financial liabilities included in other payables and accruals | – | 24,700 |
| Interest-bearing borrowings | – | 105,543 |
| Promissory note payable | – | 28,272 |
| Derivative financial instruments | 27,386 | – |
| Convertible bonds | – | 69,311 |
| **Total** | 27,386 | 304,870 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 33. Financial Risk Management (continued)

| | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Financial assets at fair value through profit or loss HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| As at 31 March 2017 | | | | |
| **Assets** | | | | |
| Available-for-sale financial assets | – | 9,281 | – | 9,281 |
| Financial assets at fair value through profit or loss | – | – | 1,615 | 1,615 |
| Trade receivables | 29,259 | – | – | 29,259 |
| Financial assets included in other receivables, deposits and prepayments | 6,293 | – | – | 6,293 |
| Pledged bank deposits | 123,943 | – | – | 123,943 |
| Cash and cash equivalents | 74,453 | – | – | 74,453 |
| Total | 233,948 | 9,281 | 1,615 | 244,844 |

| | Financial liabilities at amortised costs HK$'000 |
|---|---|
| As at 31 March 2017 | |
| **Liabilities** | |
| Trade payables | 34,391 |
| Financial liabilities included in other payables and accruals | 7,698 |
| Interest-bearing borrowings | 114,342 |
| Total | 156,431 |

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

## 33. Financial Risk Management (continued)

### Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing borrowings with floating interest rates. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in Note 24 to the consolidated financial statements.

The Group's policy is to minimise the interest rate risk for interest-bearing borrowings with an original tenor of more than one year by fixing the interest rate at the commencement of the tenor. The Group may make use of interest rate swaps transactions in order to effect fixed interest rates for such borrowings if required.

At the end of the reporting period, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss before tax would increase/decrease by HK$1,055,000 *(2017: HK$1,143,000)* but there would be no impact on the other equity reserves.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2017.

### Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group operates in Hong Kong and the PRC with most of the transactions denominated and settled in either US$, HK$ or Renminbi ("RMB"). As HK$ is pegged to US$, the management considers the risk of movements in exchange rates between HK$ and US$ to be insignificant. The Group is mainly exposed to the foreign currency risk of RMB.

The Group may enter into forward currency contracts with reference to the estimated cash flows in foreign currencies in order to manage the foreign currency exposures as and when appropriate. The Group has not entered into hedging activities to hedge against the exposure to foreign exchange risk of RMB.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates, with all other variables held constant, of the Group's loss before tax and the Group's equity, in respect of the monetary assets and liabilities based on their carrying amounts at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 33. Financial Risk Management (continued)

**Foreign currency risk** (continued)

| | **Increase (Decrease) in exchange rates %** | **Increase (Decrease) in loss before tax HK$'000** | **Increase (Decrease) in equity* HK$'000** |
|---|---|---|---|
| As at 31 March 2018 | | | |
| If HK$ weakens against RMB | **10.0** | **4,093** | **–** |
| If HK$ strengthens against RMB | **(1.0)** | **(409)** | **–** |

| | Increase (Decrease) in exchange rates % | Increase (Decrease) in loss before tax HK$'000 | Increase (Decrease) in equity* HK$'000 |
|---|---|---|---|
| As at 31 March 2017 | | | |
| If HK$ weakens against RMB | 1.0 | 280 | – |
| If HK$ strengthens against RMB | (5.0) | (1,401) | – |

* *Excluding retained profits*

The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

### Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, debtor balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise bank balances and cash; and trade and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. In order to minimise the credit risk, the management of the Group continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 33. Financial Risk Management (continued)

### Credit risk (continued)

Since the Group trades only with recognised and creditworthy customers, there is no requirement for collateral. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which the customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, the Group had a concentration of credit risk as 23% *(2017: 40%)* and 70% *(2017: 92%)* of the Group's trade receivables was due from the Group's largest customer and the five largest customers, respectively. The Group manages the concentration of credit risk by continuously broadening the customer base of the Group.

The credit risk in bank balances and deposits is limited because the counterparties are banks with high credit ratings.

Further information in respect of the Group's exposure to credit risk arising from trade receivables is disclosed in Note 18 to the consolidated financial statements.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (e.g. trade debtors) and projected cash flows from operations.

The Group's policy is to regularly monitor its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and cash equivalents as well as adequate banking facilities and generates funds from public fund raisings to meet its operation needs at any time.

The maturity profile of the Group's non-derivative financial liabilities at the end of the reporting period based on contractual undiscounted payments is summarised below:

| | Within 1 year or on demand HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|
| **As at 31 March 2018** | | | |
| Trade payables | 77,044 | – | 77,044 |
| Financial liabilities included in other payables and accruals | 24,700 | – | 24,700 |
| Interest-bearing borrowings | 105,591 | – | 105,591 |
| Promissory note payable | – | 33,310 | 33,310 |
| Convertible bonds | 4,800 | 87,187 | 91,987 |
| | 212,135 | 120,497 | 332,632 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 33. Financial Risk Management (continued)

**Liquidity risk** (continued)

| | Within 1 year or on demand HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|
| As at 31 March 2017 | | | |
| Trade payables | 34,391 | – | 34,391 |
| Financial liabilities included in other payables and accruals | 7,698 | – | 7,698 |
| Interest-bearing borrowings | 114,478 | – | 114,478 |
| | 156,567 | – | 156,567 |

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirement.

The Group monitors capital using a gearing ratio, which is the interest-bearing bank borrowings, promissory note payable and liability component of convertible bonds divided by total capital. Capital includes equity attributable to owners of the Company. The gearing ratios as at the end of the reporting period were as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Interest-bearing borrowings | **105,543** | 114,342 |
| Liability component of convertible bonds | **69,311** | – |
| Promissory note payable | **28,272** | – |
| | **203,126** | 114,342 |
| Equity attributable to owners of the Company | **150,420** | 208,365 |
| Gearing ratio | **135%** | 55% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 34. Fair Value Measurements

The following table presents the assets and liabilities measured at fair value or required to disclose their fair value in these financial statements on a recurring basis as at 31 March 2018 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level of input that is significant to the entire measurement. The levels are defined as follows:

– Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;

– Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

– Level 3 (lowest level): unobservable inputs for the asset or liability.

### Financial assets and liabilities measured at fair value

| | **2018** | | | |
|---|---|---|---|---|
| | **Level 1 HK$'000** | **Level 2 HK$'000** | **Level 3 HK$'000** | **Total HK$'000** |
| **Liabilities** | | | | |
| Derivative financial instruments | – | – | **27,386** | **27,386** |

| | 2017 | | | |
|---|---|---|---|---|
| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | 1,615 | – | – | 1,615 |

During the years ended 31 March 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

In the opinion of the directors of the Company, except for the available-for-sale financial assets as described in Note 15 to the consolidated financial statements, no other financial assets and liabilities of the Group are carried at amount materially different from their fair values as at 31 March 2018 and 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 March 2018

## 34. Fair Value Measurements (continued)

**Financial assets and liabilities measured at fair value** (continued)

The details of the movements of the recurring fair value measurements categorised as Level 3 of the fair value hierarchy are as follows:

| | Derivative financial instruments HK$'000 |
|---|---|
| At the issue date | 10,250 |
| Changes in fair value recognised in profit or loss during the year | 17,136 |
| **As at 31 March 2018** | **27,386** |
| Changes in unrealised loss for the year included in profit or loss for the net liability held as at 31 March 2018 | **17,136** |

The description of sensitivity of changes in unobservable input for recurring Level 3 fair value measurement is as follows:

| Liability | Fair value hierarchy | Valuation technique | Unobservable input | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|
| Derivative financial instruments | Level 3 | Binomial Option Pricing Model | Expected volatility | The higher the expected volatility, the higher the fair value |

The description of the valuation techniques and inputs used in fair value measurement for derivative financial instruments are set out in Note 26 to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 35. Commitments

### (a) Capital commitments

At the end of the reporting period, capital commitments not provided for in the consolidated financial statements were as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contracted but not provided for, net of deposits paid in respect of | | |
| – property, plant and equipment (Note) | **129,134** | 1,081 |

Note: The amount included the remaining capital commitments for acquisition of vessels of HK$129,030,000 *(2017: Nil)*.

### (b) Operating leases commitments

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases for premises, which are payable as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **3,852** | 1,491 |
| In the second to fifth years inclusive | **413** | 1,883 |
| | **4,265** | 3,374 |

Operating lease payments represent rentals payable by the Group for its factory and office *(2017: its office and staff's quarters)*. Leases are negotiated for term of 3 years *(2017: ranging from 1 year to 3 years)*.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 36. Litigation

In January 2017, Mr. Harry Chan, a former executive director, Chief Executive Officer and Chairman of the Company who was removed from his duties effective from 23 December 2016, filed a claim for a total sum of approximately HK$4,300,000 in respect of wages in lieu of notice, annual leave pay, rest day pay and long service payment (the "Claims") in the Labour Tribunal against the Company which was then transferred to the Court of First Instance as High Court Action No. HCA 1082/2017 (the "1st Action").

The directors of the Company consider that the claim from Mr. Harry Chan is without merit and have been advised by the Group's lawyers that the Group is not likely that the High Court would find the Company liable for the 1st Action. The directors of the Company are of the opinion that it is not probable that an outflow of economic benefits will be required and therefore no provision for the Claims is considered necessary.

On 24 May 2017, the Company and Huafeng as first and second plaintiffs filed a statement of claim to the High Court in High Court Action No. 818/2018 against Mr. Harry Chan for his breaches (i) under the terms of his service agreement; and/or (ii) of his fiduciary and statutory duties to both the Company and Huafeng as an executive director (the "2nd Action"). The ultimate liability or amount is to be assessed. Pursuant to the order made by the High Court on 20 June 2017, the 1st Action was consolidated with the 2nd Action. The directors of the Company are of the opinion, with reference to the opinion of the Group's lawyer, any damages (or part thereof) may be set off against any amounts which may be awarded in Mr. Harry Chan's favour (if any) in the 1st Action.

Up to the date of this report, there is no further update from the High Court for the above cases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 37. Statement of Financial Position of the Company

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interest in subsidiaries | | – | 14,716 |
| **Current assets** | | | |
| Amount due from subsidiaries | | 255,146 | 195,624 |
| Refundable deposits | | 22,770 | – |
| Prepayments | | 2,248 | 350 |
| Cash and cash equivalents | | 88 | 83 |
| | | 280,252 | 196,057 |
| **Current liabilities** | | | |
| Other payables and accruals | | 5,477 | 2,518 |
| **Net current assets** | | 274,775 | 193,539 |
| **Total assets less current liabilities** | | 274,775 | 208,255 |
| **Non-current liabilities** | | | |
| Promissory note payable | | 28,272 | – |
| Derivative financial instruments | | 27,386 | – |
| Convertible bonds | | 69,311 | – |
| | | 124,969 | – |
| **NET ASSETS** | | 149,806 | 208,255 |
| **Capital and reserves** | | | |
| Share capital | 28 | 57,624 | 57,624 |
| Reserves | 37(a) | 92,182 | 150,631 |
| **TOTAL EQUITY** | | 149,806 | 208,255 |

This statement of financial position was approved and authorised for issue by the Board of Directors on 12 June 2018 and signed on its behalf by

| **Cheung Lai Na** | **Cheung Lai Ming** |
|---|---|
| *Director* | *Director* |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 37. Statement of Financial Position of the Company (continued)

### 37(a) Movement of the reserves

| | Share premium HK$'000 | Contributed surplus HK$'000 | Retained profits (Accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2016 | 91,483 | 38,295 | 44,395 | 174,173 |
| Loss and total comprehensive loss for the year | – | – | (60,551) | (60,551) |
| **Transaction with owners** | | | | |
| *Contributions and distributions* | | | | |
| Issue of shares upon placing of shares (Note 28) | 37,009 | – | – | 37,009 |
| At 31 March 2017 | 128,492 | 38,295 | (16,156) | 150,631 |
| At 1 April 2017 | 128,492 | 38,295 | (16,156) | 150,631 |
| Loss and total comprehensive loss for the year | – | – | (58,449) | (58,449) |
| At 31 March 2018 | **128,492** | **38,295** | **(74,605)** | **92,182** |

The Company's contributed surplus is derived from the difference between the combined net assets of the subsidiaries acquired and the nominal value of the Company's shares issued pursuant to the same reorganisation described in Note 29(b) to the consolidated financial statements. Under the Bermuda Companies Act 1981, a company may make distributions to its shareholders out of the contributed surplus under certain circumstances.

The directors of the Company do not recommend the payment of a dividend for the year ended 31 March 2018 *(2017: Nil)*.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 March 2018

## 38. Events after the Reporting Period

In addition to the events disclosed elsewhere in these consolidated financial statements, the Group had the following subsequent events:

(a) Subsequent to 31 March 2018, a formal detailed plan of relocation of the Group's printed circuit board manufacturing facility (the "Relocation Plan") was conditionally approved by the Board of Directors and the Group had agreed with the employee of the Existing PCB Plant for a voluntary compensation for termination of employment contracts of approximately HK$25 million. The management expects the Relocation Plan will be fully executed by end of 2018.

On 25 May 2018, Daisho Microline Limited and Juko Industrial Ltd. (collectively the "Sellers"), wholly-owned subsidiaries of the Company and an independent third party (the "Possible Purchaser") entered into a memorandum of understanding pursuant to which the Sellers intend to sell and the Possible Purchaser intends to purchase entire issued shares in Da Feng Hua, a wholly-owned subsidiary of the Company, which owns potential redevelopment and disposal of the Land and Buildings due to intended relocation of the Group's printed circuit board manufacturing facility (the "Possible Disposal"). The consideration for the Possible Disposal is provisionally estimated to be HK$200,000,000. The Sellers and the Possible Purchaser shall cooperate and negotiate in good faith with the view of entering into a legally binding formal sale and purchase agreement in relation to the Possible Disposal on or before 15 July 2018. Details of the transaction are set out in the Company's announcement dated 25 May 2018. Up to the date of this report, no formal agreement is entered between both parties.

(b) On 23 May 2018, the Company has exercised its right to early redeem part of the promissory note of approximately HK$14,950,000. The carrying value of the promissory note redeemed was approximately HK$12,849,000 and a settlement loss of approximately HK$2,100,000 is to be subsequently charged to profit or loss upon redemption.