XINHUA media.

# XINHUA NEWS MEDIA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 309

# ANNUAL REPORT 2017/18

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Ju Mengjun *(Co-chairman)* (resigned on 22 January 2018)
Lo Kou Hong *(Co-chairman)*
Chan Chun Wo *(Co-chairman)* (appointed on 12 February 2018)
Yu Guang (resigned on 22 January 2018)
David Wei Ji
Wen Xin Nian (resigned on 22 January 2018)
Zhao Jingying (appointed on 18 September 2017 and retired on 20 October 2017)
Huang Wen Kai (appointed on 12 February 2018)
Chen Ming (appointed on 12 February 2018)
Li Bing (appointed on 12 February 2018)

### Independent Non-executive Directors

Wang Qi
Tsang Chi Hon
Ho Hin Yip
Wong Hon Kit (appointed on 18 September 2017 and retired on 20 September 2017)
Lee Suen (appointed on 12 February 2018)

## AUDIT COMMITTEE

Tsang Chi Hon *(Chairman)*
Wang Qi
Ho Hin Yip
Lee Suen

## REMUNERATION COMMITTEE

Tsang Chi Hon *(Chairman)*
Wang Qi
Ho Hin Yip
Lee Suen

## NOMINTION COMMITTEE

Chan Chun Wo *(Chairman)*
Wang Qi
Tsang Chi Hon
Ho Hin Yip
Lee Suen

## STARTEGY AND DEVELOPMENT COMMITTEE

Chan Chun Wo *(Chairman)*
David Wei Ji
Huang Wen Kai
Chen Ming
Li Bing
Tsang Chi Hon

## EXECUTIVE COMMITTEE

Chan Chun Wo *(Chairman)*
David Wei Ji
Huang Wen Kai
Chen Ming
Li Bing
Tsang Chi Hon

## CORPORATE GOVERNANCE COMMITTEE

David Wei Ji *(Chairman)*
Chan Chun Wo
Huang Wen Kai
Chen Ming
Li Bing
Tsang Chi Hon
Ho Hin Yip

## COMPANY SECRETARY

Goh Choo Hwee

## AUDITORS

Elite Partners CPA Limited
Certified Public Accountants

## SOLICITORS

Ma Tang & Co. Solicitors

## REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

1401-1405
Nan Fung Tower
88 Connaught Road Central
Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor
Royal Bank House
24 Shedden Road
PO Box 1586
Grand Cayman
KY1-1110
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
22nd Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Dah Sing Bank, Limited

## STOCK CODE

309

## COMPANY'S WEBSITE

www.XHNmedia.com

# CO-CHAIRMAN'S STATEMENT

## Dear Shareholders,

On behalf of the board of directors, I present to you the annual report of Xinhua News Media Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the financial year ended 31 March 2018.

As the lines of a traditional Chinese poem go, "people replace the spring couplets for their homes when they celebrate a new year. (千門萬戶曈曈日，總把新桃換舊符)" During the year under review, the Group faced fierce competition on the broadcast advertising front and yielded lacklustre return from the television screen broadcast business. The Group formally ended the television screen broadcast contracts with MTR Corporation in relation to the Hung Hom Station and KTT Through Train. The Group is of the opinion that the advertising and broadcast business may be vitalized by expanding the currently limited scope of the television screen broadcast business through profound and comprehensive advertising development. Its broadcasting region shall also be broadened from Hong Kong to Mainland China and countries involved in the "Belt and Road" initiative.

The Group begins with a plan to pursue practical cooperation with various advertising businesses in different industries in Mainland China. It intends to set up an operation and production centre in the Greater Bay Area or Hengqin New Area. Much effort will be devoted to the exploration of businesses derived from the television screen advertisement, such as many kinds of advertisement, strategic planning, consultancy, agency and promotion from each and every industry, in order to develop a one-stop service covering the whole industry chain of advertisement. Talent nurturing, sales enhancement, close market monitoring and maintenance of low-cost operation will boost profitability. The Group does not rule out the possibility of acquiring or leasing broadcasting platforms and its relevant properties in the PRC when appropriate.

After studying the market analysis of the PRC's real estate industry, the Group is of the opinion that despite the current declining trend in property prices in tier 1 cities, the property prices in tier 2 and tier 3 cities remained stable and positive due to the rigid demand. The real estate industry has been one of the key economic drivers. Therefore, the Group planned to explore the viability of property investment and agency as rental income and asset appreciation will benefit the Group. Going forward, "opportunity" and "prudence" will be of priority for the Group's investments.

The wave of innovation and technology is sweeping through the entire world. President XI Jinping attached great importance to Hong Kong's scientific development, focusing on facilitating the technological cooperation between Hong Kong and the Mainland China and supporting Hong Kong to become an international innovation and technology centre. The HKSAR government has proposed in its latest budget to invest into the development of the "Hong Kong – Shenzhen Innovation and Technology Park" in the Lok Ma Chau Loop, including capital injection to the Innovation and Technology Fund and support for the construction of technology and innovation platforms to attract top-quality scientific research institutions and technology companies in the world to establish a presence in Hong Kong.

As a listed company in Hong Kong, the Group shall proactively explore and expand its business to the field of technology and innovation. We will seriously consider making selective investments in artificial intelligence, telecommunication and 5G related industries. The Group will pave a way to explore brand-new technology to foster its future development.

A bright future comes with hard work. I would like to express heartfelt gratitude to all Directors and the employees of the Group for their loyalty, commitment and professionalism.

**Chan Chun Wo**

*Co-chairman*

Hong Kong, 28 June 2018

**LO'S CLEANING SERVICES LTD., A WHOLLY-OWNED SUBSIDIARY OF XINHUA NEWS MEDIA HOLDINGS LTD., WAS FOR THE FIFTEENTH YEAR RECOGNISED AS A CARING COMPANY AND THEREAFTER AWARDED "CARING COMPANY 10 YEARS +" BY THE HONG KONG COUNCIL OF SOCIAL SERVICE.**


## Dear Shareholders,

In the past year, Economy of Hong Kong rose by 3.8% year-on-year in 2017 amidst rising exports, strong domestic demand and rebounding tourism. On the other hand, residential property prices surged to an all-time high which are obviously beyond the affordability of the general public, notwithstanding the anticipated interest rate hikes as a result of the dollar peg, the imposition of new restrictions on bank mortgage lendings and the raising of stamp duties on transactions etc. Increasing supply seems to be the fundamental remedy to ease the problem.

The escalation in trade tensions between the United States and China could trigger a trade war between these two biggest economies and bring uncertainties to the global markets. If tariffs or barriers are enacted at the end of the day, it would not only cause damages to these two economies themselves, other countries and regions could too be the losers. Both governments are still unmoved by the challenges put to them and it appears more and more likely that an unwanted trade war will eventually begin.

Hong Kong has been confronted by labour shortage for more than a decade. The unemployment rate during the year under review dropped to 2.9% reflecting a tighter labour market in Hong Kong and hindering our competiveness. Effective measures to address the issue should be afforded priority.

The controversial abolition of offsetting severance payments (SP) and long service payments (LSP) against the Mandatory Provident Fund (MPF) as put forth by the Government has given rise to fierce debate in the community. The proposal, according to the Government, aims to improve the retirement protection for the employees but will without doubt create pressure for the employers if they are not allowed to use the employers' contributions to offset those payments. Whether cancelling the "offsetting mechanism" in one go or on a progressive basis requires holistic and careful consideration as it will inevitably bring impact on the business environment and the stakeholders as a whole and in the long run, though the Government has agreed a funding injection to alleviate the employers' burden during the transitional period.

Occupational health and safety have been our adopted policy superior to all. With our continued effort to instill safety concepts to our employees and inculcating a safety culture within the Group, our work injury rate during the year under review was again above the norm of the sector. We will remain steadfast in upholding the record.

The Group is actively seeking to expand in the cleaning and related business, including, but not limited to, building management, through mergers and acquisitions. A horizontal growth strategy is able to bring synergy and benefits to the Group and our shareholders.

I would like to take this opportunity to thank our shareholders and my fellow directors for your unfailing support and to our staff for your devoted efforts over the past year. With your continued contributions, I am confident that the Group will be able to further grow and develop in the years ahead.

**Lo Kou Hong**
*Co-Chairman*

Hong Kong, 28 June 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING RESULTS

The Group's revenue for the year ended 31 March 2018 amounted to approximately HK$349,240,000 (2017: HK$336,504,000), a 3.78% increase as compared to the previous year. The loss of the Group was approximately HK$38,930,000 (2017: HK$17,228,000), in which a provision for impairment of other receivables of HK$18,690,000 was made. Cleaning and related services business made a profit of approximately HK$10,586,000, the medical waste treatment business made a loss of approximately HK$580,000 which included the write off of new equipment purchased during the year for HK$5,820,000, the television screen broadcast business made a loss of approximately HK$10,099,000, and the waste treatment business made a loss of approximately HK$2,108,000.

## FINANCIAL REVIEW

As at 31 March 2018, the Group's cash and cash equivalents and pledged time deposits totaled approximately HK$46,359,000 (2017: HK$56,781,000) and its current ratio was 2.9 (2017: 3.7). The Group's net assets were approximately HK$97,766,000 (2017: HK$120,476,000).

As at 31 March 2018, the Group did not have any bank borrowings but the Group had finance lease payables and loans from a director of approximately HK$1,028,000 and approximately HK$6,688,000 respectively (2017: HK$838,000 and HK$6,035,000) and therefore, its gearing ratio, representing ratio of finance lease payables and loans from a director to shareholders' equity was 7.9% (2017: 5.7%). The Group's shareholders' equity amounted to approximately HK$97,766,000 as at 31 March 2018 (2017: HK$120,476,000).

The Group takes a prudent approach to cash management and risk control. Its revenues, expenses and capital expenditures in relation to cleaning and related business and television screen broadcast business are transacted in HK$, whereas those of the medical waste treatment business and waste treatment business are transacted in Renminbi ("RMB"). The Group's cash and bank balances are primarily denominated in HK$, RMB and United States dollars.

Foreign currency risks in relation to exchange rate fluctuations of RMB will be mitigated as future revenue from the medical waste treatment business, which is in RMB, can offset future liabilities and expenses.

As at 31 March 2018, the Group's banking facilities were secured by the pledge of certain of the Group's time deposits amounting to approximately HK$2,046,000 (2017: HK$2,035,000) and a property owned by a related company which is controlled by a director of the Group.

## BUSINESS REVIEW

### Television screen broadcast business

In the past business year, the Group has faced major changes in the television screen broadcasting business. The Group formally ended contracts with MTR Corporation in the Hung Hom Station. The Group also formally ended contracts with MTR Corporation in regards to the KTT Through Train. In the end the Group chose not to continue to participate in the renewal and tender process as the Group did not have much success in terms of generating return.

In regards to the remedial agreement with Xinhua News Agency Asia-Pacific Regional Bureau Limited, the Group would like to announce that both have agreed to an amicable agreement with Xinhua News Agency in terms of compensation shortfall. Xinhua News Agency Asia-Pacific Regional Bureau Limited has agreed with the Company to a repayment terms and schedule.

Despite the aforementioned changes, the Group is still committed to build and expand in the broadcasting space. The Group will explore other opportunities through other potential partnerships in the near future.

### Cleaning and related services

The bi-yearly revision of the Statutory Minimum Wage (SMW) has increased the hourly rate by 6.5% to HK$34.50 effective from 1 May 2017 which, coupled with its ripple effect, has again pushed up the operation cost. The burden brought about was, however, able to be offset by adjusting our service charges according to the fee mechanisms provided in the contracts.

Labour shortage, largely owing to the gray population, continues to be a challenge to the business. Upgrading our employment terms, fringe benefits and welfares to attract job seekers and maintaining a steady labour force has to be made on an "as-needed" basis and, as a result, our profit margins declined.

During the year under review, several major service contracts were renewed ranging from one year to three years with reasonable adjustments to the contract prices in coping with rising operating costs. For commercial properties, renewed contracts included four in Central, one of which being once the tallest building in Hong Kong, three in Causeway Bay and one in Aberdeen. For residential properties, renewals included one luxury residential development in Island South, two in Tung Chung and one in Yuen Long.

The Group was successful in bidding two new contracts, one for a Grade A commercial building in Wanchai facing the habour and the other for a brand new low-rise housing project in Sai Kung, which was developed by a listed developer with whom the Group has had business co-operation for years.

Of the high-level cleaning, the Group had been able to complete several external wall cleaning contracts during the year under review. They included four commercial buildings in Mongkok, a high-rise apartment estate in Kennedy Road, one low-rise residential development in Deep Water Bay and two government hospitals in Tai Po. Our self-owned mobile gondolas and metal scaffoldings were used in most of these contracts as high-level access equipment, and thus rendering such work more flexible, saving time and cost and putting the Group in a more positive and competitive situation to win contracts in this area.

The Group was again awarded "Caring Company Logo" by the Hong Kong Council of Social Service for its active caring for the employees, community and environment during the year.

### Medical waste treatment business

The Group operates two medical waste treatment plants in the PRC, one is located in Siping City and the other one is located in Suihua City. During the year, the entire set of medical wastes treatment equipment in both of the plants in Siping City and Suihua City were replaced because the old equipment were near the end of their useful lives after ten years of service and at the same time they need to be replaced to meet new environmental standards. The total cost of the new equipment was HK$5,820,000. Otherwise, both plants have been operating smoothly throughout the reporting year.

### Waste treatment business

The Group is continuing in looking for suitable options in respect of this investment.

## PROSPECTS

### Television screen broadcast business

In the coming year, the Group plans to diversify into a wider service supply chain, new commercial areas and broadcasting regions. In May 2018, the Group signed a 3-year strategic cooperation framework agreement with a real estate service agency in China and is negotiating business contracts to provide media promotion, marketing strategy and media operation services for real estate projects in China.

It has been observed that the traditional advertising space faces a strong competition from mobile advertising. The Group is actively seeking both organic and inorganic growth opportunities, including, but not limited to, inhouse media service chain development to enhance technology, operation capacity and profitability, as well as mergers and acquisitions from Technology, Media & Telecommunication (TMT) industry.

### Cleaning and related services

A waste charging scheme aiming to create financial incentives to drive behavioural changes of the community in municipal solid waste reduction will be launched, at the earliest, by the second half of next year. When the waste charging scheme become effective, it will, among others, increase the costs for waste disposal at government refuse transfer stations and require extra frontline, manpower and logistic arrangements. As a result, our recurring operation costs will increase. We are closely following up the announcements of the government from time to time and to get ourselves well prepared for the implementation.

Four major warewashing and cleaning labour provision contracts are due to expire in the last quarter of 2018. The Group has had close business relationship with the customer for over 10 years and our performance has so far been to their satisfaction. We consider that we enjoy a fairly good chance to regain the contracts. Given that the contracts must be opened for public tender as a general practice in Hong Kong, there is, however, no assurance that we would be successful in the bidding. Should we fail to re-gain the contracts, our revenue will adversely be affected.

The Group is actively seeking growth opportunities in the market to expand its business in cleaning and related services, including, but not limited to, building management, through mergers and acquisitions. A horizontal growth strategy is able to bring synergy and benefits to the Group and its shareholders.

### Medical waste treatment business

The two medical waste treatment plants located in Siping City and Suihua City have been operating smoothly in the past year and is expected to continue. The Group can therefore reasonably expect the medical waste treatment business will continue to bring in revenue to the Group in the future.

The Group is looking for suitable opportunities to expand in this area.

### Technology, Media & Telecommunication (TMT)

The wave of innovation and technology is sweeping through the entire world. The HKSAR government has proposed in its latest budget to invest into the development of the "Hong Kong – Shenzhen Innovation and Technology Park" in the Lok Ma Chau Loop, including capital injection to the Innovation and Technology Fund and support for the construction of technology and innovation platforms to attract top-quality scientific research institutions and technology companies in the world to establish a presence in Hong Kong. President XI Jinping also indicated that he attaches importance to the development of scientific research in Hong Kong and emphasised cooperation between Hong Kong and the Mainland on technology to support Hong Kong as an international innovation and technology centre.

The government of the PRC had issued different specific plans and guidance to regulate and expedite the development of "Smart City", for example, The State Council of the PRC (中華人民共和國國務院) had issued National New-type Urbanisation Plan (2014-2020) (國家新型城鎮化規劃(2014-2020年) in 2014, highlighting the "six directions" for development of smart cities, including broadband information and communication network, digitalisation of planning and management, smart infrastructure, convenient public services, development of modern industry, and meticulous social governance. Eight Ministries including National Development and Reform Commission (八部委包括國家發展和改革委員會) issued Guiding Advice on Promoting the Healthy Development of Smart Cities (關於促進智慧城市健康發展的指導意見) in 2014 to regulate and promote the development of smart cities gradually from pilot to other areas of applications (e.g. smart transport, smart healthcare).

As a listed company in Hong Kong, the Group is exploring the development of innovation and technology in Hong Kong and China. We will seriously consider extending our business to the commercial application of high technology, such as robotics, artificial intelligence, computer vision, virtual reality, augmented reality, telecommunication technology and 5G etc, in Hong Kong and China.

## DIVIDEND

The Directors do not recommend the payment of any dividend to shareholders for the year ended 31 March 2018 (2017: Nil).

## CONTINGENT LIABILITIES

At the end of the reporting period, the Group had contingent liabilities as follows:

(a) The Group has executed performance guarantees to the extent of an aggregate amount of HK$17,252,000 (2017: HK$13,826,000) in respect of certain services provided to various customers by the Group.

(b) The Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK$11,528,000 as at 31 March 2018 (2017: HK$9,605,000). The contingent liability has arisen because, at the end of the reporting period, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision of HK$7,275,000 (2017: HK$5,922,000) in respect of such payments has been made in the condensed consolidated statement of financial position as at 31 March 2018.

(c) During the ordinary course of its business, the Group may from time to time be involved in litigation concerning personal injuries sustained by its employees or third party claimants. The Group maintains insurance cover and, in the opinion of the Directors, based on current evidence, any such existing claims should be adequately covered by the insurance as at 31 March 2018 and 2017. Currently, there is a claim against the Group for legal costs that amounts to approximately HK$1,800,000 by Brave Venture Limited arising from litigation back in September of 2017. Other outstanding litigation includes a possible contempt of court claim by Brave Venture limited. However, the Group expects the financial impact to be minimal as it is a non-monetary claim.

## EVENT SUBSEQUENT TO THE END OF FINANCIAL YEAR

1. On 18 May 2018, the Company, through its wholly owned subsidiary, Xinhua News Media Limited, entered into a strategic cooperation framework agreement with Fujian Province Zhi Chuang Zhi Yuan Marketing Planning Company Limited. Details of which are set out in the announcement of the Company dated 18 May 2018.
2. On 7 June 2018, the Company entered into the placing agreement with Prudential Brokerage Ltd pursuant to which the later agreed to place as the Company's placing agent on a best effort basis the placing shares up to 162,962,962 news shares at the placing price of HK$0.275 per placing share. Details of which are set out in the announcements of the Company dated 7 June 2018 and 12 June 2018.
3. On 14 June 2018, the Company, through its wholly owned subsidiary, Xinhua News Media Limited, entered into the repayment agreement with Sheng Tang Petroleum & Chemical Development Limited regarding the payment of the outstanding sum owed by Sheng Tang Petroleum & Chemical Development Limited to the Group. Details of which are set out in the announcement of the Company dated 14 June 2018.

## ADVANCE TO ENTITY

### Advance to Sheng Tang Petroleum & Chemical Development Limited

As disclosed in the announcement of the Company dated 19 July 2016, on 25 August 2014, Xinhua News Media Limited, a wholly-owned subsidiary of the Company (the "Lender"), as lender, entered into a loan agreement with Sheng Tang Petroleum & Chemical Development Limited ("Borrower"), pursuant to which the Lender agreed to grant to the Borrower a loan in the principal amount of HK$18,000,000, bearing interest at a rate of 6% per annum for a period of one year. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Borrower is an independent third party and is not connected with the Group. Subsequently, as disclosed in another announcement of the Company dated 19 July 2016, the maturity date of such loan was extended to 23 August 2016.

Further, as disclosed in the announcement of the Company dated 14 June 2018, the Lender entered into a loan repayment agreement the Borrower (the "Loan Repayment Agreement"). Pursuant to the Loan Repayment Agreement, the Borrower agreed to repay the principal amount of HK$18,000,000 together with the outstanding interest pursuant to the Loan Agreement and Extension Agreement in accordance with the following schedule: (i) repayment of HK$3,000,000 upon signing of the Repayment Agreement; (ii) repayment of another HK$3,000,000 on or before 15 June 2018; and (iii) repayment of a sum not less than HK$3,000,000 per every two months commencing from 15 June 2018 and the principal amount and all the outstanding interest shall be fully repaid on or before 13 June 2019. For the avoidance of doubt, the amount payable for the last instalment can be less than HK$3,000,000. As at the date of this report, HK$3,000,000 has been settled by the Borrower.

For further details of the Loan Repayment Agreement, please refer to the announcement of the Company dated 14 June 2018.

## EMPLOYEES AND REMUNERATION POLICIES

The total number of employees of the Group as at 31 March 2018 was 1,604 (2017: 1,653). Total staff costs, including directors' emoluments and net pension contributions, for the period under review amounted to HK$250,421,000 (2017: HK$244,778,000). The Group provides employees with training programmes to equip them with the latest skills and other benefits inducing share option scheme. The Company also operates a share option scheme which was adopted on 25 September 2015 for the purpose of providing incentives and rewards to eligible participants for their contribution. The share option, unless otherwise, cancelled or amended, will remain in force for 10 years from the adoption date.

Remunerations are commensurate with individual job nature, work experience and market conditions, and performance-related bonuses are granted to employees on discretionary basis.

# BIOGRAPHICAL INFORMATION OF DIRECTORS

## EXECUTIVE DIRECTORS

### Mr. Lo Kou Hong, aged 75

Mr. Lo Kou Hong ("Mr. Lo") is the founder of the Company, the Co-chairman of the Board and an Executive Director of the Company. Mr. Lo is also a director of certain subsidiaries of the Company. Prior to establishing Lo's Cleaning Services Limited in 1978, Mr. Lo served as a manager at a local property management company. He was appointed as a vice president of the Friends of Scouting in 2001. Mr. Lo is also a founder member and director of Environmental Innovation Council Limited, a non-profit-making organisation incorporated in Hong Kong with limited liability by guarantee.

### Mr. Chan Chun Wo, aged 68

Mr. Chan Chun Wo ("Mr. Chan") the Co-Chairman, the Chief Executive Officer, an executive Director, the chairman of the executive committee, strategy and the development committee and the nomination committee of the Company and a member of the corporate governance committee of the Company. He is currently the chairman and the general manager of Zhejiang Hao Miao Technology Company Limited (浙江浩淼科技有限公司) (Stock code: 366116), a company listed on The Qianhai Equity Exchange. He has more than 30 years of experience in business operation. In 1985, he served as the business manager (China) in Swire Engineering Services Limited. In 1992, he founded East Town Trading Company Limited in Hong Kong. Subsequently, in 2008, Mr. Chan established Zhejiang Hao Miao Technology Company Limited where he has been the chairman and the general manager of this company since then.

In 1977, Mr. Chan graduated from Nanjing Institute of Technology, the PRC (now known as Southeast University) with a degree in Mechanical Engineering. In 2013, he was awarded as the Outstanding Chinese Entrepreneur by Innovation China (中國優秀創新企業家). In 2016, he was awarded as the Honorary Chairman of the China Association of Scientists.

### Mr. David Wei Ji, aged 37

Mr. David Wei Ji ("Mr. Ji") is an Executive Director, chairman of the corporate governance committee and a member of the executive committee and strategy and development committee of the Company. Mr. Ji currently also serves as Chief Operating Officer of the Company and director of Ally Thrive Investments Limited and Xinhua News Media Limited, both wholly-owned subsidiaries of the Company. He joined the Company in August 2013. Mr. Ji obtained a Bachelor of Science in Business Administration from Boston University School of Management in 2003 and a Master of Business Administration from the University of Chicago Booth School of Business in 2013 with concentrations in Analytic Finance, Accounting and International Business. Since 2003, Mr. Ji has worked with Fortress Investment Group in the Private Equity Group, Morgan Stanley Real Estate Funds, and UBS Financial Services in the Private Wealth Management division. Mr. Ji is experienced in asset management, market research and fund raising in the financial industry.

# Biographical Information of Directors

### Mr. Huang Wen Kai, aged 60

Mr. Huang Wen Kai ("Mr. Huang") is an executive Director and a member of the executive committee, the strategy and development committee and the corporate governance committee of the Company. He jointly founded Excel Electronics (Beihai) Company Limited (卓群電子(北海)有限公司) in 2008. He has been working in the field of commercial trading for more than 30 years. In 1988, he served as the general manager of Guangxi Province Qinzhou City Gongxiao Trading Centre (廣西省欽州市供銷貿易中心). Mr. Huang graduated from Hangzhou Institute of Commerce (now known as Zhejiang Gongshang University) with a professional degree in Business Administration in 1988.

### Ms. Chen Ming, aged 27

Ms. Chen Ming ("Ms. Chen") is an executive Director and a member of the executive committee, the strategy and development committee and the corporate governance committee of the Company. She has been served as a director and a general manager of Symphony Investments Holdings Limited, which is mainly engaged in the investment, import and export trade and asset management, since 2017. Ms. Chen assumed various positions in several well-renowned hotels in Macau. From 2013 to 2014, Ms. Chen worked in the exhibition department of the Venetian Macao. During the period between 2014 and 2015, Ms. Chen worked in the sale and marketing department of JW Marriott Hotel Macau & The Ritz-Carlton, Macau. Ms. Chen graduated from Tourism College of the Institute for Tourism Studies in Macau with a Bachelor of Science in Tourism Business Management in 2012.

### Mr. Li Bing, aged 34

Mr. Li Bing ("Mr. Li") is an executive Director and a member of the executive committee, the strategy and development committee and the corporate governance committee of the Company. He has more than 10 years of experience the fields of investments and merger and acquisitions. He served as a trust manager in Zhongrong International Trust Co., Ltd* (中融國際信託投資公司) and an investment director in Beijing Topwin Investment Group* (北京通盈投資集團). Mr. Li graduated from Northeastern University, the PRC in 2004 with a bachelor degree in Engineering. Subsequently, Mr. Li graduated from the School of Economics of Nankai University, the PRC with a master degree in Economics.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Mr. Wang Qi, aged 64

Mr. Wang Qi ("Mr. Wang") is an Independent Non-executive Director, a member of the audit committee, the remuneration committee and the nomination committee of the Company. He joined the Company in August 2006. Mr. Wang was a director of Jingneng Property Company Limited (a company listed on the Shanghai Stock Exchange), engaging in property development in Beijing and the general manager of Tian Chuang Science and Technology Development Company Limited, engaging in investment of technologically related businesses. Mr. Wang is a qualified senior engineer and has over 20 years of experience in business management. He was a senior investment manager of China Commercial Construction Development Company from 1989 to 2000 and was responsible for the investment and listing projects of various companies in Mainland China. Mr. Wang also served as an executive officer to manage some of the investment projects of Regal Hotels International from 1997 to 2000 and New World Group from 1993 to 2000 in Mainland China. In addition, Mr. Wang has devoted himself in developing the business connection and communication between Hong Kong and Mainland China in the field of business management and investment.

### Mr. Tsang Chi Hon, aged 44

Mr. Tsang Chi Hon ("Mr. Tsang") is an Independent Non-executive Director, chairman of the audit committee and the remuneration committee and a member of the executive committee, strategy and development committee, nomination committee and corporate governance committee of the Company. He joined the Company in November 2013. Mr. Tsang graduated from The University of Hong Kong in December 2009 with a Bachelor of Accounting and was admitted as a certified public accountant of The Hong Kong Institution of Certified Public Accountants in April 2006. He has approximately 15 years of experience in audit and accounting. Mr. Tsang joined Baker Tilly Hong Kong Business Services Limited as an auditor in October 1999 and left in February 2004. In March 2004, he joined Grant Thornton Hong Kong as a senior in the assurance division, was subsequently promoted to supervisor in October 2005 and left the firm in March 2007. From May 2007 to July 2008, he joined Reyoung Pharmaceutical Holdings Limited, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited as a group financial controller. From May 2009 to September 2009, Mr. Tsang was employed by Luxworld Limited as a financial reporting manager. From November 2009 to February 2014, Mr. Tsang served as chief financial officer in Zuoan Fashion Limited, a company listed on the New York Stock Exchange. Mr. Tsang was appointed as a company secretary of Swee Seng Holdings Limited and China Oriented International Holdings Limited in January 2017 and May 2017 respectively.

### Mr. Ho Hin Yip, aged 44

Mr. Ho Hin Yip ("Mr. Ho") is an Independent Non-executive Director, a member of the audit committee, nomination committee, remuneration committee and corporate governance committee of the Company. He is presently the Financial Controller and Joint Company Secretary of Singapore-listed Dukang Distillers Holdings Limited, where he is responsible for the finance and accounting functions, statutory compliance and corporate governance affairs. He has more than 18 years of financial and auditing experience. He is a fellow member of The Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. He currently act as an independent non-executive director of each of China Ever Grand Financial Leasing Group Co., Ltd. (stock code: 379) and Jiyi Household International Holdings Limited (stock code: 1495), and was an independent non-executive director of Royal China International Holdings Limited (stock code: 1683) during August 2015 to February 2017, all of which are companies listed on the Main Board of the Stock Exchange.

### Ms. Lee Suen, aged 44

Ms. Lee Suen ("Ms. Lee") is an independent non-executive Director and a member of the audit committee, remuneration committee and nomination committee of the Company. She is currently the vice general manager of Huasheng Global Sourcing Limited and Prosperity Commercial Development Group. She has more than 10 years of experience in business administration and management. From 2010 to 2016, she served as an assistant to the chairman of the board of China South City Holdings Limited (Stock code: 1668), a company listed on the Main Board of the Stock Exchange. From 2008 to 2010, she served as the executive secretary to the chairman of the board of Kowloon Development Company Limited (Stock Code: 34) and Polytec Asset Holdings Limited (Stock Code: 208), all of which are companies listed on the Main Board of the Stock Exchange. Ms. Lee graduated from The University of Hong Kong with a bachelor degree of Social Sciences in 1997. Subsequently, in 2007, she was awarded the degree of Master of Business Administration in International Management by University of London (in association with Royal Holloway and Bedford New College).

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SCOPE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance ("ESG") Report is prepared by the Group in accordance with the ESG Guide ("the Guide") as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

This report discloses the Group's performance and progress on environmental, social and governance matters for the year ended 31 March 2018. The Environmental, Social, Governance ("ESG") Report of the Group detailed the policies and compliance status of the laws and regulations relevant to the Group's business and its key stakeholders for the year ended 31 March 2018.

The business of the Group mainly covers the provision of cleaning and related services in Hong Kong and the operations of two medical waste treatment plants in Siping City and Suihua City in the People's Republic of China ("PRC"). The Group identifies the significant aspects and highlights throughout the report. The following table demonstrates the relationship between ESG Guide and the issues found relevant to the Group:

| ESG Guide | | Relevant ESG issues to the Group |
|---|---|---|
| A. | Environmental | |
| A.1 | Emissions | Air pollutant emissions |
| | | Greenhouse gas emissions |
| | | Waste management |
| A.2 | Use of resources | Energy consumption |
| | | Paper usage |
| | | Water conservation |
| A.3 | Environmental and natural resources | Measures in reducing environmental impact |
| B. | Social | |
| B.1 | Employment | Labour practices |
| | | Equal opportunity |
| B.2 | Health and safety | Workplace health and safety |
| B.3 | Development and training | Employee development and training |
| B.4 | Labour standards | Child labour and forced labour |
| B.5 | Supply chain management | Supplier management |
| B.6 | Product responsibility | Product responsibility |
| B.7 | Anti-corruption | Anti-corruption |
| B.8 | Community investment | Community involvement |

## ENVIRONMENTAL

The Group makes continuous effort in managing and monitoring waste and residue content resulted from non-incineration process. The Group evaluate the capability of existing facilities on meeting the latest environmental requirements and national standards. During the reporting year, our Group was not aware of any breach of any laws in relation to emissions in respect of our two main businesses, namely, cleaning business and medical waste treatment business.

As instructed by the government, the medical waste treatment plants and transits stations are at least 800 metres separated from the residential areas and the community. The Group also sets a comprehensive policy regarding the potential risk and leakage during the process of transportation, storage, steaming.

### A1: Emissions

The cleaning business does not involve in any production activities and hence no emissions of pollutants to the atmosphere. However, the use of cleaning materials in form of detergents and chemical solutions will likely be producing environmentally unfriendly wastes to the environment. The Group strives to reduce the usage of these cleaning solutions and is now sourcing such cleaning solutions from suppliers who can supply environmentally friendly cleaning solutions.

The Group's two medical waste treatment plants had been operating smoothly since commencing operations. The patented medical waste treatment equipment uses steam-based technology and is environmentally friendly. From Jun 2017, the Group fully changed the boilers from that of coal-based to oil-based in order to reduce the emissions of pollutants into the atmosphere.

The Group is governed by the regulations under Environmental Protection of the People's Republic of China Prevention《中華人民共和國環境保護法》, Control of Atmospheric Pollution《中華人民共和國大氣污染防治法》and Urban Drainage and Sewage Treatment Ordinance《城市排污與污水處理條例》. During the financial year ended 31 March 2018, the Group did not recognise any non-compliance with the relevant laws and regulations applicable to medical wastes treatments in PRC and Hong Kong.

**Air pollutant emissions**

During the year ended 31 March 2018, nitrogen oxides ($NO_x$), Sulphur oxides ($SO_x$) and respiratory suspended particles (PM) were emitted from fuel consumption of boilers and company vehicles.

The Group holds 17 motor vehicles, which are used for the transportation of medical waste between hospitals, transit stations and the treatment plants and to the sites of serviced area of cleaning and related services. 85,055 litres of diesels and 6,206 litres of unleaded petroleum have been consumed for the reporting period. The consumptions lead to an emission of $NO_x$, $SO_x$, and PM of 416.8kg, 1.5kg and 39.9kg respectively.

**Greenhouse gas emissions**

The Group consumes electricity and diesel for the operation of medical waste treatment equipment and at the same time, greenhouse gas is also produced. During consumption of electricity and combustion of diesel, carbon dioxide ("$CO_2$") is produced. The emissions of $CO_2$ are broadly classified into three scopes:

Scope 1 – Direct emissions from combustion of fuels;

Scope 2 – Energy indirect emissions; and

Scope 3 – Other indirect emissions.

For the year ended 31 March 2018, the $CO_2$ emissions of Scope 1, Scope 2 and Scope 3 are 990.4 tonnes, 157 tonnes and 12.3 tonnes respectively.

**Waste management**

- Exhaust gas management

  Exhaust gas is produced from the steaming of medical waste. 14,585m$^3$ of purified exhaust gas has been emitted through the ventilation system. The gas emitted complied with the second level of Integrated Emission Standard of Air Pollutants of the People's Republic of China (《中華人民共和國大氣污染物綜合排放標準》GB16297-1996).

- Solid Waste management

  The Group strictly complies with the Technical Specifications for Steam-based Centralized Treatment Engineering on Medical Waste of the People's Republic of China (《中華人民共和國醫療廢物高溫蒸汽集中處理工程技術規範》GB18599-2001). After treatment, the medical waste brings no harmful effects to human. The waste will be treated as daily household waste and sent to the garbage power station for the generation of power to the community. During the year ended 31 March 2018, the Group handled 3,223 tonnes of medical waste in total and 1,339 tonnes of medical waste has been sent to the garbage power station.

- Sewage management

  During the process of steaming and disinfection, large amount of sewage is produced. The Group has its own sewage treatment plant for purifying the sewage. By applying the membrane separation technology and traditional sewage biological treatment, all emitted sewage complied with the Discharge standard of water pollutants for medical organization of the People's Republic of China (《中華人民共和國醫療機構水污染物排放標準》GB18466-2005). The sewage after treatments is stored and ready for reuse. During the year, the medical treatment plant recycled 988 tons of water after treatment.

## A2: Use of Resources

The cleaning business of the Group uses relatively less energy and power due to the nature of such business. The water consumption, while relatively higher, is still at an overall low level. The Group strives to conserve energy and reduce water usage by encouraging our staff to be more environmentally-friendly conscious and have good manners.

The medical wastes business has a high standard of requirements in our waste discharges and as such, the Group adopts stringent internal procedures for our staff to follow when collecting and treating medical wastes, but at the same time, they also need to show good habits in not being wasteful. They are required to follow our internal procedures when operating our equipment so as to be as efficient as possible when performing their duties.

It is the Group's policy to maintain the treatment process with an objective to reduce the energy waste during the treatment. This is the key for the Group to attribute to the environmental friendly strategies. The Group is committed to performing regular assessment in analysing data in aims for better management in the use of resources.

**Water consumption**

In the process of medical waste treatment and cleaning, a large amount of water is required for steaming and cleaning. The Group strives to mitigate the water consumption and improve the efficiency of all plants by replacing more eco-friendly plants such that less water is required in the process of steaming.

**Paper usage**

According to the Group's record, 2,567kg of papers were used for office operations during the reporting period. Therefore, the Group has established a host of paper-saving initiatives to reuse and recycle paper. This is an opportunity to enhance environmental benefits by undertaking such conservative actions. Papers have been recycled by promoting double-sided printing and the use of telecommunication and electronic media.

**Packing materials**

During the process of collecting medical wastes, plastic containers are used. These plastic containers are either sharp box or general medical waste collection box. Sharp box is sealed and can only be used once. The general medical waste collection box is reused under the circumstances that the box is in good condition. During the reporting period, a total of 56,491 boxes have been disposed, while over 56,000 boxes are sharp box. The material used of the containers are in accordance with the Regulations on Special Packing, Vessel Standard and Warning Sign for Medical Waste of the People's Republic of China《中華人民共和國醫療機構水污染物排放標準醫療廢物專用包裝物、容器標準和警示標識規定》, which does not use polyvinyl chloride ("PVC") plastic as the raw materials. Furthermore, each container on average is reused not less than 3 times.

The Group's total resources consumption is listed below:

| Resources | Unit | Energy consumption | Consumption intensity (per tonnes of medical waste handled) |
|---|---|---|---|
| Electricity | kWh | 210,760 | 65.39 |
| Water | Tons | 842 | 0.26 |
| Diesel oil | Litre | 234,841 | 72.86 |
| Coal | Tonnes | 58 | 0.02 |

## A3: Environment and Natural Resources

During the financial year ended 31 March 2018, the Group replaced existing vehicles with eco-friendly vehicles to reduce the emissions of $NO_x$, $SO_x$ and particular matters ("PM"). Besides, the Group also acquired new non-incineration medical waste equipment to reduce the emissions of $CO_2$. In the future, the Group will acquire more environmental friendly machinery when making purchase decisions.

In a bid to create sustainable environmental value, the Group has implemented a set of energy-saving initiatives. Employee is required to save energy at offices or factories such as controlling the use of electric power for lighting and air-conditioning. Also, the Group focuses on daily maintenance and perseverance and implements a gaseous waste processing system in order to set up a comprehensive policy and uphold the efficient level of facilities.

The Group continuously is on the look-out for latest equipment that are environmentally-friendly and upgrade them as and when required. Staff are encouraged to pay attention to the importance of preserving our environment and that they should have a clear understanding of the Group's policies and procedures in this area.

## B. Social

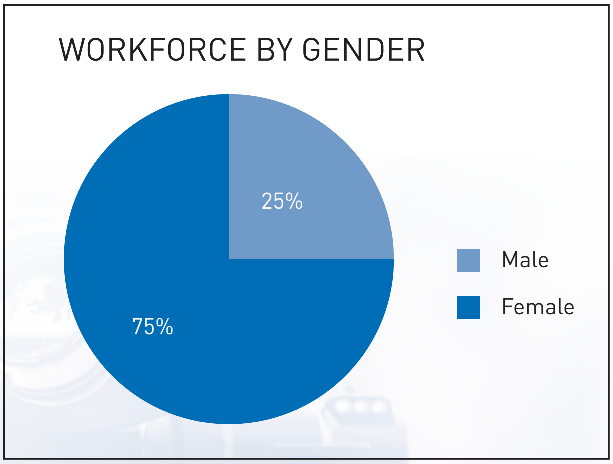
### B1: Employment

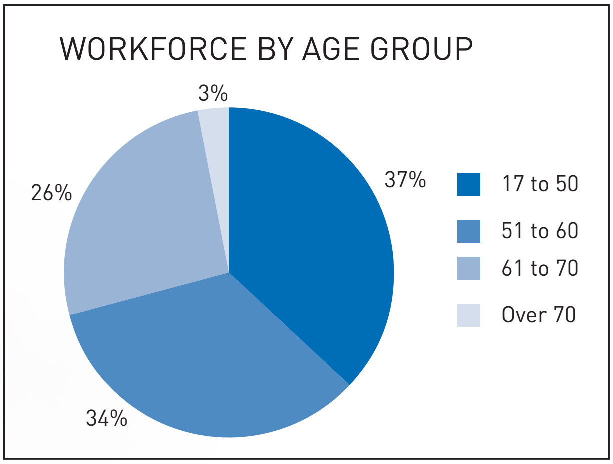
***Labour practices***

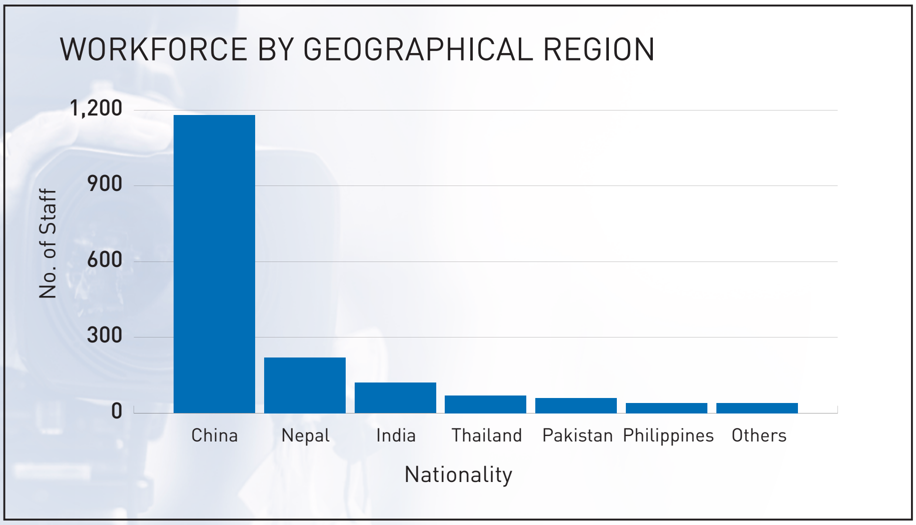
The Group strictly adheres to the prevailing legislation and codes of practice in the employment of staff. We support the principles of the international declarations in the areas of child labour, forced labour, health and safety, wages and working hours, discrimination, discipline and freedom of association. The Group strictly complies with the Employment Ordinance and Minimum Wage Ordinance in Hong Kong and the Labour Law and the Employment Contract Law of the People's Republic of China《中華人民共和國勞動法及勞動合同法》.

During the reporting period, there was no major changes in policies relating to compensation and dismissal, recruitment, and promotion, working hours, equal opportunity, diversity and anti-discrimination. Staff handbook also highlights important information of policies on business conduct and the rights of termination.

As at 31 March 2018, the Group employed 1,204 full-time staff and 364 part-time staff. The Group welcome all age range of people who are keen to learn and participate to join the Group. The male/female composition ratio of the Group is approximately 1:2.98.



For the year ended 31 March 2018, the turnover rate of the Group is about 3.8% with 718 employees, including both part-time and full-time staff. To further promote good relationship with employees and lower the turnover rate, recreational and social activities are held for employees to increase the sense of work-life balance and sense of belongings.

Equal opportunity

The workplace is also committed to be free from discrimination and received equal opportunities for all despite of age, gender, race, colour, sexual orientation, disability or marital status to increases employee satisfaction. The Group encourages labour diversity and welcomes all the full spectrum of the workforce, thus putting the principle of fairness into practices. The Group had no reported incidents of non-compliance with regulations concerning employment during the year ended 31 March 2018.

## B2: Health and Safety

**Workplace health and safety**

The Group implements national law and regulations and other standard related to workplace safety and occupational health. The Group has obtained the occupational health and safety management system certificated of OHSAS18001:2007 and ISO 14001:2004. Furthermore, a list of safety measures is implemented to ensure staff are working in a safe environment:

- Annual occupational health examination and body check-up are provided for all staff in PRC;
- Conduct regular safety training and refreshment courses for all staff;
- Provide of all-round fall prevention equipment for staff working at height;
- Review safety measures implemented annually to ensure that they remain relevant and appropriate to the Group

Employees are asked to follow the safety manual and safety plan detailing the procedures and precautions stringently. To ensure employees understand our commitments, employees are constantly refreshed by the Safety and Training Manager to keep abreast of these requirements.

For the year ended 31 March 2018, the Group did not note any cases of material non-compliance in relation to health and safety laws and regulations. There was no work-related fatality. Due to the nature of the work associated with the cleaning business, work injuries to the back and limbs were common and reported the highest numbers. The lost man-days associated with these categories of work injuries represented 50% of total number of lost man-days. And the total number of lost man-days due to work injuries as a whole represented 0.6 % of the total available number of man-days of work.

## B3: Development and Training

**Employee Development and Training**

The Group provides pre-employment and on-the-job training to its staff. The training covers health and safety at work, precautionary measures to be taken during inclement weather, rules and regulations for working in different worksites, proper use of tools, equipment and machines, safe handling of chemicals, grooming, customer service and code of conduct.

The Group has various training programs to fully develop its workforce. It is extremely important that safety is incorporated into the worksite orientation before the commencement of work. In addition to compulsory and optional internal training, the Group also encourages employees to attend external training programs held by government and recognized by relevant institutes, such as Vocation Training Council and Occupational Safety and Health Council.

There are several specific trainings in the PRC and Hong Kong:

- safety supervisor;
- importance and usage of personal protective equipment;
- measures of fire precaution and use of fire extinguishers;
- refresher course for licensed workers and
- Work at height for assessors and supervisors.

Our managerial staff are nominated to attend forums, exhibitions and seminars organised by the professional bodies both local and overseas so that we have a sound grasp of the most modern technology and equipment in the industry in response to our customers' needs in a prompt, efficient, flexible and cost-effective manner.

To improve employee's knowledge and skillset, safety training in different aspects and evaluations are carried out throughout the year. During the year ended 31 March 2018, on average every staff attended four training courses held by the Group.

## B4: Labour Standard

**Child labour and forced labour**

The Group has strictly complied with all relevant law and regulations, including the Labour Contract Law, Protection of Minors, and the Provisions on the Prohibition of Using Child Labour of the People's Republic of China《中華人民共和國勞動合同法、保護未成年人法及禁止使用童工規定》and the Employment Ordinance of the Laws of Hong Kong.

The Group prevents hiring child labour by conducting information verification of new employees. Without exception, during the year ended 31 March 2018, the Group is prohibited to employ any staffs who are under the legal working age for protecting young people at work.

## B5: Supply Chain Management

The Group makes various procurements, such as cleaning equipment and tools and consumables and containers especially for medical waste disposal.

Under our Integrated Management System, the Group has a subcontractor management plan to control the selection and supervision of subcontractors and suppliers such that they are up to our strict requirements in safety, environmental and quality performance.

Our evaluation of a subcontractor/supplier includes experience, job references, past performance, statutory licenses and certificates as may be required, financial status, integrity, social responsibility and particular skills, competencies and professionalism of the management teams.

We regard our subcontractors and suppliers as our business partners and work closely with them to warrant that the services are conducted in a manner that meets the highest professional and ethical standard assuring a quality end-product as well as continued confidence of our customers and the public.

## B6: Product Responsibility

The Group is aware of the fierce market competition and aims to provide high standard of services. Continuous improvement is our culture. We operate an Integrated Management System which means that we will consider and run our operation from quality, environmental and safety perspective at the same time. The Group is in compliance with the relevant laws and regulations that relates to product responsibility during the year end 31 March 2018.

In the design of the staff organisation for a contract, we keep in mind that there should be adequate staff at all levels. This could ensure that high quality of service expected can be provided and maintained and that tools, equipment and machines and most important personal safety equipment as is necessary are provided to ensure that the staff can carry out the work in an effective, efficient and safe manner.

The Group maintains constant communications with our customers, including visit, meeting and survey to receive their suggestions, comments and complaints in connection with our services.

Surprise and random checks and appraisals are conducted to self-evaluate our performance. The Group also hold a review meeting twice a month for review of our business, sharing of opinions and racking our brains to up-grade our service standards.

Besides, comprehensive training plans are devised for the contracts to ensure that all staff members are competent in handling their work with respect to quality, environmental and OHS requirements.

The Group seeks to provide efficient and courtesy customer service to customer satisfaction and co-operation with the Group. We keep customers informed of the truth about the Group's capabilities and avoid misrepresentation, exaggeration and overstatement.

The Group always puts customers first by providing them with high-quality services at fees which are fair and reasonable.

## B7: Anti-corruption

The Group believes that honesty, integrity and fair play are the important assets in business and strictly adhered to the laws relating to corruption, bribery, extortion and money-laundering etc. Code of Conduct has been prepared, under which all employees are advised that they are prohibited from offering or soliciting advantages in connection with his or her duties and with the business of the Group and that any employee soliciting or accepting an advantage without the permission of the Group commits an offence under the Prevention of Bribery Ordinance.

The Code of Conduct also states clearly that the Group shall not tolerate any illegal or unethical acts. Offenders will be subject to disciplinary action, including summary dismissal and termination of employment. In cases of suspected corruption or other forms of criminal activity, a report will be made to ICAC or appropriate authorities.

The Group shall not tolerate the use of insider information by the employee to secure personal advantage at the expense of the Group or over those not in the Group. The use of insider information which has not been made public for personal gain is illegal, unethical and strictly prohibited.

A channel for raising complain is open to all employees, so that any possible break of the Code or unlawful or unethical conduct can be sent directly to the Senior Management for an impartial investigation.

During the reporting period, no violation of any corruption activities has been detected by the Group and reported by staff.

## B8: Community Investment

Corporate social responsibility might use to sound foreign before but now it is a must for enterprises. As a commitment to making Hong Kong a more caring and just society in good and bad times, we set out the following criteria to be followed and satisfied by ourselves.

During the year ended 31 March 2018, the Group participated in a volunteer work by offering free cleaning services to Non-Government Organisation. Nevertheless, the Group also promotes the message of enhancing an inclusive society, the Group employed disabled people. As a result of our devoted efforts, the Group has been awarded "Caring Company" recognition by the Hong Kong Council of Social Service consecutively for over 10 years.

We are committed to promoting social welfare, building a more just and caring society in collaboration with other sectors.

# CORPORATE GOVERNANCE REPORT

The board of directors (the "Board") of Xinhua News Media Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") hereby present this Corporate Governance Report in the Company's annual report for the year ended 31 March 2018.

The Board is committed to maintaining a high corporate governance standard and procedures to safeguard the interests of the Company's shareholders ("Shareholders") and to enhance accountability and transparency.

## Corporate Governance Practices

The Board recognises the vital importance of a good corporate governance to the Group's management, success and sustainability. Corporate governance practices would be reviewed from time to time to ensure compliance with the regulatory requirements and to meet the rising expectations of shareholders and investors relating to transparency and accountability of all its operations.

Throughout the year ended 31 March 2018, the Company has complied with the code provisions ("Code Provisions") set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Main Board Listing Rules, with the exception of Code Provision A.1.2, A.2.7, A.4.2 and E.1.2, as addressed below:

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The positions of Co-Chairman and Chief Executive Officer of the Company have been held by Mr. Chan Chun Wo since 26 February 2018. The Board believes that Mr. Chan Chun Wo has the requisite experience and knowledge and that vesting in both roles would maintain efficient business operation which is in the best interest of the Group.

Under Code Provision A.2.7, the chairman (the "Chairman") should at least annually hold meetings with the non-executive Directors, including independent non-executive Directors, without the executive Directors present. During the year ended 31 March 2018, the Chairman did not hold meetings with the independent non-executive Directors without the executive Directors present, which deviates from Code Provision A.2.7. However, in each Board meeting, the chairman of the meetings would ensure that all Directors were able to make a full and active contribution to the Board's affairs and encourage all Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that the Board decisions fairly reflect the Board consensus.

Code Provision A.4.2 of the CG Code requires that every director appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. As detailed in the announcement of the Company dated 28 September 2017, the Board considered that it would be beneficial to give the shareholders of the Company to concurrently consider and vote on the proposed resolutions of rotation and re-election of directors, determination of their remuneration and appointment of nominated directors and thus the Board resolved to adjourn the resolutions regarding rotation and re-election of Ms. Zhao Jingying and Mr. Wong Hon Kit to the adjourned annual general meeting of the Company held on 20 October 2017. As such, the Company deviated from the aforesaid provision of the CG Code.

Code Provision E.1.2 of the CG Code requires the chairman of the board to attend the annual general meeting of the Company and he should also invite the chairman of the audit committee, remuneration committee, nomination committee and any other committees (as appropriate) of the Company to attend. Mr. Ju Mengjun (the former Co-chairman of the Board and former chairman of the nomination committee) was unable to attend the annual general meeting of the Company held on 29 September 2017 due to his other business commitments. Mr. Lo Kou Hong (Co-chairman of the Company) was appointed as the chairman of the aforesaid annual general meeting.

Besides, the Group was informed by Mr. Lo Kou Hong, the Co-Chairman and an executive Director, from 12 June 2018, that he has ceased to use the honorary doctorate title granted to him by Burkes University in December 2003.

As informed by Mr. Lo, he received an email in 2003 from Burkes University stating that he had been short-listed by the Honorary Doctorates Committee for the conferment of an honorary doctorate degree. At the material time, it seemed to him at that time that the email was not a scam email or an email from a mendacious email address. Mr. Lo was fully aware that this kind of doctorate degree is honorary in nature. Mr. Lo followed the procedures prescribed in the email message and submitted the copy documents to Burkes University for consideration. On 29 December 2003, the honorary doctorate degree was awarded to Mr. Lo.

Based on public information, there have been allegations that Burkes University had not obtained the required licence from the relevant government authority and is not a recognised university. There is no current website for Burkes University.

The Company has reviewed the information currently available to it as well as the fact that Mr. Lo has ceased to use the honorary doctorate title. It seems from the information that Mr. Lo may be one of the many victims around the world of scam email messages which might not be readily detectable around 15 years ago. Mr. Lo is the Co-Chairman and an executive Director, and the Company is of the view that his honorary doctorate degree, which may not have been accredited by any government body would not affect his integrity and qualifications as the Co-Chairman and an executive Director.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining sound and effective internal control system for the Group. The internal control and risk management systems were designed to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

During the year under review, the Board, through the audit committee and an independent advisor, has conducted a review of the effectiveness of the risk management and internal control systems of the Group.

In light of the Group's size, nature and complexity of the business, management currently is of the view that the need for setting up an internal audit function is not significant. The need for an internal audit function will be reviewed from time to time. The Board was satisfied to the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff members of the Company's accounting and financial reporting function.

### Process of Risk Management

The risk assessment has identified key risks, primarily through conducting meetings and discussion with the management of the Group and reviewing the existing documentation including policies and procedures. On the other hand, the procedures of the internal control system of the Company were reviewed through observations and enquiries, supplemented by detailed test of controls and procedures where relevant, including walkthrough test and compliance test. The walkthrough test was used to understand the key control of the relevant processes that were in place and identify internal control improvement opportunities. The compliance test was used to determine whether the internal control system was performed in accordance with the established policies and procedures and identifying non-compliance.

## Main Features of Internal Control and Risk Management

Our internal control and risk management systems are designed to help the management to carry out regular management functions in order to achieve the Group's business strategies. The main features of our internal control and risk management system are maintaining regularity in appointment of directors and composition of the Board, maintaining management integrity, ensuring proper notification of connected transaction and notifiable transaction and safeguarding the Group's assets etc. These features are in place in order to help to manage the Group's risk management and internal control issues.

## Inside Information

In relation to the internal control and procedures for the handling and dissemination of inside information, the Group is in compliance with the relevant parts of the SFO and Listing Rules. To ensure that all staff members in the Group are aware of the inside information handling, the Group's disclosure policy sets out guidance and procedures to make sure the inside information of the Company is disseminated to the general public in a complete, accurate and timely manner. The Board is responsible to approve the dissemination of the information.

## Model Code for Securities Transactions by Directors

The Company has adopted its own code of conduct governing Directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all director of the Company (the "Directors") and all of them have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 March 2018.

The Company also has established written guidelines on no less exact terms than the Model Code (the "Employees Written Guidelines") for governing the securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## Board Diversity

The Board has adopted a board diversity policy on 30 April 2014. In designing the Board's composition, the diversity of members of the Board has been considered from a number of aspects, including but not limited to gender, age, educational background, professional experience and qualifications, relevant industry experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered and selected based on a range of diversity perspectives including but not limited to the said aspects.

## BOARD OF DIRECTORS

### Composition

As at the date of this annual report, the Board comprises six Executive Directors and four Independent Non-executive Directors. The list of Directors during the year is set out in the section headed "Report of the Directors" of this annual report.

The Board includes a balanced composition of Executive and Independent Non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

The Independent Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Independent Non-executive Directors include, but not limited to:

- bringing an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting.

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

Composition of the Board, including names of Independent Non-executive Directors of the Company, is disclosed in all corporate communications to Shareholders.

The Company has maintained on its website and on the Stock Exchange's website an updated list of its Directors identifying their role and function and whether they are Independent Non-executive Directors.

Directors have given sufficient time and attention to the affairs of the Group. All Directors, including Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent Non-executive Directors have been invited to serve on the different Board committees to monitor observance of corporate governance objectives, take lead where potential conflicts arise and to contribute to the development of the Company's strategy and policies.

### Responsibilities and Function

The Board is responsible for the overall management and performance monitoring of the Group. Its main roles are to provide leadership and to take responsibility for decisions relating to major and significant matters on policies formulation, financial and operation performances, major acquisitions and disposals and directors' appointment. The Directors perform their duties in good faith and in the interests of the Company and its Shareholders as a whole at all times.

The day-to-day management, administration and operation of the Company are delegated to the Executive Directors and senior management of the Company within the control and authority framework set by the Board. The delegated functions and work tasks are periodically reviewed by the Board. The Board has the full support of the management of the Company to discharge its responsibilities. Information and updates of the Company's performance and position are given to all Directors in a timely manner to enable the Directors to discharge their duties. In addition, the Board has also delegated various responsibilities to the audit committee, the remuneration committee, the nomination committee, the strategy and development committee and the corporate governance committee. Further details of these committees are set out in this annual report.

All Directors have full and timely access to all relevant and available information as well as the advice and services of the Company Secretary and management of the Company with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

### Change in Directors' information

Pursuant to the relevant requirements under the Main Board Listing Rules, changes in the composition of the Board and Board committees during the year ended 31 March 2018 and up to the date of this annual report were as follows:

- Mr. Ju Mengjun resigned as an executive Director, the Co-chairman and the chairman of the executive committee and the nomination committee on 22 January 2018.
- Mr. Yu Guang resigned as an executive Director, the Chief Executive Officer, the chairman of the strategy and development committee and a member of the executive committee and the corporate governance committee on 22 January 2018.
- Mr. Wen Xin Nian resigned as an executive Director on 22 January 2018.
- Mr. Chan Chun Wo was appointed as an executive Director on 12 February 2018 and was appointed as the Co-Chairman, the Chief Executive Officer, the chairman of the executive committee, strategy and the development committee and the nomination committee of the Company and a member of the corporate governance committee of the Company on 26 February 2018.
- Mr. David Wei Ji appointed as a member of the strategy and development Committee of the Company on 26 February 2018.
- Ms. Zhao Jingying was appointed as an executive Director on 18 September 2017 and subsequently retired on 20 October 2018.
- Mr. Huang Wen Kai was appointed as an executive Director on 12 February 2018 and was appointed as a member of the executive committee, the strategy and development committee and the corporate governance committee of the Company on 26 February 2018.
- Ms. Chen Ming was appointed as an executive Director on 12 February 2018 and was appointed as a member of the executive committee, the strategy and development committee and the corporate governance committee of the Company on 26 February 2018.
- Mr. Li Bing was appointed as an executive Director on 12 February 2018 and was appointed as a member of the executive committee, the strategy and development committee and the corporate governance committee of the Company on 26 February 2018.
- Mr. Ho Hin Yip was appointed as a member of the nomination committee and the corporate governance committee of the Company on 26 February 2018.
- Mr. Wong Hon Kit was appointed as an independent non-executive Director on 18 September 2017 and subsequently retired on 20 October 2018.
- Ms. Lee Suen was appointed as an independent non-executive Director on 12 February 2018 and was appointed as a member of the audit committee, remuneration committee and nomination committee of the Company on 26 February 2018.

## Chairman and Chief Executive Officer

Mr. Lo Kou Hong and Mr. Chan Chun Wo act as Co-chairmen of the Board and each has assumed the roles of chairman of the respective cleaning services business and television screen broadcast business which they are responsible for. Mr. Chan Chun Wo was also appointed to act as the chief executive officer of the Company for better coordination of different business segments at overall command.

The Board considers the arrangement is appropriate to the Group's dual core business and allows for more effective and efficient business planning and decisions as well as execution of long-term business strategies.

## Appointment, Re-election and Removal of Directors

Appointment of new Directors is a matter for consideration by the nomination committee. The nomination committee will review the profiles for the candidates and make recommendations to the Board on the appointment, re-nomination and retirement of Directors. The terms of reference of the nomination committee has been revised to take into account the Board diversity policy.

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. All Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the annual general meeting of the Company. Any new director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the first general meeting of the Company after appointment and shall then be eligible for re-election at that meeting.

## Directors' Training and Continuous Professional Development

Each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities and obligations of a director of a listed company under the relevant statutes, laws, rules and regulations.

The Directors are encouraged to keep themselves updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice. The Directors understand the need to continue developing and refreshing their knowledge and skills for contribution to the Company.

Under Code Provision A.6.5 of the CG Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 March 2018, all Directors, namely, Mr. Lo Kou Hong, Mr. Chan Chun Wo, Mr. David Wei Ji, Mr. Huang Wen Kai, Ms. Chen Ming, Mr. Li Bing, Mr. Wang Qi, Mr. Tsang Chi Hon, Mr. Ho Hin Yip and Ms. Lee Suen were provided directors' training materials relating to the latest update for the Companies Ordinance in order to enhance awareness of good corporate governance and improvement of skills and knowledge through personal studies.

## BOARD MEETINGS

### Board Practices and Conduct of Meetings

The Directors met regularly as and when required by business needs. At least four regular Board meetings were held every year. During the year under review, board meetings were held to, among other things, review and approve the publications of various announcements, consider and approve appointment and resignation of Directors. Schedules for regular Board meetings are normally agreed with the Directors in advance in order to facilitate them to attend. Directors may participate in meetings in person or through electronic means of communication. At all times reasonable notice are given to enable all Directors to attend board meetings and to include matters for discussion in the agenda as they think fit.

Draft agenda of each meeting are normally made available to Directors in advance. In addition, board papers together with all appropriate, complete and reliable information are sent to all Directors as soon as practicable before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the management of the Company whenever necessary.

Generally, 14 days' notice of a regular Board meeting should be given and the Company aims at giving reasonable notice for all other Board meetings. The Company Secretary is responsible to keep minutes of all Board meetings and committee meetings and assists the chairman in drawing up the agenda of each meeting and each Director may request inclusion of matters in the agenda. Minutes are recorded in sufficient detail regarding the matters considered by the Board and the Board committees meetings are kept by the Company Secretary and are open for Directors' inspection.

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

The Company's Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, shall be considered and dealt with by the Board at a duly convened Board meeting.

### Access to Information

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

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

### Independent Non-executive Directors

Pursuant to Rule 3.10 and 3.10A of the Listing Rules during the year, the Company has four Independent Non-executive Directors representing at least one-third of the Board and at least one of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

## Attendance Records

The attendance record at the Board and its committee meetings in year ended 31 March 2018 demonstrates Directors' strong commitment to the Company. During the financial year ended 31 March 2018, the Directors have made active contribution to the affairs of the Group and a total of six Board meetings were held to, among other things, review and approve the publications of various announcements, review the interim results for the six months period ended 30 September 2017 and the final results for the year ended 31 March 2017. Directors have devoted sufficient time and attention to performing their duties and responsibilities towards the Group.

All Directors have access to the advice and services of the Company Secretary. The Company Secretary is responsible for ensuring that Board procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and management. The Company Secretary's biography is set out in the section headed "Company Secretary" of the Corporate Governance Report of this annual report.

The number of Board and general meetings held and attendance by Directors at each Board meeting and general meeting during the year ended 31 March 2018 are set out below:

| | Board Meetings attended | General Meeting attended |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Ju Mengjun *(Co-chairman)* (Note 1) | 0/10 | 0/2 |
| Mr. Lo Kou Hong *(Co-chairman)* | 12/13 | 3/3 |
| Mr. Chan Chun Wo *(Co-chairman)* (Note 2) | 3/3 | N/A |
| Mr. Yu Guang (Note 1) | 8/10 | 0/2 |
| Mr. David Wei Ji | 13/13 | 3/3 |
| Mr. Wen Xin Nian (Note 1) | 1/10 | 0/2 |
| Ms. Zhao Jingying (Note 3) | 1/1 | 0/1 |
| Mr. Huang Wen Kai (Note 2) | 3/3 | N/A |
| Ms. Chen Ming (Note 2) | 3/3 | N/A |
| Mr. Li Bing (Note 2) | 3/3 | N/A |
| ***Independent Non-executive Directors*** | | |
| Mr. Wang Qi | 13/13 | 0/3 |
| Mr. Tsang Chi Hon | 13/13 | 2/3 |
| Mr. Ho Hin Yip | 12/13 | 2/3 |
| Mr. Wong Hon Kit | 1/1 | 1/1 |
| Ms. Lee Suen (Note 2) | 3/3 | N/A |

Notes:

(1) Mr. Ju Mengjun, Mr. Yu Guang and Mr. Wen Xin Nian resigned on 22 January 2018 and hence they did not attend any Board meeting or general meeting held on or after 22 January 2018.

(2) Mr. Chan Chun Wo, Mr. Huang Wen Kai, Ms. Chen Ming, Mr. Li Bing and Ms. Lee Suen were appointed on 12 February 2018 and hence they did not attend any Board meeting or general meeting held on or before 12 February 2018.

(3) Ms. Zhao Jingying and Mr. Wong Hon Kit were appointed as directors on 18 September 2017 and were retired on 20 October 2017 and hence they did not attend any Board meeting or general meeting held on or after the respective appointment and retirement date.

## BOARD COMMITTEES

The Board has established six Board Committees, namely, remuneration committee, audit committee, nomination committee, corporate governance committee, executive committee and strategy and development committee, for overseeing particular aspects of the Company's affairs and assisting in the execution of the Board's responsibilities. All Board committees except the executive committee have defined written terms of reference and report to the Board at the next Board meeting on their resolutions passed or recommendations made. To assist the Board committees to perform their responsibilities, sufficient resources are provided and independent advice is also available on request at the Company's expense.

## 1. Remuneration Committee

The duties of the remuneration committee are to (i) make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; (iii) determine, with delegated responsibility from the Board, the remuneration packages of individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of Independent Non-executive Directors. The committee shall consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the group; (iv) review and approve compensation payable to Executive Directors for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive for the Company; (v) review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and (vi) ensure that no Director or any of his associates is involved in deciding his own remuneration.

The remuneration committee comprises four Independent Non-executive Directors, namely, Mr. Wang Qi, Mr. Tsang Chi Hon, Mr. Ho Hin Yip and Ms. Lee Suen. The chairman of the Remuneration Committee is Mr. Tsang Chi Hon.

During the year ended 31 March 2018, three remuneration committee were held and attendance were as follows:

| | Meetings attended |
|---|---|
| ***Independent Non-executive Directors*** | |
| Mr. Tsang Chi Hon *(Chairman of the remuneration committee)* | 3/3 |
| Mr. Wang Qi | 3/3 |
| Mr. Ho Hin Yip | 3/3 |
| Ms. Lee Suen (Note) | N/A |

Note:

Ms. Lee Suen was appointed as a member of the remuneration committee on 26 February 2018 and hence she did not attend any meeting of the remuneration committee held on or before 26 February 2018.

## 2. Audit Committee

The duties of the audit committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; (ii) review and monitor the external auditors' independence and the effectiveness of the audit process; (iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) review the adequacy and effectiveness of the Company's financial reporting system, internal control system, risk management system and associated procedures.

The audit committee comprises four Independent Non-executive Directors, namely, Mr. Wang Qi, Mr. Tsang Chi Hon, Mr. Ho Hin Yip and Ms. Lee Suen. The chairman of the audit committee is Mr. Tsang Chi Hon who possesses the appropriate professional qualifications on accounting or related financial management expertise. None of the members of the audit committee is a former partner of the Company's existing external auditors.

During the year ended 31 March 2018, three audit committee meetings were held to review the financial statements and results announcement and reports for the year ended 31 March 2017 and interim results for the six months ended 30 September 2017.

The members of the audit committee during the year and their attendance were as follows:

| | Meeting attended |
|---|---|
| ***Independent Non-executive Directors*** | |
| Mr. Tsang Chi Hon *(Chairman of the audit committee)* | 3/3 |
| Mr. Wang Qi | 3/3 |
| Mr. Ho Hin Yip | 3/3 |
| Ms. Lee Suen (Note) | N/A |

Note:

Ms. Lee Suen was appointed as a member of the audit committee on 26 February 2018 and hence she did not attend any meeting of the audit committee held on or before 26 February 2018.

## 3. Nomination Committee

The main duties of the nomination committee are to (i) review the structure, size and composition of the Board; (ii) make recommendations on the appointment and re-appointment of Directors and succession planning; and (iii) to review the diversity of Board member policy and the progress of achieving the objectives of the Board diversity policy. The terms of reference of the nomination committee has been revised to take into account the Board diversity policy. The terms of reference of the nomination committee are available on the Company's website.

*Board Diversity*

The Board has adopted a Board diversity policy on 30 April 2014 in compliance with a code provision on Board diversity in the CG Code. In designing the Board's composition, the diversity of members of the Board has been considered from a number of aspects, including but not limited to gender, age, educational background, professional experience and qualifications, relevant industry experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered and selected based on a range of diversity perspectives including but not limited to the said aspects.

The nomination committee consists of five members, namely, Mr. Chan Chun Wo, the Co-chairman of the Board, Mr. Wang Qi, Mr. Tsang Chi Hon, Mr. Ho Hin Yip and Ms. Lee Suen, who are Independent Non-executive Directors.

The chairman of the nomination committee is Mr. Chan Chun Wo.

During the year ended 31 March 2018, three nomination committee meetings was held.

The members of the nomination committee during the year and their attendance were as follows:

| | Meetings attended |
|---|---|
| ***Executive Director*** | |
| Mr. Chan Chun Wo *(Chairman of the nomination committee)* (Note) | N/A |
| ***Independent Non-executive Directors*** | |
| Mr. Wang Qi | 3/3 |
| Mr. Tsang Chi Hon | 3/3 |
| Mr. Ho Hin Yip (Note) | N/A |
| Ms. Lee Suen (Note) | N/A |

Note:

Mr. Chan Chun Wo, Mr. Ho Hin Yip and Ms. Lee Suen were appointed as members of the nomination committee on 26 February 2018 and hence they did not attend any meeting of the nomination committee held on or before 26 February 2018.

## 4. Corporate Governance Committee

The main duties of the corporate governance committee are to (i) develop, review and update the Company's policies and practices on corporate governance and make recommendation; (ii) review and monitor the training and continuous professional development of Directors and senior management; (iii) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (iv) develop, review and monitor the code of conduct applicable to employees and Directors; and (v) review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The corporate governance committee comprises seven members, namely, Mr. Chan Chun Wo, the Co-chairman of the Board, Mr. David Wei Ji, Mr. Huang Wen Kai, Ms, Chen Ming, Mr. Li Bing, Mr. Tsang Chi Hon and Mr. Ho Hin Yip. The chairman of the corporate governance committee is Mr. David Wei Ji.

During the year ended 31 March 2018, the corporate governance committee held one meeting and attendance was as follows:

| | Meeting attended |
|---|---|
| ***Executive Directors*** | |
| Mr. David Wei Ji *(Chairman of the corporate governance committee)* | 1/1 |
| Mr. Chan Chun Wo (Note) | N/A |
| Mr. Huang Wen Kai (Note) | N/A |
| Ms. Chen Ming (Note) | N/A |
| Mr. Li Bing (Note) | N/A |
| ***Independent Non-executive Director*** | |
| Mr. Tsang Chi Hon | 1/1 |
| Mr. Ho Hin Yip (Note) | N/A |

Note:

Mr. Chan Chun Wo, Mr. Huang Wen Kai, Ms. Chen Ming, Mr. Li Bing and Mr. Ho Hin Yip were appointed as members of the corporate governance committee on 26 February 2018 and hence they did not attend any meeting of the corporate governance committee held on or before 26 February 2018.

## 5. Executive Committee

The executive committee is composed of no less than half of the number of Directors. The executive committee operates as a general management committee under the direct authority of the Board to increase the efficiency for the business decision.

The committee comprises six members, namely, Mr. Chan Chun Wo, the Co-chairman of the Board, Mr. David Wei Ji, Mr. Huang Wei Kai, Ms. Chen Ming, Mr. Li Bing and Mr. Tsang Chi Hon. The chairman of the executive committee is Mr. Chan Chun Wo, the Co-chairman of the Board.

During the year ended 31 March 2018, the executive committee did not hold any meeting.

### 6. Strategy and Development Committee

The main duties of the strategy and development committee are to (i) review the documents from the senior management of the Company on issues relating to its strategies and developments (such as vision of the Company, mission of the Company, and annual strategy documents) on a regular basis and make recommendations to the Board regarding any propose changes; (ii) identify marketing changes and competition or make recommendations to the Board on issues relating to the Company's strategies and developments, such as Company's market positions, pricing strategic, new markets and strategic partnerships; (iii) make recommendations to the Board on matters relating to the Company's strategies; and (iv) all such other responsibilities and powers as may be delegated by the Board from time to time.

The strategy and development committee comprises six members, namely, Mr. Chan Chun Wo, the Co-chairman of the Board, Mr. David Wei Ji, Mr. Huang Wen Kai, Ms. Chen Ming, Mr. Li Bing and Mr. Tsang Chi Hon. The chairman of the strategy and development committee is Mr. Chan Chun Wo.

During the year ended 31 March 2018, the strategy and development committee did not hold any meeting.

## RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 March 2018 which were prepared in accordance with statutory requirements and applicable accounting standards and were prepared to reflect the true and fair view of the state of affairs, results and cash flows of the Group and in compliance with relevant law and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 March 2018, the Directors made judgments and estimated that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors also ensure that the financial statements of the Group are published in a timely manner. The reporting responsibilities of the auditors on the financial statements are set out in the section "Independent Auditors' Report" of this annual report.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

## AUDITORS' REMUNERATION

During the year, the remuneration paid and payable to the Company's auditor are approximately HK$770,000 for the audit services.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and enabling investors to understand of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable Shareholders and investors to make the best investment decisions.

To promote effective communication, the Company maintains a website at "www.XHNmedia.com" as a communication platform with Shareholders and investors, where extensive information and updates on the Group's financial information, corporate governance practices and other information are available for public access such as annual reports, interim reports to Shareholders, announcements and corporate governance practices are available for review. Shareholders and investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries. Inquiries are dealt with in an informative and timely manner.

Where announcements are made through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the same information will be made available on the Company's website.

The Company continues to enhance communication and relationship with Shareholders and investors. Designated management of the Company maintains regular dialogue with institutional investors and analysts to keep them informed of the Group's developments.

The Board welcomes views of Shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management of the Company directly. The Co-chairmen of the Board as well as the Chairmen and/or other members of the Board committees will normally attend the annual general meetings and other Shareholders' meetings of the Company to answer questions raised.

## GENERAL MEETINGS WITH SHAREHOLDERS

The annual general meeting of the Company (the "AGM") provides a useful forum for Shareholders to exchange views with the Board. The Company's Directors (including Independent Non-executive Directors) are available at the AGM to answer questions from Shareholders about the business and performance of the Company. In addition, the Company's external auditor is also invited to attend the AGM to answer questions about the conduct of the audit, and the preparation and contents of the auditor's report. Separate resolutions are proposed at general meetings for each substantial issue. An explanation of the detailed procedures of conducting poll was provided to Shareholders at the AGM, to ensure that Shareholders are familiar with such procedures.

The Company's last adjourned AGM was held on Friday, 20 October 2017 at 23/F, 381 Queen's Road East, Wan Chai, Hong Kong. The poll results were posted on the websites of the Stock Exchange and the Company respectively on the same day as the poll.

The next AGM will be held at 11:00 a.m. on 27 September 2018 at 9/F, Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong, the notice of which will be sent to Shareholders at least 20 clear business days before the said meeting.

## SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholders' meetings, including the election of individual Directors.

All resolutions proposed at Shareholder's meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.XHNmedia.com) immediately after the relevant general meetings.

Procedures for Shareholders to requisition a Shareholders' meeting or to demand a poll on resolutions at Shareholders' meetings are contained in the Company's constitutional documents. There were no changes in the Company's constitutional documents during the year.

## COMPANY SECRETARY

Mr. Goh Choo Hwee ("Mr. Goh"), was appointed as the Company Secretary and the authorised representative of the Company on 11 December 2013. Mr. Goh is a partner of Ma Tang & Co., Solicitors, a corporate and commercial law firm in Hong Kong. He is a practicing solicitor in Hong Kong and a member of the Law Society of Hong Kong. Mr. David Wei Ji, the Executive Director and the chief operating officer of the Company, is primary contact in the Company for Mr. Goh in relation to corporate secretarial matters.

During the year ended 31 March 2018, Mr. Goh has taken no less than 15 hours of relevant professional training to update his skills and knowledge.

## INVESTOR RELATIONS

Information of the Group is delivered to the Shareholders and investors through a number of channels, which includes annual report, interim report and announcements. The latest information of the Group together with the published documents is also available on the Company's website at www.XHNmedia.com.

In addition, questions received from the general public and individual Shareholders are answered promptly.

# REPORT OF THE DIRECTORS

The Board is pleased to present this Report of the Directors and the audited financial statements of the Group for the year ended 31 March 2018.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is organised into business units based on their products and services and has four operating segments as follows:

(a) the cleaning and related services segment engages in the provision of cleaning and related services for office buildings, public areas and residential areas;

(b) the television screen broadcast business segment engages in the provision of publicly broadcasting information and advertisements on television screens services;

(c) the medical waste treatment segment engages in the provision of non-incineration medical waste handling services for hospitals; and

(d) the waste treatment business segment engages in the provision of organic waste treatment and sale of the by–products produced.

The Board remains dedicated to maximizing returns to shareholders by actively pursuing new business opportunities, refining and expanding the current business scopes. As stated in the Co-Chairman's Statement, in the future the Board considers to:

1. refine, expand and diversify the Company's television screen broadcast business into a wider service chain, namely the advertising media business, in which its scope is likely to include media strategy, planning and management, product launching, brand building, event marketing as well as the development and operations of advertising media;
2. develop new business opportunities in properties investment and property agency business; and
3. develop new business opportunities in technology, media and telecommunication ("TMT").

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the section headed "Management Discussion and Analysis" set out on pages 6 to 10 of this annual report. This discussion forms part of this directors' report.

For more details regarding the Group's performance by reference to environmental and social-related policies, as well as compliance with relevant laws and regulations that have a significant impact on the Group's business and operation can be found in the section headed "Environmental, Social and Governance Report" set out on pages 14 to 22 of this annual report.

## RESULTS AND DIVIDENDS

The Group's results for the year ended 31 March 2018 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 51 to 115.

The Directors of the Company (the "Directors") did not recommend the payment of any dividend for the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 116. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 13 to the financial statements.

## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company's share capital, share options and warrants during the year are set out in Notes 24 and 25 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

## 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 ended 31 March 2018.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

As at 31 March 2018, the Company had no reserves available for distribution. The Company's share premium account, in the amount of HK$492,161,000, may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 65% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 23%.

Purchases from the Group's five largest suppliers accounted for approximately 66% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 18%.

None of the Directors 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 customers or suppliers.

## DIRECTORS

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

### Executive directors:

Mr. Ju Mengjun *(Co-Chairman)* (resigned on 22 January 2018)

Mr. Lo Kou Hong *(Co-Chairman)*

Mr. Chan Chun Wo *(Co-Chairman)* (appointed on 12 February 2018)

Mr. Yu Guang (resigned on 22 January 2018)

Mr. David Wei Ji

Mr. Wen Xin Nian (resigned on 22 January 2018)

Ms. Zhao Jingying (appointed on 18 September 2017 and retired on 20 October 2017)

Mr. Huang Wen Kai (appointed on 12 February 2018)

Ms. Chen Ming (appointed on 12 February 2018)

Mr. Li Bing (appointed on 12 February 2018)

**Independent non-executive directors:**

Mr. Wang Qi

Mr. Tsang Chi Hon

Mr. Ho Hin Yip

Mr. Wong Hon Kit (appointed on 18 September 2017) and (retired on 20 October 2017)

Ms. Lee Suen (appointed on 12 February 2018)

Biographical details of the Directors are set out on pages 11 to 13 of the annual report.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received a confirmation of independence from each Independent Non-executive Director, namely Mr. Wang Qi, Mr. Tsang Chi Hon, Mr. Ho Hin Yip and Ms. Lee Suen, and considers them as being independent.

## DIRECTORS' SERVICE CONTRACT

All the Directors have entered into services contract or letters of appointment with the Company for a term of three years and to continue thereafter until terminated by a three months' notice in writing served by either party on the other without payment of compensation.

None of the Directors being 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.

## DIRECTORS' REMUNERATION

Directors' remuneration is determined by the Remuneration Committee and the Board with reference to Directors' duties, responsibilities, performance and the results of the Group. Details of the remuneration of the Directors are set out in Note 9 to the financial statements.

## PERMITTED INDEMNITY PROVISION

According to the Company's Articles of Association, it provides that the Directors shall be entitled to be indemnified out of the assets of the Company against all losses or liability incurred or sustained by him as a Director in depending any proceedings whether civil or criminal, in which judgment is give in favour, or in which he is acquitted.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance, to which the Company, its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest subsisted during the year ended 31 March 2018.

## CONTRACT OF SIGNIFICANT

There is no contract of significance between the Company and any of its subsidiaries, and a controlling shareholder or any of its subsidiaries.

## MANAGEMENT CONTRACT

Other than the service contracts of the Directors as stated above in the section headed "Directors' Service Contracts", the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company.

## INTEREST IN COMPETITORS

As far as the Directors are aware, none of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

## DIRECTORS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2018, the interests of the Directors in the shares and underlying shares of the Company and its associated corporations as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO"); or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

### A.(1) Interests in shares of the Company

| Name of director | Long/short position | Capacity | Number of ordinary shares | Percentage* of the Company's issued share capital |
|---|---|---|---|---|
| Mr. Lo Kou Hong | Long | Beneficial owner | 53,674,000 | 3.71% |
| | Long | Interest of spouse | 2,105,000 (Note (1)) | 0.15% |
| Mr. Chan Chun Wo | Long | Beneficial owner | 5,000,000 | 0.35% |
| Mr. David Wei Ji | Long | Beneficial owner | 13,674,000 | 0.95% |
| Ms. Chen Ming | Long | Interest held by controlled corporation | 350,739,000 | 24.25% |
| Mr. Wang Qi | Long | Beneficial owner | 1,367,000 | 0.09% |

Notes:

(1) Mr. Lo Kou Hong was deemed to be interest in the 2,105,000 shares of the Company through interest of the spouse, Ms. Ko Lok Ping, Maria Genoveffa, who personally and beneficially owned such 2,105,000 shares of the Company.

* The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 March 2018.

### B.(1) Associated corporation – Peixin, a subsidiary of the Company

| Name of director | Long/short position | Capacity | Number of ordinary shares in Peixin | Percentage* of Peixin's issued share capital |
|---|---|---|---|---|
| Mr. Lo Kou Hong | Long | Interest held by controlled corporations | 42 shares (Note) | 30% |

Note: The 42 shares in Peixin were held through the controlled corporations of Mr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa. As such, Mr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa were deemed to be interested in such shares pursuant to Part XV of the SFO.

* The percentage represents the number of ordinary shares divided by the number of Peixin's issued shares as at 31 March 2018.

### B.(2) Associated corporation – Shuyang ITAD, a subsidiary of the Company

| Name of director | Long/short position | Capacity | Amount of registered capital in Shuyang ITAD | Percentage* of Shuyang ITAD's issued share capital |
|---|---|---|---|---|
| Mr. Lo Kou Hong | Long | Interest held by controlled corporation | RMB62,500,000 (Note) | 30% |

Note: The entire registered capital in Shuyang ITAD was beneficially owned by Peixin and 42 shares in Peixin were beneficially owned by a controlled corporation of Mr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa in equal shares. Such 42 shares in Peixin represent 30% of the entire issued share capital on Peixin. As such, Mr. Lo Kou Hong and Ms. Ko Lok Ping, Maria Genoveffa were deemed to be interested in such registered capital pursuant to Part XV of the SFO.

* The percentage represents the amount of registered capital divided by the total amount of Shuyang ITAD's registered capital as at 31 March 2018.

In addition to the above, as at 31 March 2018, Mr. Lo Kou Hong held one share in a subsidiary of the Company in a non-beneficial capacity, solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 March 2018, none of the Directors had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of 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, nor had there been any grant or exercise of rights of such interests during the year ended 31 March 2018.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' interests in the shares and underlying shares of the Company and its associated corporations" above and in the section headed "Share option scheme" below, 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 director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

The share option scheme (the "Share Option Scheme") of the Company was approved and adopted by the shareholders in the annual general meeting of the Company dated 25 September 2015 and shall be valid and effective for a period of 10 years to 24 September 2025. According to the Share Option Scheme, the Board may at its absolute discretion, offer to grant option to any participant as the Board may think fit. The amount payable on acceptance of an option is HK$1.00. The offer of option shall be accepted by the Participants within 28 days from the date of the offer, otherwise the offer shall deem to have been irrevocably declined and lapsed automatically.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each Grantee but may not be exercised after the expiry of ten years from the Offer Date. The Board may provide restrictions on the exercise of an Option during the period an Option may be exercised.

For the purpose of this section, participants refers to (i) any eligible employee as stated in the Share Option Scheme; (ii) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any entity in which the Group holds any equity (the "Invested Entity"); (iii) any supplier of goods or services to the member of the Group or any Invested Entity; (iv) any customer of the Group or any Invested Entity; (v) any consultant, adviser, legal consultant, legal adviser, agent and contractor engaged by the Company, the Group or any Invested Entity; any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and any other classes of participants who have contributed or may contribute, whether by way of joint venture, business alliance, other business arrangement, or otherwise, to the development and growth of Group.

The purpose of the Share Option Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and to encourage the participants to perform their best in achieving the goals of the Group and at the same time allow the participants to enjoy the results of the Company attained through their efforts and contributions and to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any Invested Entity.

The subscription price in respect of any particular option shall be such price as determined by the Board in its absolute discretion at the time of the grant of the options but in any case the subscription price shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; or (iii) the nominal value of a share.

The maximum number of shares which may be issued upon exercise of all options which may be granted at any time under this Share Option Scheme together with options which may be granted under any other share option schemes for the time being of the Company shall not exceed such number of shares as equals 10 per cent of the issued share capital of the Company as at the date of approval of the Share Option Scheme. On the basis of a total of 1,446,294,040 shares in issue as at the date of this annual report, nil securities available for issue.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company to each participant in any 12-month period must not exceed 1 per cent of the total issued share capital of the Company for the time being. Any further grant of options to a participant in excess of the abovementioned limit in any 12-month period up to and including the date of such further grant must be subject to the shareholders' approval in general meeting of the Company with such participant and his associates abstaining from voting. As at 31 March 2018, 1,367,400 share option were outstanding under the Share Option Scheme. Movements of the share options during the year ended 31 March 2018 are listed below in accordance with chapter 17 of the Listing Rules:

| Name or category of participant | At 1 April 2017 | During the period Grant | During the period Lapsed | During the period Exercise/ Cancelled | As at 31 March 2018 | Note |
|---|---|---|---|---|---|---|
| **Directors/former Directors** | | | | | | |
| Mr. Ju Mengjun | 13,674,000 | – | – | 13,674,000 | – | 1 |
| Mr. Lo Kou Hong | 13,674,000 | – | – | 13,674,000 | – | 1 |
| Mr. Yu Guang | 1,367,400 | – | – | – | 1,367,400 | 1 |
| Mr. David Wei Ji | 13,674,000 | – | – | 13,674,000 | – | 1 |
| Mr. Wen Xin Nian | 13,674,000 | – | – | 13,674,000 | – | 1 |
| Mr. Ho Hin Yip | 1,367,000 | – | – | 1,367,000 | – | 1 |
| Mr. Wang Qi | 1,367,000 | – | – | 1,367,000 | – | 1 |
| Mr. Tsang Chi Hon | 1,367,000 | – | – | 1,367,000 | – | 1 |
| Sub Total | 60,164,400 | – | – | 58,799,000 | 1,367,400 | |
| **Continuous Contracted Employees** | 13,674,000 | – | 500,000 | 13,174,000 | – | 1 |
| **All Other eligible participants** | 6,837,000 | – | – | 6,837,000 | – | 1 |
| Sub Total | 20,511,000 | – | 500,000 | 20,011,000 | – | 1 |
| **Total** | 80,675,400 | – | 500,000 | 78,808,000 | 1,367,400 | |

Note:

(1) The share options were granted and deemed to be accepted on 29 September 2016 and are exercisable at any time during the period from 29 September 2016 to 28 September 2026 (both days inclusive) and the exercise price is HK$0.1882. The closing price of the securities immediately before the date on which the options was granted is HK$0.1880.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2018, the following persons (other than the Directors) had interests of 5% or more in the issued shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### (1) Interests in shares of the Company

| Name of substantial shareholder | Long/short position | Capacity | Number of ordinary shares | Percentage* of the Company's issued share capital |
|---|---|---|---|---|
| Symphony Investments Holdings Limited (Note 1) | Long | Beneficial owner | 350,739,000 | 24.25% |
| Zheng Xiandeng | Long | Beneficial owner | 214,681,040 | 14.84% |
| Brave Venture Limited (Note 2) | Long | Beneficial owner | 179,315,000 | 12.40% |
| Pan Asia Century Consulting Limited (Note 3) | Long | Beneficial owner | 133,387,000 | 9.22% |

Notes:

(1) Symphony Investments Holdings Limited is wholly owned by Ms. Chen Ming. Accordingly, Ms. Chen Ming is deemed to be interested in such Shares under Part XV of the SFO.

(2) Brave Venture Limited is wholly owned by WKI Hong Kong Limited. WKI Hong Kong Limited is wholly owned by WKI GP Limited. WKI GP Limited is wholly owned by WKI Partners (Holdings) Limited. Accordingly, WKI Hong Kong Limited, WKI GP Limited and WKI Partners (Holdings) Limited are deemed to be interested in such Shares held by Brave Venture Limited under Part XV of the SFO.

(3) Pan Asia Century Consulting Limited is wholly owned by Huian International Investment Limited which is then wholly owned by Mr. Yu Guang. Accordingly, Huian International Investment Limited and Mr. Yu Guang are deemed to be interested in such Shares under Part XV of SFO.

* The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 March 2018.

## CONNECTED TRANSACTIONS

Reference is made to announcement of the Company dated 20 July 2016 in relation to the very substantial acquisition and connected transaction regarding the Settlement and the Remedial Agreement (the "Announcement"). Capitalised terms used in this part, unless the context requires otherwise, shall have the same meanings as those defined in the Announcement.

During the year ended 31 March 2018, Xinhua News Agency Asia-Pacific Regional Bureau Limited ("APRB") provided a letter of undertaking to the Company and undertook that APRB will settle at least HK$3,000,000 every two months since March 2018. If APRB fails to settle the outstanding amount in accordance to the agreed schedule, 5% per annum interest will be charged to the relevant unsettled instalment.

Up to the date of this report, approximately HK$7,200,000 has been settled by APRB.

Save as disclosed above, as at 31 March 2018, the Company has not entered into other connected transaction.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, as at the latest practicable date prior to the issue of this report, the Company has maintained a sufficient public float.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the Listing Rules. The audit committee of the Company is comprised of four Independent Non-executive Directors of the Company, namely, Mr. Tsang Chi Hon (the chairman of the audit committee), Mr. Wang Qi, Mr. Ho Hin Yip and Ms. Lee Suen. The audit committee has reviewed together with the management of the Company the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the consolidated financial statements of the Group for the year ended 31 March 2018.

## CORPORATE GOVERNANCE

Details of the corporate governance practices of the Company are set out in the section headed "Corporate Governance Report" on pages 23 to 36.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 24 September 2018 to 27 September 2018, both days inclusive, during which period no transfer of shares will be registered. In order to qualify to attend and vote at the annual general meeting, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tricor Tengis Limited at 22nd Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 21 September 2018.

## AUDITORS

As the resolution in respect of the re-appointment of HLB Hodgson Impey Cheng Limited ("HLB") was not passed by the shareholders of the Company at the annual general meeting held on 29 September 2017, HLB retired as auditor of the Company with immediate effect from the conclusion of the said annual general meeting.

Subsequently, on 9 March 2018, the Company appointed Elite Partners CPA Limited as the auditor of the Company to fill vacancy occasioned by the retirement of HLB.

The consolidated financial statements for the year ended 31 March 2018 were audited by Elite Partners CPA Limited whose term of office will expire upon the forthcoming annual general meeting. A resolution for the re-appointment of Elite Partners CPA Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Chan Chun Wo**
*Co-Chairman*
Hong Kong
28 June 2018

**Lo Kou Hong**
*Co-Chairman*
Hong Kong
28 June 2018

# INDEPENDENT AUDITORS' REPORT

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

10/F, 8 Observatory Road,
Tsim Sha Tsui,
Kowloon,
Hong Kong

**TO THE SHAREHOLDERS OF XINHUA NEWS MEDIA HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Xinhua News Media Holdings Limited (the "Company") and its subsidiaries (together referred as the "Group") set out on pages 51 to 115, which comprise the consolidated statement of financial position as at 31 March 2018, and the consolidated statement of profit or loss and other comprehensive income, 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 consolidated financial position of the Group as at 31 March 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment review of trade and other receivables** | |
| The carrying values of trade and other receivables was approximately HK$58,215,000 and HK$17,425,000 as at 31 March 2018 respectively, with provision of impairment of other receivable of HK$18,690,000 for the year ended 31 March 2018 recorded in the consolidated statement of profit or loss and other comprehensive income. Management judgement is required in assessing and determining the recoverability of trade and other receivables and adequacy of allowance made. The judgement mainly includes estimating and evaluating expected future receipts from customers and the other debtors based on past payment trend, age of the debtors, knowledges of the debtors' business and financial condition. | Our procedure in relation to the management's impairment assessment on trade and other receivable include:<br>• discussing the Group's procedures on credit limits and credit periods given to customers and counterparty with the management;<br>• evaluating the management's impairment assessment of trade and other receivables;<br>• assessing, validating and discussing with the management and evaluating their assessment on the recoverability of the outstanding debts and the adequacy of allowance made based on the trade and loan receivables ageing analysis, collections subsequent to the end of the reporting period, past collection history and trend analysis and knowledge of the businesses, with focus on long outstanding debts and debts which are past due but not impaired; and<br>• checking, on a sample basis, the accuracy and relevance of information included in the impairment assessment of trade and other receivables.<br>We found the carrying values of the trade and other receivable supported by the available evidence. |

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

The directors 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 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, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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.

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

- 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 for the year ended 31 March 2018 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Wai Nam, William with Practising Certificate number P05957.

**Elite Partners CPA Limited**
*Certified Public Accountants*

Hong Kong, 28 June 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Revenue | 6 | **349,240** | 336,504 |
| Other income and gains | 6 | **2,598** | 5,134 |
| Staff costs | 7 | **(250,421)** | (244,778) |
| Depreciation and amortisation | | **(4,840)** | (5,144) |
| Reversal of/(provision for) impairment of trade receivables | 17 | **200** | (1,700) |
| Provision for impairment of other receivables | 17 | **(18,690)** | – |
| Other operating expenses | | **(114,571)** | (97,461) |
| Share option scheme expense | 25 | **–** | (8,793) |
| Finance costs | 8 | **(54)** | (33) |
| Share of net results of an associate | 16 | **(1)** | 58 |
| Loss before tax | 7 | **(36,539)** | (16,213) |
| Income tax expenses | 11 | **(2,391)** | (1,015) |
| **Loss for the year** | | **(38,930)** | (17,228) |
| **Other comprehensive income/(loss), net of tax** | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of foreign operations: | | | |
| Exchange differences arising during the year | | **1,388** | (879) |
| **Total comprehensive loss for the year** | | **(37,542)** | (18,107) |
| **(Loss)/profit attributable to:** | | | |
| Owners of the Company | | **(39,964)** | (18,033) |
| Non-controlling interests | | **1,034** | 805 |
| | | **(38,930)** | (17,228) |
| **Total comprehensive (loss)/income attributable to:** | | | |
| Owners of the Company | | **(39,304)** | (18,465) |
| Non-controlling interests | | **1,762** | 358 |
| | | **(37,542)** | (18,107) |
| **Loss per share attributable to owners of the Company** | | | |
| Basic and diluted | 12 | **HK$(0.0280)** | HK$(0.0132) |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **19,904** | 18,990 |
| Intangible assets | 14 | **8,706** | 8,757 |
| Investment in an associate | 16 | **3** | 4 |
| **Total non-current assets** | | **28,613** | 27,751 |
| **Current assets** | | | |
| Inventories | 15 | **332** | 326 |
| Trade receivables | 17 | **58,215** | 46,914 |
| Prepayments, deposits and other receivables | 17 | **28,227** | 46,115 |
| Pledged time deposits | 18 | **2,046** | 2,035 |
| Cash and cash equivalents | 18 | **44,313** | 54,746 |
| **Total current assets** | | **133,133** | 150,136 |
| **Current liabilities** | | | |
| Trade payables | 19 | **11,527** | 9,791 |
| Other payables and accrued liabilities | 20 | **32,935** | 30,070 |
| Amount due to an associate | 16 | **4** | 4 |
| Finance lease payables | 21 | **466** | 384 |
| Tax payable | | **376** | 585 |
| **Total current liabilities** | | **45,308** | 40,834 |
| **Net current assets** | | **87,825** | 109,302 |
| **Total assets less current liabilities** | | **116,438** | 137,053 |

# Consolidated Statement of Financial Position

At 31 March 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Loans from a director | 29(b) | **6,688** | 6,035 |
| Finance lease payables | 21 | **562** | 454 |
| Provision for long service payments | 22 | **7,275** | 5,922 |
| Deferred income | 23 | **4,147** | 4,166 |
| **Total non-current liabilities** | | **18,672** | 16,577 |
| **Net assets** | | **97,766** | 120,476 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 24 | **14,463** | 13,675 |
| Reserves | 26 | **84,991** | 110,251 |
| | | **99,454** | 123,926 |
| **Non-controlling interests** | | **(1,688)** | (3,450) |
| **Total equity** | | **97,766** | 120,476 |

Approved by the Board on 28 June 2018 and signed on its behalf by:

**Chan Chun Wo**
*Co-chairman*

**Lo Kou Hong**
*Co-chairman*

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2018

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 (Note 24) | Share premium HK$'000 (note i) | Capital redemption reserve HK$'000 (note i) | Merger reserve HK$'000 (Note 26) (note i) | Share option reserve HK$'000 (Note i) | Contributed surplus HK$'000 (Note 26) (note i) | Accumulated losses HK$'000 (note i) | Exchange fluctuation reserve HK$'000 (note i) | Sub-Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 April 2016 | 13,675 | 469,527 | 254 | 47,063 | - | 26,758 | (435,586) | 11,907 | 133,598 | (3,808) | 129,790 |
| Loss for the year | - | - | - | - | - | - | (18,033) | - | (18,033) | 805 | (17,228) |
| Other comprehensive loss for the year | - | - | - | - | - | - | - | (432) | (432) | (447) | (879) |
| Total comprehensive loss for the year | - | - | - | - | - | - | (18,033) | (432) | (18,465) | 358 | (18,107) |
| Granted of share options | - | - | - | - | 8,793 | - | - | - | 8,793 | - | 8,793 |
| At 31 March 2017 and 1 April 2017 | 13,675 | 469,527 | 254 | 47,063 | 8,793 | 26,758 | (453,619) | 11,475 | 123,926 | (3,450) | 120,476 |
| Loss for the year | - | - | - | - | - | - | (39,964) | - | (39,964) | 1,034 | (38,930) |
| Other comprehensive income for the year | - | - | - | - | - | - | - | 660 | 660 | 728 | 1,388 |
| Total comprehensive loss for the year | - | - | - | - | - | - | (39,964) | 660 | (39,304) | 1,762 | (37,542) |
| Lapsed of share options | - | - | - | - | (49) | - | 49 | - | - | - | - |
| Exercised of share options | 788 | 22,634 | - | - | (8,590) | - | - | - | 14,832 | - | 14,832 |
| **At 31 March 2018** | **14,463** | **492,161** | **254** | **47,063** | **154** | **26,758** | **(493,534)** | **12,135** | **99,454** | **(1,688)** | **97,766** |

Note:

(i) These reserve accounts comprise the consolidated reserves of approximately HK$84,991,000 (2017: HK$110,251,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax | | **(36,539)** | (16,213) |
| Adjustments for: | | | |
| Amortisation of intangible assets | 14 | **946** | 920 |
| Amortisation of deferred income | 23 | **(445)** | (433) |
| Depreciation | 13 | **3,894** | 4,224 |
| Equity-settled share option expense | | **–** | 8,793 |
| Finance costs | 8 | **54** | 33 |
| Interest income | 6 | **(1,161)** | (1,143) |
| (Reversal of)/provision for impairment of trade receivables | 17 | **(200)** | 1,700 |
| Provision for impairment of other receivables | 17 | **18,690** | – |
| Provision for long service payments | 22 | **1,539** | 2,189 |
| Share of net results of an associate | 16 | **1** | (58) |
| Written off of property, plant and equipment | | **98** | – |
| Net gain on disposal of property, plant and equipment | | **(14)** | (2,599) |
| Operating loss before working capital changes | | **(13,137)** | (2,587) |
| Increase in trade receivables | | **(10,994)** | (3,122) |
| Decrease in prepayments, deposits and other receivables | | **845** | 1,674 |
| Increase in inventories | | **(6)** | (18) |
| Increase in trade payables | | **1,710** | 3,880 |
| Increase/(decrease) in other payables and accrued liabilities | | **2,217** | (1,760) |
| Proceed from amount due to an associate | | **–** | 244 |
| Decrease in provision for long service payments | | **(186)** | (117) |
| Cash used in operations | | **(19,551)** | (1,806) |
| Net income tax paid | | **(3,018)** | (831) |
| Net cash flows used in operating activities | | **(22,569)** | (2,637) |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | **(2,735)** | (1,332) |
| Proceeds from disposal of property, plant and equipment | | **14** | 2,825 |
| Dividend received from an associate | | **–** | 784 |
| Interest received | | **81** | 63 |
| Increase in pledged time deposits | | **(11)** | (10) |
| Net cash flows (used in)/generated from investing activities | | **(2,651)** | 2,330 |

# Consolidated Statement of Cash Flows

For the year ended 31 March 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Capital element of finance lease payables | 21 | **(509)** | (371) |
| Exercise of share options | | **14,832** | – |
| Interest element of finance lease payables | | **(54)** | (33) |
| Net cash flows generated from/(used in) financing activities | | **14,269** | (404) |
| **Net decrease in cash and cash equivalents** | | **(10,951)** | (711) |
| Cash and cash equivalents at the beginning of the year | | **54,746** | 55,744 |
| Effect of exchange rate changes on the balance of cash held in foreign currencies | | **518** | (287) |
| Cash and cash equivalents at the end of the year | 18 | **44,313** | 54,746 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | | **34,244** | 54,692 |
| Non-pledged time deposits with original maturity of less than three months when acquired | | **10,069** | 54 |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | 18 | **44,313** | 54,746 |

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

## 1. CORPORATE INFORMATION

Xinhua News Media Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The principal place of business of the Company is located at Room 1401-1405, Nan Fung Tower, 88 Connaught Road Central, Central, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") was principally engaged in the provision of cleaning and related services, the provision of medical waste treatment service, the provision of waste treatment service and the provision of television screen broadcast business.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand ("HK$'000"), unless otherwise stated.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the consolidated financial statements for the year ended 31 March 2018 are consistent with those followed in the preparation of the Group's consolidated statements for the year ended to 31 March 2017 except as described below.

In the current year, the Group has applied for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 April 2017.

A summary of the new HKFRSs are set out as below:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle | Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12 |

In the opinion of directors, the application of the new HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The Group has not applied the following new HKFRSs that have been issued but are not yet effective in the consolidated financial statements:

| | |
|---|---|
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKFRS 15 | Clarifications to HKFRS 15 Revenue from Contracts with Customers[1] |
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers[1] |
| HKFRS 16 | Leases[2] |
| HKFRS 17 | Insurance Contracts[3] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[2] |
| Annual Improvements 2014-2016 Cycle | Amendments to HKFRS 1 and HKAS 28[1] |
| Annual Improvements 2015-2017 Cycle | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2] |

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after 1 January 2021

4 No mandatory effective date yet determined but available for adoption

### HKFRS 9 – *Financial Instruments*

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

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### HKFRS 9 – *Financial Instruments* (continued)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

The directors of the Company (the "Directors") are in the process of making an assessment of the potential impact of the application of HKFRS 9 and it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### HKFRS 15 – *Revenue from Contracts with Customers*

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

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

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

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

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### HKFRS 16 – *Leases*

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

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

Furthermore, extensive disclosures are required by HKFRS 16.

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### Amendments to HKFRS 2 – *Classification and Measurement of Share-based Payment Transactions*

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

   i. the original liability is derecognised;

   ii. the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and

   iii. any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs which also include Hong Kong Accounting Standards ("HKASs") and interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong, the applicable disclosure required by the Hong Kong Company Ordinance and the applicable disclosure provisions of Main Board Listing Rules.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the consolidated financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of preparation

The consolidated financial statements included the financial statements of the Group and the Group's interest in associates made up to 31 March each year.

The consolidated financial statements have been prepared on the historical cost basis.

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

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

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

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

The principal accounting policies are set out below.

### Basis of consolidation

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

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

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

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

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

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

In the Company's statement of financial position, an investment in subsidiaries is stated at cost less impairment losses.

### Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

### Interest in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 or when the investment is designated as at fair value through profit or loss upon initial recognition.

Under equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinued recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Interest in associate (continued)

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

### Business combinations

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

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

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment transactions of the acquire or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measure in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are assured at their fair value or another measurement basis required by another standard.

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provision, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU(s)") or groups of CGUs that is expected to benefit from the synergies of the combination and is tested annually for impairment. In respect of associate or joint venture, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or joint venture and the investment as a whole is tested for impairment whenever there is objective evidence of impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or joint venture is recognised immediately in profit or loss.

On disposal of a CGU of an associate or a joint venture, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### Related parties

(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 the Group's parent.

(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 parent, 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) the entity and the Group 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.
- (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 parent 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 parent of the Group.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties (continued)

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

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

### Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Gain or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful life at the following rates per annum:

| | |
|---|---|
| Buildings | 5% |
| Leasehold improvements | Over the lease terms |
| Furniture and equipment | 14.3% – 77% |
| Motor vehicles | 14.3% – 25% |
| Tools and machinery | 20% – 33% |

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 between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. There is no depreciation imposed on the freehold land.

### Intangible assets (Other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing

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

### The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

### Impairment of assets

**(i) Impairment of investments in debt and equity securities and other receivables**

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates accounted for under the equity method in the consolidated financial statements, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.
- For unquoted equity securities and current receivables that are carried at cost, the 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 where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses in respect of other receivables are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of assets (continued)

**(ii) Impairment of other assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- investments in subsidiaries and associates; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- *Calculation of recoverable amount*

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

- *Recognition of impairment losses*

  An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- *Reversals of impairment losses*

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments

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

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

**Financial assets**

Financial assets are classified into the following specified categories: financial assets at FVTPL, "held-to-maturity" investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amount due from an associate, pledged bank deposits as well as cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Financial assets (continued)**

**Impairment of financial assets**

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

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– breach of contract, such as a default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

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

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

**Financial liabilities**

**Other financial liabilities**

Other financial liabilities (including trade and other payables, finance lease payables, amount due to an associate, as well as loans from a director) are subsequently measured at amortised cost using the effective interest method.

**Effective interest method**

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Derecognition**

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

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

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

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax

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

**Current tax**

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

**Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

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

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

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

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

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

**Current and deferred tax for the year**

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the nonmonetary asset and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

### Revenue recognition

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

(a) from the rendering of services when the service is rendered;

(b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(c) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits

**Paid leave carried forward**

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the end of each reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of each reporting period for the expected future cost of such paid leave earned during the year by the employees and carried forward.

**Employment Ordinance long service payments**

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services at the Group to the end of each reporting period.

A contingent liability is disclosed in respect of the full possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, at the end of the reporting period, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A full provision has not been recognised in respect of such possible payments as it is not considered probable that they will all result in a future outflow of resources from the Group.

**Retirement benefit schemes**

The Group operates a defined contribution staff retirement scheme (the "Scheme") for certain of its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the Scheme. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

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

Employees have the option to join either one of the above schemes.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

Borrowing costs are recognised as expenses in the statement of comprehensive income in the period in which they are incurred.

### Foreign currencies

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. At the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their statement of comprehensive incomes are translated into Hong Kong dollars at the weighted average exchange rates for the year. Exchange differences arising are recognised in the exchange reserve.

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

### Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### 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 chief operating decision maker ("CODM") for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical location.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

**Classification between intangible assets and property, plant and equipment**

The Group determines whether an asset is classified as an intangible asset under HK(IFRIC) – Int 12, and has developed criteria in making that judgement. The operator shall recognise an intangible asset to the extent that it receives a right to charge users of the public service. Therefore, the Group has to exercise judgement in determining whether an asset (i) is used to provide the public service and classified as an intangible asset under HK(IFRIC) – Int 12; or (ii) is held for use in the production or supply of goods or services, or for administrative purposes and classified as property, plant and equipment.

**Income taxes**

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

**Fair value of derivatives and other financial instruments**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on relevant conditions existing at the end of each reporting period.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty

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

**Impairment of non-financial assets (other than goodwill)**

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Property, plant and equipment and other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

**Provision for impairment of trade and other receivables**

The Group makes provision for impairment of trade and other receivables based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of judgement and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables and impairment expenses in the period in which such estimate has been changed. The aggregate carrying amount of the Group's trade and other receivables as at 31 March 2018 was approximately HK$75,640,000 (2017: HK$85,821,000), net of accumulated impairment loss of HK$50,190,000 (2017: HK$31,700,000).

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

**Provision for long service payments**

The Group provides for probable future long service payments expected to be made to employees under the Employment Ordinance. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services at the Group to the end of the reporting period.

**Net realisable value of inventories**

The Group performs regular review of the carrying amounts of inventories with reference to aged analyses of the Group's inventories, projections of expected future salability of goods and management experience and judgement. Based on this review, write-down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in technological, market or economic environment and customers' preference, actual salability of goods may be different from estimation and profit or loss could be affected by differences in this estimation. The aggregate carrying amount of the Group's inventories as at 31 March 2018 was approximately HK$332,000 (2017: HK$326,000).

**Depreciation**

The Group depreciates the property, plant and equipment on the straight-line basis over the respective estimated useful lives 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. The net book value of the Group's property, plant and equipment as at 31 March 2018 was approximately HK$19,904,000 (2017: HK$18,990,000).

**Amortisation**

The Group amortises the intangible assets on the straight-line basis over the respective estimated useful lives with the amortisation provide commencing from the date an item of the intangible assets are 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 intangible assets. The net book value of the Group's intangible assets as at 31 March 2018 was approximately HK$8,706,000 (2017: HK$8,757,000).

## 5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) the cleaning and related services segment engages in the provision of cleaning and related services for office buildings, public areas and residential areas;

(b) the television screen broadcast business segment engages in the provision of publicly broadcasting information and advertisements on television screens services;

(c) the medical waste treatment business segment engages in the provision of non-incineration medical waste handling services for hospitals; and

(d) the waste treatment business segment engages in the provision of organic waste treatment and sale of the by-products produced.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment result, which is a measure of adjusted loss before tax. The adjusted loss before tax are measured consistently with the Group's loss before tax except that interest income, share of profit of an associate, impairment loss recognised in profit or loss in respect of intangible assets, finance costs and unallocated head office and corporate expenses are excluded from such measurement.

Segment assets exclude investment in an associate and unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude loans from a director, amount due to an associate, finance lease payables and unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

There are no inter-segment sales and transfers between the segments.

## 5. OPERATING SEGMENT INFORMATION (continued)

The following is an analysis of the Group's revenue and results by reportable segments:

| | Cleaning and related services | | Television screen broadcast business | | Medical waste treatment | | Waste treatment | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Segment revenue:** | | | | | | | | | | |
| Service income from external customers | **333,473** | 323,419 | **-** | – | **15,698** | 13,015 | **69** | 70 | **349,240** | 336,504 |
| Other income and gains | **79** | 83 | **-** | – | **1,282** | 1,317 | **76** | 2,591 | **1,437** | 3,991 |
| Total | **333,552** | 323,502 | **-** | – | **16,980** | 14,332 | **145** | 2,661 | **350,677** | 340,495 |
| Segment results | **10,586** | 12,742 | **(10,099)** | (12,157) | **(580)** | 4,348 | **(2,108)** | 50 | **(2,201)** | 4,983 |
| Reconciliation: | | | | | | | | | | |
| Interest income | | | | | | | | | **1,161** | 1,143 |
| Share of results of an associate | | | | | | | | | **(1)** | 58 |
| Provision for impairment of other receivables | | | | | | | | | **(18,690)** | – |
| Unallocated expenses | | | | | | | | | **(16,754)** | (22,364) |
| Finance costs | | | | | | | | | **(54)** | (33) |
| Loss before tax | | | | | | | | | **(36,539)** | (16,213) |
| Income tax expenses | | | | | | | | | **(2,391)** | (1,015) |
| Loss for the year | | | | | | | | | **(38,930)** | (17,228) |
| **Segment assets** | **101,684** | 94,369 | **28,172** | 48,553 | **17,302** | 20,046 | **14,585** | 14,915 | **161,743** | 177,883 |
| Reconciliation: | | | | | | | | | | |
| Investment in an associate | | | | | | | | | **3** | 4 |
| Total assets | | | | | | | | | **161,746** | 177,887 |
| **Segment liabilities** | **40,079** | 36,256 | **4,010** | 3,244 | **6,330** | 5,634 | **5,841** | 5,400 | **56,260** | 50,534 |
| Reconciliation: | | | | | | | | | | |
| Finance lease payables | | | | | | | | | **1,028** | 838 |
| Amount due to an associate | | | | | | | | | **4** | 4 |
| Loans from a director | | | | | | | | | **6,688** | 6,035 |
| Total liabilities | | | | | | | | | **63,980** | 57,411 |
| **Other segment information:** | | | | | | | | | | |
| Capital expenditure (Note) | **1,205** | 1,315 | **714** | – | **1,515** | 14 | **-** | 3 | **3,434** | 1,332 |
| Depreciation and amortisation | **1,522** | 1,376 | **936** | 860 | **1,250** | 1,069 | **1,132** | 1,839 | **4,840** | 5,144 |
| Impairment losses recognised in profit or loss in respect of: | | | | | | | | | | |
| Trade receivables | **(200)** | 1,700 | **-** | – | **-** | – | **-** | – | **(200)** | 1,700 |

Note:

Capital expenditure consists of additions of property, plant and equipment.

## 5. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

**(a) Revenue from external customers**

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Hong Kong | **333,473** | 323,419 |
| The People's Republic of China (the "PRC") | **15,767** | 13,085 |
| | **349,240** | 336,504 |

**(b) Non-current assets**

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Hong Kong | **4,729** | 5,366 |
| The PRC | **23,884** | 22,385 |
| | **28,613** | 27,751 |

The revenue and non-current assets information above are based on the location of the customers and that of the assets, respectively.

### Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Customer A | **87,970** | 82,226 |
| Customer B | **80,556** | 85,211 |

## 6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's revenue, represents the net invoiced value of services rendered and goods sold. An analysis of the Group's revenue, other income and gains is as follows:

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Revenue** | | | |
| Cleaning and related service fee income | | **333,473** | 323,419 |
| Medical waste treatment income | | **15,698** | 13,015 |
| Waste treatment income | | **69** | 70 |
| | | **349,240** | 336,504 |
| **Other income and gains** | | | |
| Interest income | | **1,161** | 1,143 |
| Amortisation of deferred income* | 23 | **445** | 433 |
| Management fee received | | **60** | 60 |
| Sundry income | | **932** | 3,498 |
| | | **2,598** | 5,134 |

* Various government grants have been received for purchase of property, plant and equipment for medical waste treatment. There are no unfulfilled conditions or contingencies relating to these subsidies.

## 7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Employee benefit expenses | | | |
| (including directors' remuneration) | | | |
| Wages, salaries and other benefits | 9 | **237,006** | 231,044 |
| Retirement benefit scheme contributions | | **9,692** | 9,449 |
| Provision for long service payments | 22 | **1,539** | 2,189 |
| Provision for untaken paid leave | | **2,184** | 2,096 |
| Total employee benefit expenses | | **250,421** | 244,778 |
| Cost of services rendered* | | **304,297** | 291,950 |
| Auditors' remuneration | | | |
| – Audit service | | **770** | 1,010 |
| – Non-audit service | | **–** | 16 |
| Minimum lease payments under operating lease | | | |
| in respect of land and buildings | | **4,684** | 4,236 |
| Depreciation on owned property, plant and equipment | | **3,426** | 3,849 |
| Depreciation on leased property, plant and equipment | | **468** | 375 |
| Amortisation of intangible assets | 14 | **946** | 920 |
| (Reversal of)/Provision for impairment of trade receivables | 17 | **(200)** | 1,700 |
| Provision for impairment of other receivables | 17 | **18,690** | – |

* The cost of services rendered included an employee benefit expenses of approximately HK$221,833,000 (2017: HK$215,670,000) incurred in the provision of services which has been included in the employee benefit expenses above.

## 8. FINANCE COSTS

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Interest on finance leases | **54** | 33 |

## 9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and the Hong Kong Companies Ordinance is as follows:

| | Fees | | Salaries and allowances | | Retirement benefit scheme contributions | | Total | |
|---|---|---|---|---|---|---|---|---|
| Name of Directors | 2018 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | 2017 HK$'000 |
| **Executive Directors** | | | | | | | | |
| Mr. Ju Mengjun *(Co-chairman)* (Resigned on 22 January 2018) | – | – | – | – | – | – | – | – |
| Mr. Lo Kou Hong *(Co-chairman)* | – | – | 1,578 | 1,513 | 95 | 91 | 1,673 | 1,604 |
| Mr. Chan Chun Wo *(Co-chairman)* (Appointed on 12 February 2018) | – | – | 198 | – | – | – | 198 | – |
| Mr. Yu Guang (Resigned on 22 January 2018) | – | – | 194 | 240 | – | – | 194 | 240 |
| Mr. David Wei Ji | – | – | 2,190 | 2,190 | 18 | 18 | 2,208 | 2,208 |
| Mr. Wen Xin Nian (Resigned on 22 January 2018) | – | – | – | – | – | – | – | – |
| Mr. Huang Wen Kai (Appointed on 12 February 2018) | – | – | 32 | – | – | – | 32 | – |
| Ms. Chen Ming (Appointed on 12 February 2018) | – | – | 32 | – | – | – | 32 | – |
| Mr. Li Bing (Appointed on 12 February 2018) | – | – | 32 | – | – | – | 32 | – |
| Ms. Zhao Jingying (Appointed on 18 September 2017 and retired on 20 October 2017) | – | – | – | – | – | – | – | – |
| **Independent Non-executive Directors** | | | | | | | | |
| Mr. Wang Qi | 240 | 240 | – | – | – | – | 240 | 240 |
| Mr. Tsang Chi Hon | 480 | 480 | – | – | – | – | 480 | 480 |
| Mr. Ho Hin Yip | 480 | 480 | – | – | – | – | 480 | 480 |
| Mr. Wong Hon Kit (Appointed on 18 September 2017 and retired on 20 October 2017) | 16 | – | – | – | – | – | 16 | – |
| Ms. Lee Suen (Appointed on 12 February 2018) | 32 | – | – | – | – | – | 32 | – |
| | 1,248 | 1,200 | 4,256 | 3,943 | 113 | 109 | 5,617 | 5,252 |

No emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office during the year (2017: Nil). No five highest paid individuals waived or agreed to waive any remuneration during the year (2017: Nil).

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2017: two) Directors, details of whose remuneration are set out in Note 9 above. Details of the remuneration of the remaining three (2017: three) non-Directors highest paid employee for the year are as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Salaries and allowances | **4,805** | 5,064 |
| Retirement benefit scheme contributions | **139** | 250 |
| | **4,944** | 5,314 |

The number of the non-Director highest paid employees whose remuneration fell within the following band is as follows:

| | **Number of employees** **2018** | 2017 |
|---|---|---|
| Nil to HK$1,000,000 | **–** | – |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| HK$1,500,001 to HK$2,000,000 | **2** | 3 |
| | **3** | 3 |

No emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office during the year (2017: Nil). No five highest paid individuals waived or agreed to waive any remuneration during the year (2017: Nil).

## 11. INCOME TAX EXPENSES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Current tax | | |
| Hong Kong | 896 | 58 |
| The PRC | 1,495 | 957 |
| Tax charge for the year | 2,391 | 1,015 |

For the year ended 31 March 2018 and 31 March 2017, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year.

The corporate income tax has been provided for subsidiaries in the PRC based on assessable profits arising in the PRC during the year. Subsidiaries located in the PRC are subject to the PRC corporate income tax at a rate of 25% on its assessable profits.

No deferred tax liabilities was provided in respect of the tax that would be payable on the distribution of the retained profits as the Group is in a position to control the dividend policies of these PRC subsidiaries and it is probable that such difference will not be reversed in the foreseeable future.

A reconciliation of the tax position applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax position at the effective tax rates, is as follows:

| | Hong Kong | | PRC | | Total | |
|---|---|---|---|---|---|---|
| | 2018<br>HK$'000 | 2017<br>HK$'000 | 2018<br>HK$'000 | 2017<br>HK$'000 | 2018<br>HK$'000 | 2017<br>HK$'000 |
| (Loss)/profit before tax | (35,275) | (22,485) | (1,264) | 6,272 | (36,539) | (16,213) |
| Tax at the statutory tax rate | (5,821) | (3,710) | (316) | 1,568 | (6,137) | (2,142) |
| Income not subject to tax | (124) | (566) | (294) | (792) | (418) | (1,358) |
| Expenses not deductible for tax | 882 | 2,315 | 1,977 | 199 | 2,859 | 2,514 |
| Tax losses utilised from previous years | (236) | (1,150) | – | (172) | (236) | (1,322) |
| Tax losses not recognised | 6,195 | 3,169 | 58 | 154 | 6,253 | 3,323 |
| Over-provision in previous year | – | – | 70 | – | 70 | – |
| Tax at the Group's effective rate | 896 | 58 | 1,495 | 957 | 2,391 | 1,015 |

## 11. INCOME TAX EXPENSES (continued)

The Group has tax losses arising in Hong Kong of approximately HK$120,592,000 (2017: HK$90,079,000) which are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses because in the opinion of the Directors, it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

The Group has tax losses arising in Mainland China of approximately HK$18,075,000 (2017: HK$17,840,000), that are available for five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses because it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

## 12. LOSS PER SHARE

### Basic and diluted loss per share

The calculation of the basic and diluted loss per share amounts is based on the loss for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 1,429,446,126 (2017: 1,367,486,040) in issue during the year.

The diluted loss per share is the same as the basic loss per share for the year ended 31 March 2018 and 2017 because the Company's share options outstanding during these years were anti-dilutive.

The calculation of the basic and diluted loss per share is based on:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Loss** | | |
| Loss attributable to owners of the Company used in the basic and diluted loss per share calculation | **(39,964)** | (18,033) |

| | Number of shares<br>2018 | 2017 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation | **1,429,446,126** | 1,367,486,040 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Furniture and equipment HK$'000 | Motor vehicles HK$'000 | Tools and machinery HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 April 2016 | 51,994 | 7,195 | 5,770 | 5,619 | 71,932 | 142,510 |
| Additions | – | – | 262 | 544 | 526 | 1,332 |
| Disposals | – | – | (14) | (925) | (58,148) | (59,087) |
| Exchange realignment | (3,095) | – | (46) | (158) | (2,560) | (5,859) |
| At 31 March 2017 and 1 April 2017 | 48,899 | 7,195 | 5,972 | 5,080 | 11,750 | 78,896 |
| Additions | – | 2 | 116 | 2,195 | 1,121 | 3,434 |
| Disposals | – | – | (8) | – | – | (8) |
| Written off | – | – | (298) | – | (355) | (653) |
| Exchange realignment | 5,284 | – | 80 | 305 | 393 | 6,062 |
| **At 31 March 2018** | **54,183** | **7,197** | **5,862** | **7,580** | **12,909** | **87,731** |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 April 2016 | 36,493 | 5,157 | 4,513 | 3,161 | 70,127 | 119,451 |
| Charge for the year | 1,759 | 807 | 407 | 575 | 676 | 4,224 |
| Written back on disposals | – | – | (12) | (925) | (57,924) | (58,861) |
| Exchange realignment | (2,210) | – | (42) | (107) | (2,549) | (4,908) |
| At 31 March 2017 and 1 April 2017 | 36,042 | 5,964 | 4,866 | 2,704 | 10,330 | 59,906 |
| Charge for the year | 1,128 | 807 | 420 | 894 | 645 | 3,894 |
| Written back on disposals | – | – | (8) | – | – | (8) |
| Written off | – | – | (277) | – | (278) | (555) |
| Exchange realignment | 3,957 | – | 76 | 164 | 393 | 4,590 |
| **At 31 March 2018** | **41,127** | **6,771** | **5,077** | **3,762** | **11,090** | **67,827** |
| **Carrying amount** | | | | | | |
| **At 31 March 2018** | **13,056** | **426** | **785** | **3,818** | **1,819** | **19,904** |
| At 31 March 2017 | 12,857 | 1,231 | 1,106 | 2,376 | 1,420 | 18,990 |

At 31 March 2018 and 2017, the Group was in the process of obtaining the building ownership certificates of the Group's buildings. Notwithstanding this, the Directors are of the opinion that the Group has obtained the legal rights to use these assets as at 31 March 2018 and 2017.

As at 31 March 2018, certain furniture and equipment and motor vehicles with carrying amount of approximately HK$1,170,000 (2017: HK$940,000) were under finance leases.

## 14. INTANGIBLE ASSETS

| | Medical waste treatment HK$'000 | Free right HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2016 | 33,455 | 151,286 | 184,741 |
| Exchange realignment | (1,991) | – | (1,991) |
| At 31 March 2017 and 1 April 2017 | 31,464 | 151,286 | 182,750 |
| Exchange realignment | 3,400 | – | 3,400 |
| **At 31 March 2018** | **34,864** | **151,286** | **186,150** |
| **Accumulated amortisation and impairment** | | | |
| At 1 April 2016 | 23,186 | 151,286 | 174,472 |
| Amortisation during the year | 920 | – | 920 |
| Exchange realignment | (1,399) | – | (1,399) |
| At 31 March 2017 and 1 April 2017 | 22,707 | 151,286 | 173,993 |
| Amortisation during the year | 946 | – | 946 |
| Exchange realignment | 2,505 | – | 2,505 |
| **At 31 March 2018** | **26,158** | **151,286** | **177,444** |
| **Carrying amount** | | | |
| **At 31 March 2018** | **8,706** | **–** | **8,706** |
| At 31 March 2017 | 8,757 | – | 8,757 |

Medical waste treatment represents the assets from the related business segment which recognise as intangible asset under HK(IFRIC) – Int 12 when the Group receives a right to charge users of the public service. Free right arise from a cooperation agreement with APRB for the development of the TV screen broadcast business (the "Cooperation Agreement"). The following useful lives are used in the calculation of amortisation:

| | |
|---|---|
| Medical waste treatment | 20 years |
| Free right | 10 years |

No impairment has recognised for both years.

## 15. INVENTORIES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Finished goods | **332** | 326 |

## 16. INVESTMENT IN AN ASSOCIATE

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Unlisted share, at cost | **3** | 4 |

The amount due to an associate is unsecured, interest-free and repayable on demand. The carrying amount of the amount due from an associate approximates to its fair value.

Reconciliation of the above summarised financial information to the carrying amount of the interests in an associate recognised in the consolidated financial statements:

| | Notes | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| Net assets of an associate | 16(b) | **8** | 10 |
| Proportion of the Group's ownership interests | | **40%** | 40% |
| Share of net assets of an associate | | **3** | 4 |
| Net (loss)/profit of an associate | 16(b) | **(2)** | 145 |
| Proportion of the Group's ownership interests | | **40%** | 40% |
| Share of net results of an associate | | **(1)** | 58 |

## 16. INVESTMENT IN AN ASSOCIATE (continued)

(a) Particulars of the associate are as follows:

| Name | Place of incorporation | Particulars of issued shares held | Percentage of ownership interest attributable to the Group | Principal activity |
|---|---|---|---|---|
| Faber China Limited | Hong Kong | Ordinary shares of HK$1 each | 40 | Trading of professional cleaning products and marble-care products |

(b) The following is summary of aggregate amounts of assets, liabilities, revenue, and results of the Group's associate:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Assets | 10 | 10 |
| Liabilities | (2) | – |
| Net assets | 8 | 10 |

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Revenue | – | 839 |
| Other income and gains | – | 4 |
| (Loss)/Profit | (2) | 145 |
| Other comprehensive income | – | – |
| Total comprehensive (loss)/income | (2) | 145 |
| Dividend received from an associate | – | 784 |

## 17. TRADE RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Trade receivables | **89,715** | 78,614 |
| Less: Impairment loss recognised on trade receivables | **(31,500)** | (31,700) |
| | **58,215** | 46,914 |

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 30 days, extending up to 90 days for customers with a long-term relationship. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management. The Group does not hold any collateral or other credit enhancements over its trade receivables balances. Trade receivables are non-interest-bearing.

### Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. At the end of the reporting period, a reversal of impairment loss of approximately HK$200,000 (2017: impairment loss of HK$1,700,000) was recognised on trade receivables.

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Balance at the beginning of the year | **31,700** | 30,000 |
| Impairment loss recognised on trade receivables (Note) | **–** | 1,700 |
| Reversal of impairment loss on trade receivables | **(200)** | – |
| Balance at the end of the year | **31,500** | 31,700 |

Note:

During the year ended 31 March 2017, an impairment loss of approximately HK$1,700,000 was recognised in the consolidated statement of profit or loss and other comprehensive income. The impaired receivable was related to a customer who was in default in payment for the outstanding balance. The Group has taken legal means to pursue the outstanding balance and the Directors expected that the outstanding balance may not be recovered and therefore provision for impairment was provided.

## 17. TRADE RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Within 30 days | **28,167** | 29,699 |
| 31 to 60 days | **17,167** | 13,605 |
| 61 to 90 days | **10,196** | 3,145 |
| 91 to 120 days | **1,342** | 47 |
| Over 120 days | **1,343** | 418 |
| | **58,215** | 46,914 |

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately HK$2,685,000 (2017: HK$465,000) which are past due but not impaired at the end of the reporting period. The Group has not provided for impairment loss as there has not been a significant change in credit quality and the balances are considered recoverable.

Ageing of trade receivables that are past due but not impaired:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Overdue by: | | |
| 1 to 30 days | **1,342** | 47 |
| Over 30 days | **1,343** | 418 |
| | **2,685** | 465 |

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Prepayments | **5,590** | 2,260 |
| Deposits | **5,212** | 4,948 |
| Other receivables | **36,115** | 38,907 |
| Less: Impairment loss recognised on other receivables | **(18,690)** | – |
| | **28,227** | 46,115 |

## 17. TRADE RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

At 31 March 2018, mainly included in other receivables were (i) loan receivable principal amount of HK$18,000,000 (2017: HK$18,000,000), loan interest receivable amount of HK$3,690,000 (2017: HK$2,610,000); and (ii) compensation for liquidated damages under remedial agreement amount of HK$13,200,000 (2017: HK$16,800,000).

(i) The loan receivable (the "Loan") was advanced to Sheng Tang Petroleum & Chemical Development Limited (the "Borrower"), an independent third party of the Company. The loan is unsecured and receivable on demand. The loan receivable is charged at an interest rate of 6% per annum. As of 31 March 2018, the Loan in the original principal amount of HK$18,000,000, bearing interest at a rate of 6% per annum was outstanding. The Group through multiple communications with the Borrower, including the issuance of two demand letters, has requested the repayment in a full settlement.

On 14 June 2018, the Company agreed and entered into a Repayment Agreement (the "Repayment Agreement") with the Borrower that the Borrower will repay the principal amount together with the outstanding interest pursuant to the loan agreement and the extension agreement in accordance with the following schedule: (i) repayment of HK$3,000,000 upon signing of the Repayment Agreement; (ii) repayment of another HK$3,000,000 on or before 15 June 2018; and (iii) repayment of a sum not less than HK$3,000,000 per every two months commencing from 15 June 2018 and the principal amount and all the outstanding interest shall be fully repaid on or before 13 June 2019. For the avoidance of doubt, the amount payable for the last installment can be less than HK$3,000,000.

Up to the date of this report, approximately HK$3,000,000 has been settled by the Borrower. As of the date of this report, the second installment of HK$3,000,000 due 15 June 2018 is late and outstanding. As of the date of this report, the Company, through its legal representative, has sent another demand letter to request for the repayment of the second installment of HK$3,000,000 to be paid in full.

Based on the current situation and due to the current tardiness of the second installment repayment, the remaining outstanding balance HK$18,690,000 may not be recoverable. As such, it was in the opinion of the Directors to make a provision for impairment for the remaining outstanding balance of the loan.

(ii) The compensation for liquidated damages under the remedial agreement was a liquidated damage from Xinhua News Agency Asia-Pacific Regional Bureau Limited ("APRB"), which was our former substantial shareholder of the Company, under the further undertaking of the cooperation agreement.

During the year ended 31 March 2018, APRB provided a letter of undertaking to the Company and undertook that ARPB will settle at least HK$3,000,000 every two months since March 2018. If APRB fails to settle the outstanding amount in accordance to the agreed schedule, 5% per annum interest will be charged to the relevant unsettled instalment.

Up to the date of this report approximately HK$7,200,000 has been settled by APRB.

## 18. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Cash and bank balances | **34,244** | 54,692 |
| Time deposits | **12,115** | 2,089 |
| | **46,359** | 56,781 |
| Less: Pledged short-term time deposits for banking facilities | **(2,046)** | (2,035) |
| Cash and cash equivalents | **44,313** | 54,746 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$7,142,000 (2017: HK$9,536,000). RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

At the end of the reporting period, the Group's banking facilities were secured by the pledge of certain of the Group's time deposits amounting to approximately HK$2,046,000 (2017: HK$2,035,000), and a property owned by a related company which is controlled by a director of the Company.

## 19. TRADE PAYABLES

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Within 30 days | **6,163** | 5,843 |
| 31 to 60 days | **4,798** | 3,662 |
| 61 to 90 days | **–** | – |
| Over 90 days | **566** | 286 |
| | **11,527** | 9,791 |

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

## 20. OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables of the Group are non-interest-bearing and have an average payment term of one month.

| | 2018<br>Hk$'000 | 2017<br>HK$'000 |
|---|---|---|
| Other payables | **8,516** | 8,397 |
| Accrued liabilities (Note) | **24,419** | 21,673 |
| | **32,935** | 30,070 |

Note: Accrued liabilities mainly represent the staff cost and benefit incurred in the Group.

## 21. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and motor vehicles for its business. These leases are classified as finance leases and have remaining lease terms 1 to 4 years (2017: from 2 to 3 years).

At 31 March 2018 and 2017, the total future minimum lease payments under finance leases and their present values are as follows:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts payable: | | | | |
| Within one year | **498** | 404 | **466** | 384 |
| In the second year | **285** | 337 | **268** | 330 |
| In the third to fifth years, inclusive | **308** | 125 | **294** | 124 |
| Total minimum finance lease payments | **1,091** | 866 | **1,028** | 838 |
| Future finance charges | **(63)** | (28) | | |
| Total net finance lease payables | **1,028** | 838 | | |
| Portion classified as current liabilities | **(466)** | (384) | | |
| Non-current portion | **562** | 454 | | |

## 22. PROVISION FOR LONG SERVICE PAYMENTS

| | Note | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|---|
| At the beginning of the year | | **5,922** | 3,850 |
| Provision for long service payments, net | 7 | **1,539** | 2,189 |
| Amounts utilised during the year | | **(186)** | (117) |
| At the end of the year | | **7,275** | 5,922 |

The Group provides for probable future long service payments expected to be made to employees under the Employment Ordinance, as further explained under the heading "Employee benefits" in Note 3 to the consolidated financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group at the end of the reporting period.

## 23. DEFERRED INCOME

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Cost** | | |
| At 1 April | **6,879** | 7,314 |
| Exchange realignment | **743** | (435) |
| At 31 March | **7,622** | 6,879 |
| **Accumulated amortisation** | | |
| At 1 April | **2,713** | 2,434 |
| Amortisation during the year (Note 6) | **445** | 433 |
| Exchange realignment | **317** | (154) |
| At 31 March | **3,475** | 2,713 |
| **Net carrying amount** | **4,147** | 4,166 |

Deferred income represents unamortised government grants received from the PRC government for the purchase of property, plant and equipment for medical waste treatment during the year. There are no unfilled conditions or contingencies relating to these subsidies.

## 24. SHARE CAPITAL

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Issued and fully paid:** | | |
| 1,446,294,040 (2017: 1,367,486,040) ordinary shares of HK$0.01 each | **14,463** | 13,675 |

## 24. SHARE CAPITAL (continued)

A summary of the transactions during the year with reference to the below movements in the Company's issued ordinary share capital is as follow:

| | Number of shares in issue | Issued capital HK$'000 |
|---|---|---|
| At 1 April 2016, 31 March 2017, 1 April 2017 | 1,367,486,040 | 13,675 |
| Issue of shares by way of exercising share options (note 25) | 78,808,000 | 788 |
| **31 March 2018** | **1,446,294,040** | **14,463** |

### Employee share options scheme

Details of the Company's share option scheme, including the share options lapsed and exercised during the year, under the scheme are included in Note 25 to the consolidated financial statements.

## 25. SHARE OPTION SCHEME

The share option scheme (the "Share Option Scheme") of the Company was approved and adopted by the shareholders in the annual general meeting of the Company dated 25 September 2015 and shall be valid and effective for a period of 10 years to 24 September 2025.

According to the Share Option Scheme, the Board may at its absolute discretion, offer to grant option to any participant as the Board may think fit. For the purpose of this section, participants refers to (i) any eligible employee as stated in the Share Option Scheme; (ii) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any entity in which the Group holds any equity (the "Invested Entity"); (iii) any supplier of goods or services to the member of the Group or any Invested Entity; (iv) any customer of the Group or any Invested Entity; (v) any consultant, adviser, legal consultant, legal adviser, agent and contractor engaged by the Company, the Group or any Invested Entity; any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and any other classes of participants who have contributed or may contribute, whether by way of joint venture, business alliance, other business arrangement, or otherwise, to the development and growth of Group.

## 25. SHARE OPTION SCHEME (continued)

The purpose of the Share Option Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and to encourage the participants to perform their best in achieving the goals of the Group and at the same time allow the participants to enjoy the results of the Company attained through their efforts and contributions and to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group and any Invested Entity.

The subscription price in respect of any particular option shall be such price as determined by the Board in its absolute discretion at the time of the grant of the options but in any case the subscription price shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; or (iii) the nominal value of a share.

The maximum number of shares which may be issued upon exercise of all options which may be granted at any time under this Share Option Scheme together with options which may be granted under any other share option schemes for the time being of the Company shall not exceed such number of shares as equals 10 per cent of the issued share capital of the Company as at the date of approval of the Share Option Scheme.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company to each participant in any 12-month period must not exceed 1 per cent of the total issued share capital of the Company for the time being. Any further grant of options to a participant in excess of the abovementioned limit in any 12-month period up to and including the date of such further grant must be subject to the shareholders' approval in general meeting of the Company with such participant and his associates abstaining from voting.

## 25. SHARE OPTION SCHEME (continued)

As at 31 March 2018, 1,367,400 (2017: 80,675,400) share options were outstanding under the Share Option Scheme, which were fully vested and are exercisable. Movements of the share options during the year ended 31 March 2018 are listed below in accordance with chapter 17 of the Listing Rules:

| Name or category of participant | As at 1 April 2016 | Granted | As at 31 March 2017 | Lapsed during the year | Exercised during the year | As at 31 March 2018 | Date of grant of share options | Exercise period of share options | Exercise price of share options HK$ per share |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| Mr. Ju Mengjun | – | 13,674,000 | 13,674,000 | – | (13,674,000) | – | 29-9-16 | 29-9-16 to 28-9-26 | 0.1882 |
| Mr. Lo Kou Hong | – | 13,674,000 | 13,674,000 | – | (13,674,000) | – | 29-9-16 | 29-9-16 to 28-9-26 | 0.1882 |
| Mr. Yu Guang | – | 1,367,400 | 1,367,400 | – | – | 1,367,400 | 29-9-16 | 29-9-16 to 28-9-26 | 0.1882 |
| Mr. David Wei Ji | – | 13,674,000 | 13,674,000 | – | (13,674,000) | – | 29-9-16 | 29-9-16 to 28-9-26 | 0.1882 |
| Mr. Wen Xin Nian | – | 13,674,000 | 13,674,000 | – | (13,674,000) | – | 29-9-16 | 29-9-16 to 28-9-26 | 0.1882 |
| Mr. Ho Hin Yip | – | 1,367,000 | 1,367,000 | – | (1,367,000) | – | 29-9-16 | 29-9-16 to 28-9-26 | 0.1882 |
| Mr. Wang Qi | – | 1,367,000 | 1,367,000 | – | (1,367,000) | – | 29-9-16 | 29-9-16 to 28-9-26 | 0.1882 |
| Mr. Tsang Chi Hon | – | 1,367,000 | 1,367,000 | – | (1,367,000) | – | 29-9-16 | 29-9-16 to 28-9-26 | 0.1882 |
| Sub-total | – | 60,164,400 | 60,164,400 | – | (58,797,000) | 1,367,400 | | | |
| **Continuous Contracts Employees** | – | 13,674,000 | 13,674,000 | (500,000) | (13,174,000) | – | 29-9-16 | 29-9-16 to 28-9-26 | 0.1882 |
| **All other eligible participants** | – | 6,837,000 | 6,837,000 | – | (6,837,000) | – | 29-9-16 | 29-9-16 to 28-9-26 | 0.1882 |
| Sub-total | – | 20,511,000 | 20,511,000 | (500,000) | (20,011,000) | – | | | |
| Total | – | 80,675,400 | 80,675,400 | (500,000) | (78,808,000) | 1,367,400 | | | |

## 25. SHARE OPTION SCHEME (continued)

The fair values of options granted under the Share Option Scheme measured at the date of grant during the year ended 31 March 2017 was approximately HK$8,793,000. The following significant assumptions were used to derived the fair value using the Binomial Option Pricing Model:

| | 29 September 2016 | 29 September 2016 |
|---|---|---|
| Grantee | Director | Employee |
| Total number of share option | 60,164,400 | 20,511,000 |
| Option value | 0.1129 | 0.0975 |
| Option life | 10 years | 10 years |
| Expected Tenor | 10 years | 10 years |
| Exercise price | 0.1882 | 0.1882 |
| Stock price at the date of grant | 0.1860 | 0.1860 |
| Expected volatility | 80.58% | 80.58% |
| Risk-free rate | 0.9130% | 0.9130% |

Expected volatility was reference to Bloomberg calculated from the weighted average historical volatility of weekly return of share price of comparable companies and the Company. Risk-free rate represents the yields to maturity of Hong Kong Exchange Fund Note with respective terms to maturity as at the share options granted date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considers.

78,808,000 share options were exercised and 500,000 share options were lapsed during the year ended 31 March 2018 (2017: Nil).

## 26. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the consolidated financial statements.

The Group's contributed surplus represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

The Group's merger reserve arose from the business combination under common control in respect of the acquisition of Peixin Group Limited in the year ended 31 March 2009.

## 27. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had contingent liabilities as follows:

(a) The Group has executed performance guarantees to the extent of an aggregate amount of HK$17,252,000 (2017: HK$13,826,000) in respect of certain services provided to various customers by the Group.

(b) The Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK$11,528,000 as at 31 March 2018 (2017: HK$9,605,000), as further explained under the heading "Employee benefits" in Note 3 to the consolidated financial statements. The contingent liability has arisen because, at the end of the reporting period, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision of approximately HK$7,275,000 (2017: HK$5,922,000) in respect of such payments has been made in the consolidated statement of financial position as at 31 March 2018.

## 27. CONTINGENT LIABILITIES (continued)

(c) During the ordinary course of its business, the Group may from time to time be involved in litigation concerning personal injuries sustained by its employees or third party claimants. The Group maintains insurance cover and, in the opinion of the Directors, based on current evidence, any such existing claims should be adequately covered by the insurance as at 31 March 2018 and 2017. Currently, there is a claim against the Group for legal costs that amounts to approximately HK$1,800,000 by Brave Venture Limited arising from litigation back in September of 2017. Other outstanding litigation includes a possible contempt of court claim by Brave Venture limited. However, the Group expects the financial impact to be minimal as it is a non-monetary claim.

## 28. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties and staff quarters under operating lease arrangements, which are negotiated for terms ranging from one to three years.

At 31 March 2018 and 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Within one year | **4,738** | 4,029 |
| In the second to fifth years, inclusive | **310** | 1,150 |
| | **5,048** | 5,179 |

## 29. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group had the following material transactions with related companies, of which certain directors are also Directors, during the year. Certain related companies are considered by a director of the Company and certain related companies are owned by Xinhua News Agency Asia-Pacific Regional Bureau.

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Management fee income from a related company (Note) | **60** | 60 |
| Sales to related companies | **69** | 70 |

Note:

The management fee income from the provision of accounting and administrative services and the sharing of office space and facilities with the Group was received in a lump sum annually with reference to the actual costs incurred.

## 29. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balance with related parties:

Amount due to an associate

The amount due to an associate is unsecured, interest-free and repayable on demand.

Other receivables

As at 31 March 2018, included in other receivables was a compensation for liquidated damages under remedial agreement from APRB amount to HK$13,200,000 (2017: HK$16,800,000), which was our former substantial shareholder of the Company.

Loans from a director

As at 31 March 2018, the loans from a director amounted to approximately HK$6,688,000 (2017: HK$6,035,000). The loans are unsecured, interest-free and not repayable within the next twelve months.

(c) Compensation of key management personnel of the Group:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Short-term employee benefits | **4,257** | 3,943 |
| Post-employment benefits | **112** | 109 |
| Total compensation paid to key management personnel | **4,369** | 4,052 |

Further details of directors' emoluments are included in Note 9 to the consolidated financial statements.

## 30. NON-ADJUSTED EVENTS AFTER REPORTING PERIOD

1. On 18 May 2018, the Company, through its wholly owned subsidiary, Xinhua News Media Limited, entered into a strategic cooperation framework agreement with Fujian Province Zhi Chuang Zhi Yuan Marketing Planning Company Limited. Details of which are set out in the announcement of the Company dated 18 May 2018.

2. On 7 June 2018, the Company entered into the placing agreement with Prudential Brokerage Ltd pursuant to which the later agreed to place as the Company's placing agent on a best effort basis the placing shares up to 162,962,962 news shares at the placing price of HK$0.275 per placing share. Details of which are set out in the announcements of the Company dated 7 June 2018 and 12 June 2018.

3. On 14 June 2018, the Company, through its wholly owned subsidiary, Xinhua News Media Limited, entered into the repayment agreement with Sheng Tang Petroleum & Chemical Development Limited regarding the payment of the outstanding sum owed by Sheng Tang Petroleum & Chemical Development Limited to the Group. Details of which are set out in the announcement of the Company dated 14 June 2018 and disclosed in note 17 to the consolidated financial statements.

## 31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | | **73,257** | 66,579 |
| **Total non-current assets** | | **73,257** | 66,579 |
| **Current assets** | | | |
| Amount due from subsidiary | | **800** | 800 |
| Prepayments, deposits and other receivables | | **16,785** | 16,978 |
| Cash and cash equivalents | | **139** | 141 |
| **Total current assets** | | **17,724** | 17,919 |
| **Current liability** | | | |
| Other payables and accrued liabilities | | **1,514** | 1,192 |
| **Net current assets** | | **16,210** | 16,727 |
| **Total assets less current liabilities** | | **89,467** | 83,306 |
| **Net assets** | | **89,467** | 83,306 |
| **Capital and reserves** | | | |
| Share capital | 24 | **14,463** | 13,675 |
| Reserves | 32 | **75,004** | 69,631 |
| **Total equity** | | **89,467** | 83,306 |

Approved by the Board on 28 June 2018 and signed on its behalf by:

**Chan Chun Wo**
*Co-chairman*

**Lo Kou Hong**
*Co-chairman*

## 32. RESERVES OF THE COMPANY

A summary of the Company's reserves is as follows:

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Share option reserve HK$'000 | Contributed surplus HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 April 2016 | 469,527 | 254 | – | 59,511 | (444,680) | 84,612 |
| Loss for the year | – | – | – | – | (23,774) | (23,774) |
| Total comprehensive loss for the year | – | – | – | – | (23,774) | (23,774) |
| Granted of share options | – | – | 8,793 | – | – | 8,793 |
| At 31 March 2017 and 1 April 2017 | 469,527 | 254 | 8,793 | 59,511 | (468,454) | 69,631 |
| Loss for the year | – | – | – | – | (8,671) | (8,671) |
| Total comprehensive loss for the year | – | – | – | – | (8,671) | (8,671) |
| Lapsed of share options | – | – | (49) | – | 49 | – |
| Exercised of share options | 22,634 | – | (8,590) | – | – | 14,044 |
| **At 31 March 2018** | **492,161** | **254** | **154** | **59,511** | **(477,076)** | **75,004** |

## 33. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Sinopoint Corporation | British Virgin Islands/Hong Kong | US$100 Ordinary | 100 | – | Investment holding |
| Lo's Cleaning Services Limited | Hong Kong | HK$100 Ordinary HK$26,768,000 Non-voting deferred | – | 100 | Provision of cleaning and related services |
| Honest Grand International Limited | British Virgin Islands/Hong Kong | US$100 Ordinary | – | 100 | Investment holding |
| Victory Joy International Limited | British Virgin Islands/Hong Kong | US$1 Ordinary | – | 100 | Investment holding |
| Seasun Group Limited | British Virgin Islands/Hong Kong | US$3,000 Ordinary | – | 65 | Investment holding |
| Oriental Emperor Holdings Limited | British Virgin Islands | US$100 Ordinary | – | 55 | Investment holding |
| Lo's Environmental Technology Holdings Limited (formerly known as Lo's Tsinghua Daring Environmental Technology Holdings Limited) | Hong Kong | HK$1 Ordinary | – | 55 | Investment holding |

## 33. PARTICULARS OF SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Siping Lo's Tsinghua Daring Environmental Technology Limited* | PRC | HK$10,000,000 | – | 55 | Provision of medical waste treatment services |
| Suifa Lo's Tsinghua Daring Environmental Technology Limited* | PRC | HK$10,000,000 | – | 55 | Provision of medical waste treatment services |
| Heihe Lo's Tsinghua Daring Environmental Technology Limited* | PRC | HK$10,000,000 | – | 55 | Dormant |
| Marce International Limited | British Virgin Islands/Hong Kong | US$100 Ordinary | – | 100 | Investment holding |
| Peixin Group Limited | British Virgin Islands/Hong Kong | – | – | 70 | Investment holding |
| Shuyang ITAD Environmental Technology Limited* | PRC | RMB123,640,000 | – | 70 | Provision of waste treatment services |
| Ally Thrive Investments Limited | British Virgin Islands/Hong Kong | US$100 Ordinary | 100 | – | Dormant |
| Xinhua News Media Limited | British Virgin Islands | US$1 Ordinary | 100 | – | Provision of television screen broadcast business |

* Registered as wholly foreign-owned enterprises under PRC law

The Directors made an assessment as at the date of the reporting period that there is no individual subsidiary that was non-controlling interest which is material to the Group and therefore no financial information is disclosure for these non-wholly owned subsidiaries.

### Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

## 34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| *Loans and receivables* | | |
| Trade receivables | **58,215** | 46,914 |
| Financial assets included in prepayments, deposits and other receivables | **21,958** | 42,837 |
| Pledged time deposits | **2,046** | 2,035 |
| Cash and cash equivalents | **44,313** | 54,747 |
| **Financial liabilities** | | |
| *Financial liabilities at amortised cost* | | |
| Amount due to an associate | **4** | 4 |
| Trade payables | **11,527** | 9,791 |
| Financial liabilities included in other payables and accrued liabilities | **11,478** | 8,830 |
| Finance lease payables | **1,028** | 838 |
| Loans from a director | **6,688** | 6,035 |

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to raise 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 main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing such risks and they are summarised below.

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group's interest-bearing financial instruments are mainly cash and short-term deposits.

As at the end of the reporting period, the Group's exposure to interest rate risk is considered to be relatively small as the Group's financial instruments predominately were non-interest-bearing or carried at minimal interest rates.

### Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has no specific policy to deal with foreign currency risk. However, management monitors the exposure and will consider hedging the foreign currency risk exposure for significant cash flow risks should the need arise. As at the end of the reporting period, the Group's exposure to foreign currency risk is minimal as all transactions are denominated in the operating units' functional currency.

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable 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 cash and cash equivalents, pledged time deposits, an amount due from an associate and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the end of the reporting period, the Group has certain concentrations of credit risk as 33% and 68% of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively, within the cleaning and related services segment.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in Note 17 to the consolidated financial statements.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's policy is to regularly monitor its current and expected liquidity levels to ensure that it maintains sufficient reserves of cash for its daily operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | On demand | Less than 3 months | 3 to less than 12 months | 2 to 5 years | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2018** | | | | | |
| **Amount due to an associate** | **4** | **–** | **–** | **–** | **4** |
| **Trade payables** | **–** | **11,527** | **–** | **–** | **11,527** |
| **Financial liabilities included in other payables and accrued liabilities** | **11,478** | **–** | **–** | **–** | **11,478** |
| **Finance lease payables** | **–** | **414** | **84** | **593** | **1,091** |
| **Loans from a director** | **–** | **–** | **–** | **6,688** | **6,688** |
| | **11,482** | **11,941** | **84** | **7,281** | **30,788** |
| 2017 | | | | | |
| Amount due to an associate | 4 | – | – | – | 4 |
| Trade payables | – | 9,791 | – | – | 9,791 |
| Financial liabilities included in other payables and accrued liabilities | 8,830 | – | – | – | 8,830 |
| Finance lease payables | – | 101 | 303 | 462 | 866 |
| Loans from a director | – | – | – | 6,035 | 6,035 |
| | 8,834 | 9,892 | 303 | 6,497 | 25,526 |

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Capital management

The Group's primary objectives when managing capital 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. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 March 2018 and 2017.

The Group monitors capital using a current ratio, which is current assets divided by the current liabilities. The Group's policy is to maintain net positive current assets and a current ratio greater than one as shown as follows:

| | **2018<br>HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Current assets | **133,133** | 150,136 |
| Current liabilities | **(45,308)** | (40,834) |
| Net current assets | **87,825** | 109,302 |
| Current ratio | **2.9** | 3.7 |

### Fair value of financial instruments

The directors consider that the carrying amounts of the financial assets and financial liabilities recognised in the consolidated financial statements that are not measured at fair value on a recurring basis approximate their fair values.

The Company does not have any financial asset and financial liability which is measured at fair value as at 31 March 2018 and 2017.

There were no transfers between Levels 1 and 2 in the both years.

## 36. MAJOR NON CASH TRANSACTIONS

The Group acquired property, plant and equipment with an aggregate cost of approximately HK$3,434,000 (2017: 1,332,000) of which HK$699,000 (2017: Nil) was acquired by means of finance lease. Cash payments of approximately HK$2,735,000 (2017: HK$1,332,000) were made to purchase, property, plant and equipment.

## 37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 June 2018.

# FIVE YEAR FINANCIAL SUMMARY

## RESULTS

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 | 2016<br>HK$'000 | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|---|---|---|
| **CONTINUING OPERATIONS** | | | | | |
| REVENUE | **349,240** | 336,504 | 309,846 | 286,809 | 227,544 |
| LOSS BEEFORE TAX | **(36,539)** | (16,213) | (59,806) | (1,386) | (52,480) |
| INCOME TAX EXPENSE | **(2,391)** | (1,015) | (315) | (447) | (38) |
| LOSS FOR THE YEAR FROM CONTINUING OPERATIONS | **(38,930)** | (17,228) | (60,121) | (1,833) | (52,518) |
| **DISCONTINUED OPERATION** | | | | | |
| (LOSS)/GAIN FOR THE YEAR FROM DISCONTINUED OPERATION | **–** | – | – | – | (20,324) |
| LOSS FOR THE YEAR | **(38,930)** | (17,228) | (60,121) | (1,833) | (72,842) |
| ATTRIBUTABLE TO: | | | | | |
| OWNERS OF THE COMPANY | **(39,964)** | (18,033) | (60,248) | (1,622) | (70,588) |
| NON-CONTROLLING INTERESTS | **1,034** | 805 | 127 | (211) | (2,254) |
| | **(38,930)** | (17,228) | (60,121) | (1,833) | (72,842) |
| **ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS** | | | | | |
| TOTAL ASSETS | **161,746** | 177,887 | 184,727 | 247,016 | 228,196 |
| TOTAL LIABILITIES | **(63,980)** | (57,411) | (54,937) | (56,388) | (55,073) |
| NON-CONTROLLING INTERESTS | **1,688** | 3,450 | 3,808 | 3,574 | 3,387 |
| | **99,454** | 123,926 | 133,598 | 194,202 | 176,510 |