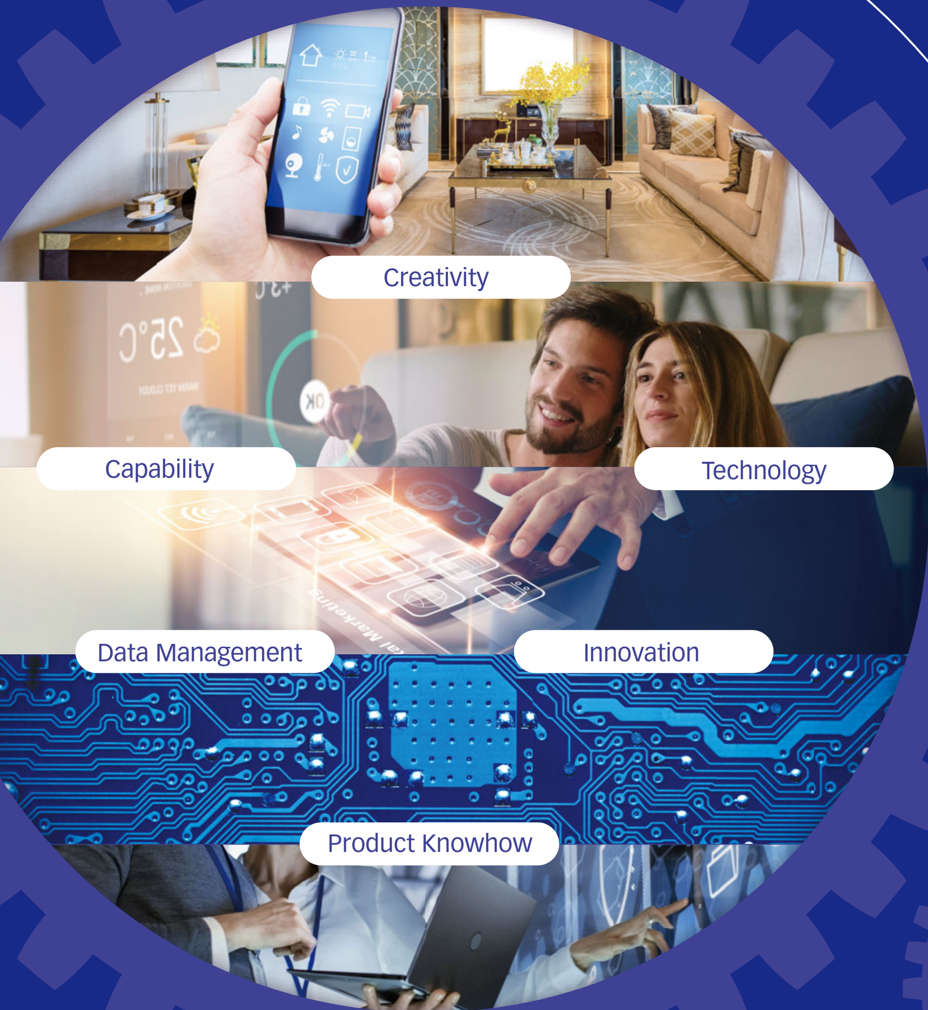
Computime

ANNUAL REPORT

# 2018/2019




Smart Home Heating & Energy Management

Intelligent Home & Building Management

IoMT:
TeleHealth

Value-Added Manufacturing Services

## COMPUTIME GROUP LIMITED
## 金寶通集團有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 320)

* For identification purposes only

Computime Group Limited (stock code: 0320) is a global technology and manufacturing company headquartered in Hong Kong, with 14 offices and manufacturing sites in strategic locations around the world. Over the past 40+ years, Computime has worked with global brands to produce meaningful design and manufacturing solutions, as well as developed and launched innovative products under its own brand name. Offering much more than standard manufacturing services, Computime has established a broad portfolio of solutions. Through bespoke IP and sophisticated R&D, Computime helps its partners accelerate time-to-market, as well as launches industry-leading connected products under its SALUS brand. Computime has positioned itself at the forefront of technology, and is emerging as a market leader in the design and manufacturing of IoT and home automation products. Computime is a Gold Award winner in the Hong Kong Information and Communications Technology Awards 2018.

# Contents

# Corporate Information

## Directors

### Executive Directors
Mr. AUYANG Ho *(Chairman)*
Dr. OWYANG King *(Chief Executive Officer)*

### Non-executive Directors
Mr. KAM Chi Chiu, Anthony
Mr. Arvind Amratlal PATEL
Mr. WONG Chun Kong
Mr. AU Hing Lun, Dennis

### Independent Non-executive Directors
Mr. LUK Koon Hoo
Mr. Patrick Thomas SIEWERT
Mr. CHEUNG Ching Leung, David

## Authorised Representatives under the Listing Rules

Mr. AUYANG Ho
Dr. OWYANG King

## Executive Committee

Mr. AUYANG Ho *(Chairman)*
Dr. OWYANG King

## Audit Committee

Mr. LUK Koon Hoo *(Chairman)*
Mr. Patrick Thomas SIEWERT
Mr. KAM Chi Chiu, Anthony
Mr. Arvind Amratlal PATEL
Mr. CHEUNG Ching Leung, David

## Remuneration Committee

Mr. Patrick Thomas SIEWERT *(Chairman)*
Mr. AUYANG Ho
Mr. LUK Koon Hoo
Mr. CHEUNG Ching Leung, David

## Registered Office

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

## Head Office and Principal Place of Business

6/F, Building 20E, Phase 3,
Hong Kong Science Park,
20 Science Park East Avenue,
Shatin, New Territories,
Hong Kong
Tel: (852) 2260 0300
Fax: (852) 2790 3996

## Website

www.computime.com

## Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor,
24 Shedden Road,
P.O. Box 1586, Grand Cayman,
KY1-1110, Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office

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

## Nomination Committee

Mr. AUYANG Ho *(Chairman)*
Mr. LUK Koon Hoo
Mr. Patrick Thomas SIEWERT

## Company Secretary

Ms. SO Ka Man

## Investor Relations

6/F, Building 20E, Phase 3,
Hong Kong Science Park,
20 Science Park East Avenue,
Shatin, New Territories,
Hong Kong
Tel: (852) 2260 0300
Fax: (852) 2790 3996
Email: ir@computime.com

## Stock Code

320

## Auditor

Ernst & Young

## Legal Advisors

DLA Piper
Burke, Warren, MacKay & Serritella, P.C.

## Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
MUFG Bank, Ltd.
BNP Paribas Hong Kong Branch
DBS Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited

# Chairman's Statement

**Dear Stakeholders,**

On behalf of the Board of Directors (the "Board") of Computime Group Limited (the "Company" or "Computime"), I present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2019 ("FY2019" or the "Year").

FY2019 represented a challenging year due to the growing uncertainties in the global economies and political landscape. These included black swan events such as the tried yet unsuccessful Brexit in the European Union, as well as the ongoing and fluctuating Sino-US trade dispute, which have all led to a lower consumer confidence and delayed purchases around the globe. Such conservatism has, in return, affected every player in the electronics manufacturing services ("EMS") industry, as the lower sell-through rate from customers has led to a slower turnover in inventories, eventually slow down in sales. As a result, the Group recorded a year-on-year ("YoY") drop in revenue by 11.6%.

In addition to the top line pressure, price for raw materials also increased substantially during the Year, as a result of the increase in demand and contracting supply of critical components since the end of 2017. As a combination of unfavorable macroeconomic environment and cost pressure, the Group's net profit was affected. Yet, not all hope is lost as the Group was still able to demonstrate its resilience and business sustainability with the modest net profit, while upholding its dividend policy in repaying shareholders during such challenging moments.

Looking forward, we believe Computime should prevail once macroeconomic environment recovers. During the Year, the Group has further strengthened its competitive advantage by expanding its capability in Smart Solutions ("SS") with new technologies and products. Specifically focusing on core competencies in wireless technologies and Internet-of-Things ("IoT"), the Group invested heavily into research and development ("R&D"), and was able to develop new products and solutions for and with its clients, such as the enhanced solutions in various sensor applications, and efficient energy saving solutions with programmable thermostats, smart plugs and window/door sensors. Stepping ahead with innovative ideas and solutions for customers from different industries and markets, this should continue to drive business volume and margins, raise customer's loyalty, and expand the Group's product mix, laying a solid foundation for future recovery.

Apart from increasing penetration from existing client base, the Group was also looking into the possibility of extending its capability into other market segments, such as smart energy, smart medical and smart property management. During the Year, the Group has already engaged in discussion with a multi-national hospitality chain for the provision of smart property management and energy saving solutions, and is expecting meaningful contributions in the near future. By leveraging its outstanding R&D and manufacturing capability, the Group will also look into other applications of its IoT technologies in the future, in order to establish a longer and sustainable partnership with its customers and achieve a higher margin growth.

In addition to the original design manufacturing ("ODM") business under SS, specific attention will also be given to our house brand, SALUS, as it delivered a significant growth in revenue during the Year. SALUS has continued to reinforce its position as an innovation leader with the creation of the Sales Service Group. It applies proprietary algorithms and machine learning to data to create solutions for property managers and professional services industry. This service group will establish a new recurring revenue stream with solutions that will be sold via a subscription model. SALUS represents a strategic way to enhance the Group's market presence, sales, and margins, and the Group is aiming to deliver a faster YoY growth in revenue this coming year, by increasing its market share and tapping into new business opportunities.

Meanwhile, for the Group's Contract Manufacturing Services ("CMS") business, we will continue to optimise its cost structure in order to better react to the uncertain macroeconomic environment. Specifically, to tackle the rising prices of raw materials, the Group will earnestly look into various approaches to improve its procurement volume management, price and payment terms, as well as inventory control, and working capital management in order to stabilise business performance. Being an established player in the industry, we believe that the Group will be able to leverage its strong bargaining power to enjoy additional benefits in raw materials purchases. We are also looking into expanding our footprint in carrying out more effective and efficient manufacturing solutions to meet our customers' needs. The two combined strategies should provide a downward protection to the stable and sustainable business.

## Appreciation

This Year undoubtedly marks a challenging setback in our journey of transformation, yet demonstrates our commitment and ambition to reinvent ourselves. On behalf of the Board, I would like to take this opportunity to express our sincere gratitude to all our stakeholders, our esteemed customers, our valuable investors, our trusted suppliers, and our loyal and dedicated employees, for the continuing support and for staying with us into an even more-exciting future.

Sincerely,

**AUYANG Ho**
*Founder, Chairman, and Executive Director*
Computime Group Limited

Hong Kong, 20 June 2019

# Management Discussion and Analysis

## Business Review

Over a decade ago, as the business model of original equipment manufacturer ("OEM") became increasingly difficult due to the fierce price competition and its lack of bargaining power, it became evident that additional value-added features such as enhanced design, improved functionality, increasing adaptability, superb connectivity and application of data analytics were of growing importance, as such features could lead to a boost in sales volume and margins as a result of the wider use of products and higher customer stickiness, essentially forming a more profitable and sustainable business. Hence, leveraging its design expertise, material know-how, product engineering and manufacturing capability, the Group firmly grasped such opportunity to transform from a pure manufacturing player to a technology-driven company specifically focusing on IoT, while offering customized, turnkey design and manufacturing solutions to its established and diversified list of clients through its presence in the EMS industry. Through bespoke intellectual property and sophisticated R&D capabilities, the Group also launched its own line of proprietary products under the brand SALUS in the European and North American markets.

## Milestone in FY2019

During the Year, the Group has taken an active approach in driving client's adoption and attracting new clients for its SS and CMS businesses. Supported by its 4 R&D centres in the Silicon Valley, Cincinnati, Hong Kong and Shenzhen, the Group was able to approach existing or new clients with new ideas and technologies, particularly on IoT. Through such technological breakthrough or client co-development, the Group was able to tap into the smart home, smart energy, and smart building segments, and was able to secure new clients. This showcased the Group's outstanding R&D capability in further expanding the business in the future. During the Year, the Group has successfully broadened the application channel of our IoT products and solutions to multiple industries and expanded our multi-channel distribution network.

In addition to the ODM business under SS, the Group also paid specific attention to its house brand, SALUS, as it represented a key strategy to enhance the Group's market presence, margins, and drove cross-selling activities with both SS and CMS businesses. Through sales channel expansion and increased marketing effort, SALUS has successfully secured orders not only from wholesalers and distributors in Europe, but also from new customers including an insurance provider and a home security company. Together with the ODM business, the two have laid a solid foundation for the Group's future rebound.

Meanwhile, the Group has positioned its CMS business as a stable cash cow which would provide steady income stream through its OEM business. However, during the Year, its profitability was greatly affected by the rise in price of certain critical components. To tackle the problem, the Group actively looked into various initiatives to optimize its raw material procurement, inventory control, and working capital management in order to drive enhancement in business performance.

## FY2019 Financial Review

In spite of the Group's aforementioned best effort and initiatives, there was a prevailing prudency in the market with the view of contracting global trade and regressing economy. Two of the key major contributing markets of the Group's sales, the America and Europe, suffered from political and economic uncertainties due to Sino-US trade tension and Brexit. Consequently, the Group's revenue for the Year recorded a YoY decrease of 11.6%, from approximately HK$3,867.5 million to approximately HK$3,420.1 million, as clients became more conservative with orders and delayed shipment scheduling. Sales from SS and CMS both dropped, but nonetheless inventories managed to be driven down significantly on a half-on-half basis, decreasing from HK$969.5 million as at 30 September 2018 to HK$671.0 million as at 31 March 2019, driven by efficient inventory management as well as acceleration of customer sell-through.

In terms of gross profit, the Group suffered a drop from HK$562.7 million of last year to HK$401.2 million of this Year, attributable mainly to significant component cost increase. Yet, both SS and CMS remained profitable at segment level despite the latter has experienced more pressure due to its higher ratio of components and raw materials in its cost base. Profit attributable to owners of the Company amounted to HK$10.3 million for the Year, as compared to HK$126.4 million of last year.

Total operating expenses (selling and distribution expenses and administrative expenses) decreased by approximately 7.5% YoY to HK$377.2 million. Specifically, both selling and distribution expenses and administrative expenses recorded a YoY decrease, from HK$120.3 million to HK$107.9 million, down by 10.3%, and from HK$287.3 million to HK$269.4 million, down by 6.2%, respectively.

Regarding the Group's financial position, it remained in a healthy, net cash position despite the challenge trading environment. Apart from managing inventory reduction in the past 6 months, current ratio stood at 2.0x (As at 31 March 2018: 2.0x), significant with trade receivables remained manageable, in particular the reduction in receivables aged due over 3 months by 24.4% to HK$9.6 million (As at 31 March 2018: HK$12.7 million). Such healthy financial position and flexibility will be critical for the Group to prevail in the volatile global economy and pursue future M&A opportunities.

The Board has recommended a final dividend of HK$0.0164 (2018: HK$0.075) per ordinary share for the Year, representing an increased dividend payout ratio of 134.0% (2018: 49.8%).

## Outlook

Looking into next financial year ("FY2020"), while the global economy is still volatile due to events including the escalation of trade dispute between the U.S. and China, Brexit and the slowing down of global trade activities, the stabilization of component price in the market has significantly alleviated our cost pressure. With the solid foundations laid in FY2019, the Group remain cautiously optimistic towards FY2020 through wider adoption of our IoT products and solutions into different industries.

The SS business segment represents a prime tool in raising customer engagement and recruiting new clients. From idea generation, solution design, technology development to procurement, manufacturing and quality assurance, the Group has emerged from an EMS manufacturer to a tailor-made solution and service provider through its IoT product and solutions. Such transition allowed the Group to gain a number of key accounts despite the recent setback, including a constructor of multinational hotel chains where the Group provides smart home and energy solutions to improve user experience. In the future, the Group will also look into other applications of its IoT technologies, tapping into areas such as smart property and healthcare, in order to establish longer, sustainable partnership with its customers and achieve higher margin growth.

On the other hand, SALUS positioned itself as an innovation and technology leader in the IoT space, while also acting as an in-house distribution channel for the Group's products and solutions under the SS segment. As at 31 March 2019, SALUS has a global footprint covering countries in Europe, and North America through its smart home solutions controlled and connected by self-developed software and IoT technology. Its advanced products offering has been well-received by the market, such as the recently launched, top-of-the-class thermostat with advanced energy-saving features. Riding on its innovation ability and brand equity, the Group will continue to roll out new products with improving features targeting different settings, and at the same time, further expand its sales network in achieving sustainable growth in the near future.

Regarding its CMS business, where the Group faces a higher raw material exposure and the market generally being more price-sensitive, the Group will continue to actively manage its procurement process, including volume, price, and payment terms in its latest attempt to create a leaner cost structure. In the longer-term, the Group will also explore new businesses including connected medical devices and point-of-sale devices, in order to further diversify its product base and increase margin.

Through years of efforts, the Group has transformed from a pure manufacturing player to a technologically-driven solution provider. With its R&D capability, decades of operational history, solid reputation in the market and global presence, the Group is confident in navigating through the volatile operating environment and gaining greater market share in the IoT space.

## Liquidity, Financial Resources and Capital Structure

The Group continued to maintain a sound financial and liquidity position in the Year. As at 31 March 2019, the Group maintained a balance of cash and cash equivalents of HK$436,488,000 (2018: HK$729,615,000), which included cash and bank balance of HK$47,888,000 (2018: HK$145,935,000) denominated in RMB. The remaining balance was mainly denominated in United States dollars ("US dollars"), Hong Kong dollars or Euro. Overall, the Group maintained a robust current ratio of 2.0 times.

As at 31 March 2019, total interest-bearing bank borrowings were HK$210,039,000 (2018: HK$250,689,000), comprising mainly bank import loans repayable within one year. The majority of these borrowings were denominated either in Hong Kong dollars or Euro and the interest rates applied were primarily subject to floating rate terms.

As at 31 March 2019, total equity attributable to owners of the Company amounted to HK$1,288,185,000 (2018: HK$1,351,037,000). The Group had a net cash balance of HK$226,449,000 (2018: HK$478,926,000), representing total cash and cash equivalents less total interest-bearing bank borrowings.

## Treasury Policies

The Group is exposed to foreign exchange risk through sales and purchase that are denominated in currencies other than the functional currency of the operations to which they relate. The currencies involved are primarily US dollars, Euro and GBP. As at 31 March 2019, the Group had outstanding foreign currency forward contracts to sell Euro 3.5 million buy US dollars (2018: Euro 18.6 million buy US dollars), and sell GBP 0.75 million buy US dollars (2018: GBP 4.5 million buy US dollars). These forward contracts were entered into for managing the foreign exchange risk. The Group closely monitors its overall foreign exchange exposure from time to time and will adopt a proactive but prudent approach to minimise the relevant exposures.

## Capital Expenditure and Commitments

During the Year, the Group incurred total capital expenditures of approximately HK$154,437,000 (2018: HK$164,967,000) for additions to property, plant and equipment as well as for deferred expenditures associated with the development of new products.

As at 31 March 2019, the Group had capital commitments contracted but not provided for at an amount of HK$3,666,000 (2018: HK$5,931,000), mainly for the acquisition of property, plant and equipment.

## Contingent Liabilities

As at 31 March 2019, the Group did not have any significant contingent liabilities (2018: Nil).

## Charges on Assets

As at 31 March 2019, no bank deposits and other assets have been pledged to secure the Group's banking facilities (2018: Nil).

## Employee Information

As at 31 March 2019, the Group had a total of 5,125 full-time employees (2018: 5,500 full-time employees). Total staff costs for the Year amounted to HK$682,384,000 (2018: HK$657,666,000). Salaries and wages are generally reviewed on an annual basis in accordance with individual qualifications and performance, the Group's results and market conditions. The Group provides year-end double pay, discretionary bonus, medical insurance, provident fund, educational subsidy and training to its employees. The Company currently has a share option scheme (which was adopted on 14 September 2016 due to the expiry of the old share option scheme on 15 September 2016) under which the Company can grant options to, inter alia, employees of the Group to subscribe for shares of the Company with a view to rewarding those who have contributed to the Group and encouraging employees to work towards enhancing the value of the Company and its shares for the benefit of the Company and the shareholders of the Company (the "Shareholders") as a whole. Up to the date of this report, 28,800,000 share options remained outstanding under the 2006 Share Option Scheme and 2,000,000 share options remained outstanding under the 2016 Share Option Scheme.

# Profile of Directors, Senior Management and Company Secretary

## Directors

### Executive Directors

**AUYANG Ho**, aged 87

Mr. AUYANG is an Executive Director, Chairman of the Board, Chairman of both the Executive Committee and Nomination Committee and a member of the Remuneration Committee of the Company. He is also a director of certain subsidiaries of the Company. Besides, Mr. AUYANG is a director and a shareholder of Solar Power Group Limited, the controlling shareholder of the Company. He is an elder brother of Dr. OWYANG King, the Chief Executive Officer of the Company and father-in-law of Mr. AU Hing Lun, Dennis, a Non-executive Director of the Company. He co-founded the Group in 1974. Mr. AUYANG graduated from the South China Institute of Technology (now known as the South China University of Technology), where he studied structural engineering. Mr. AUYANG has more than 50 years of experience in manufacturing operations, product management and development in the electronics industry. Prior to founding the Group, Mr. AUYANG has been an engineer in the Ministry of Railways of the People's Republic of China (the "PRC"). During the period from April 1965 to January 1973, he worked in the group of The Hong Kong Chiap Hua Manufactory Company, (1947) Limited (now known as "Chiaphua Limited") (this group is hereinafter referred to as "Chiap Hua Group"). He had served as an assistant plant manager of the extrusion plant for The Hong Kong Chiap Hua Manufactory Company, (1947) Limited from April 1965 to December 1970. From January to September 1970, he acted as a project manager for International Containers Limited (a company formed by Chiap Hua Group and another party and has now been dissolved) and was responsible for supervising and co-ordinating the setting-up of a new manufacturing plant and all the facilities. In September 1970, he was formally promoted as the plant manager of International Containers Limited and held the position until he left Chiap Hua Group in January 1973. He then formed the Group and under his leadership, the Group received The Chinese Manufacturers' Association of Hong Kong New Product Award in 1976. Mr. AUYANG has been instrumental in spearheading the Group's expansion and has secured many key customers since 1980 up to 2003. He currently acts as an advisor to our Chief Executive Officer and senior management and provides guidance on management issues.

**OWYANG King**, aged 73

Dr. OWYANG is an Executive Director, the Chief Executive Officer and a member of the Executive Committee of the Company. He is a younger brother of Mr. AUYANG Ho, the Chairman of the Company. Mr. AU Hing Lun, Dennis, the Non-executive Director of the Company, is a son-in-law of Mr. AUYANG. Accordingly, Dr. OWYANG is an uncle of Mr. Au. Dr. OWYANG joined the Group in April 2010. He obtained a degree of Bachelor of Science in Physics and a degree of Doctor of Philosophy in the field of Materials Science from Massachusetts Institute of Technology, United States in 1968 and 1974, respectively. Dr. OWYANG joined General Electric Company as a member of technical staff in 1974 and held various technical and managerial positions, including directing research and development activities for the Semiconductor Division. Dr. OWYANG was responsible for developing many enabling semiconductor technologies, including the world's first 500V Power Integrated Circuit and Insulated Gate Bipolar Transistor technologies. Dr. OWYANG received the company's prestigious Outstanding Achievement Award in 1981. In 1988, Dr. OWYANG joined Siliconix Incorporated (a NASDAQ listed company) in California as vice president of Research and Development and directed the work of 70 scientists, engineers and technical staff in the area of electronic devices, circuits, processing technology and packaging development. He was promoted to executive vice president in 1992 and assumed additional responsibility for all Silicon Operations where he restructured the engineering resources and Wafer Fab Operations to enhance the technical capability and overall productivity. He turned the company from a technology follower and position-losing firm to a highly profitable company with industry leading products. In 1997, Dr. OWYANG was promoted to the position of president and chief executive officer. Under his leadership and management, the company has firmly established itself as the world leader in power switching and management products and its sales grew to a record level in 2008. Dr. OWYANG is a recognised leader in the Power Metaloxide Semiconductor Field-effect Transistor Industry. He has published over 20 technical papers and has been awarded more than 25 patents. He received the Industry IR100 Award in 1979 and 1983 based on his pioneering works in silicon power device technologies and products. Dr. OWYANG has also been listed in the "National Register's WHO'S WHO in Executives and Professionals", which demonstrates his recognisable success in the field. In 2015, he was awarded the Asia Pacific Entrepreneurship Award by Enterprise Asia, in recognition of his achievements in transforming Computime from an OEM electronics manufacturing service company to a market driven technology solution provider. He currently also serves as a director of Alpha and Omega Semiconductor Limited, a company listed on the NASDAQ Stock Market.

## Non-executive Directors

**KAM Chi Chiu, Anthony**, aged 57

Mr. KAM is a Non-executive Director and a member of the Audit Committee of the Company. Mr. KAM is a fellow of the Hong Kong Institute of Certified Public Accountants and a fellow of the Institute of Chartered Accountants in England and Wales. He holds a Master's degree in Mathematics from the University of Oxford in the United Kingdom. He is qualified as a chartered accountant in London and currently practices as a certified public accountant in Hong Kong. Mr. KAM was appointed as a Non-executive Director of the Company in September 2006.

**Arvind Amratlal PATEL**, aged 78

Mr. PATEL is a Non-executive Director and a member of the Audit Committee of the Company. He was appointed as a Non-executive Director of the Company in September 2006. Mr. PATEL has retired with 40 years of experience with several U.S.– based public and private manufacturing companies. After earning his Bachelor's degree in Electrical Engineering from The Maharaja Sayajirao University of Baroda in India, Mr. PATEL immigrated to United States to pursue further studies. He began his professional career with Culligan International in 1966. After working with certain smaller companies, he returned to a management position at Culligan International in 1971 while simultaneously earning his Master's degree in Business Administration from Loyola University Chicago. He then joined Intermatic Incorporated, an international manufacturer of electrical and electronic products. During his 20 years at Intermatic Incorporated, Mr. PATEL held several executive positions, including president and chief operating officer, until his retirement in 2005. In addition to the management positions, Mr. PATEL was elected to the boards of Intermatic Incorporated and Intermatic – A.T.C., a manufacturing joint venture in China, from July 2000 until his retirement in December 2005. Since his retirement from full time business activities, Mr. PATEL became a partner and a member of the board of directors of TADD LLC, a privately held company engaged in design, manufacture and distribution of LED retro-fit lighting products in the U.S.A. In January 2011, Mr. PATEL was elected to the board of directors of Rogan Corporation, a privately held company engaged in design, manufacture and distribution of sophisticated injection molded plastic components for industrial and consumer applications. He resigned from this position in April 2012.

**WONG Chun Kong**, aged 58

Mr. WONG is a Non-executive Director of the Company. He is a solicitor of the High Court of Hong Kong and currently a senior counsel at Manulife (International) Limited. Mr. WONG was educated in both Hong Kong and England. He has substantial experience in civil litigation and deals mainly in commercial, personal injuries, banking and administrative law litigation, corporate acquisition, cross-border joint ventures, etc. He had served as a deputy adjudicator of the Small Claims Tribunal in 1998 and as an adjudicator of the Registration of Persons Tribunal of Hong Kong Special Administrative Region during period from March 2005 to February 2011. He was also a panel member of the Municipal Services Appeals Board of Hong Kong Special Administrative Region during the period from January 2009 to December 2014. He is now a chief adjudicator of the Registration of Persons Tribunal of Hong Kong Special Administrative Region. Mr. WONG was appointed as a Non-executive Director of the Company in February 2008.

**AU Hing Lun, Dennis**, aged 59

Mr. AU is a Non-executive Director of the Company. Mr. AU is a son-in-law of Mr. AUYANG Ho, the Chairman of the Company. Dr. OWYANG King, the Chief Executive Officer of the Company and younger brother of Mr. AUYANG, is accordingly an uncle of Mr. AU. Mr. AU joined the Group on 7 May 2014, and was appointed as an Executive Director, a member of the Executive Committee, and the Deputy Chief Executive Officer of the Company to head up the Brand Distribution Division. Mr. AU resigned from the position of Deputy Chief Executive Officer of the Company and was redesignated as a Non-executive Director of the Company on 28 February 2018. Mr. AU has over 30 years of experience in accounting, finance, consultancy, business development and general management spanning manufacturing, technology and real estate industries. Mr. AU is a fellow member of the Association of Chartered Certified Accountants. He has a Master of Business Administration degree from the University of Hong Kong and a Bachelor of Science degree from Dalhousie University, Halifax, Nova Scotia, Canada.

## Independent Non-executive Directors

**LUK Koon Hoo**, aged 67, *BBS, JP*

Mr. LUK is an Independent Non-executive Director of the Company, the Chairman of the Audit Committee and a member of both the Remuneration Committee and Nomination Committee of the Company. He is a retired banker, and has 30 years of comprehensive experience in accounting and financial management. He began at Hang Seng Bank in 1975 as a trainee officer. He was appointed as personal assistant to the deputy general manager and held that office from 1987 to 1989. Mr. LUK served as the head of financial control in 1989, as director and deputy chief executive in 1994 and as managing director and deputy chief executive from 1996 to his retirement in May 2005. Regarding Mr. LUK's other directorships, he is an independent non-executive director of China Properties Group Limited, Hung Hing Printing Group Limited, i-Cable Communications Limited and Harbour Centre Development Limited (companies listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) and is also an independent non-executive director of Octopus Cards Limited. Mr. LUK also serves as a council member of The Chinese University of Hong Kong and a non-executive director of Urban Renewal Authority. Mr. LUK also served in the past on the Court and Council of Hong Kong Baptist University, the Advisory Committee on New Broadbased Taxes, the Personal Data (Privacy) Advisory Committee, the Central Policy Unit of the Hong Kong Government, the Statistics Advisory Board, the Broadcasting Authority, the Board of Trustees of the Sir Edward Youde Memorial Fund and the Advisory Committee, the Investor Education Advisory Committee of the Securities and Futures Commission ("SFC"), Barristers Disciplinary Tribunal Panel, the Operations Review Committee of ICAC and Town Planning Board. He was an appointed member of the Hong Kong Legislative Council from 1992 to 1995, and also a member of the first Election Committee of the Legislative Council. He holds a Bachelor of Social Sciences Degree in Statistics from The University of Hong Kong and a Master of Business Administration Degree from The Chinese University of Hong Kong. He is a fellow of The Hong Kong Institute of Bankers. Mr. LUK is a non-official Justice of the Peace and was awarded the honour of Bronze Bauhinia Star in 2004 in recognition of his contributions to public services. Mr. LUK was appointed as an Independent Non-executive Director of the Company in September 2006.

**Patrick Thomas SIEWERT**, aged 63

Mr. SIEWERT is an Independent Non-executive Director, the Chairman of the Remuneration Committee and a member of both the Audit Committee and Nomination Committee of the Company. He is a managing director and partner of The Carlyle Group, advising on investments in consumer and retail businesses across Asia and globally since April 2007. Previous to joining The Carlyle Group, he held various positions in Asia with The Coca-Cola Company including group president and president and chief operating officer and corporate executive committee member during the period from 2001 to 2007. He was responsible for some of the highest growth businesses in The Coca-Cola Company and some of its most innovative and successful product launches. Mr. SIEWERT's early career experiences were with the Eastman Kodak Company, where he had worked since 1974, holding positions in sales management, marketing, finance, brand management, business planning and general management in various countries/regions around the world, including the Americas, Europe and Asia. He served as chairman, Greater China Region, chief operating officer of Kodak's global consumer business and president, Kodak Professional, its global commercial business. He was a senior vice-president of Eastman Kodak Company. Mr. SIEWERT attended the Rochester Institute of Technology in Imaging Science, Business and Service Management and received a Bachelor of Science in Business Administration/Finance from Elmhurst College, Illinois and a Master of Science from the Rochester Institute of Technology. He currently serves as a director in Avery Dennison Corporation, a company listed on the New York Stock Exchange, and Mondelēz International, Inc., a company listed on the NASDAQ Stock Market. He has served as past director of several companies in the broadcasting, health and beauty, hotel/tourism and animal nutrition and natural resources sectors. He has also served as past director of several trade organisations including the US-Hong Kong Business Council, US China Business Council, US-ASEAN Business Council and board of governors, American Chamber of Commerce in Hong Kong. He is a member of the Young Presidents' Organization and Chief Executives Organization. Mr. SIEWERT is a recipient of several diversity awards and a United Nations IPC Lifetime Achievement Award. Mr. SIEWERT was appointed as an Independent Non-executive Director of the Company in September 2006.

**CHEUNG Ching Leung, David**, aged 51

Mr. CHEUNG is an Independent Non-executive Director and a member of both the Audit Committee and Remuneration Committee of the Company. Mr. CHEUNG has over 20 years of fund management experience. Mr. CHEUNG was a responsible officer at Instanza Capital Limited and chief investment officer of Degroof Petercam Asset Management (HK) Limited. Mr. CHEUNG also held senior positions at CITIC Securities International Investment Management (HK) Limited and Aetos Capital Management (Asia) Limited. He was an investment director at Prudential Asset Management (Hong Kong) Limited and responsible for their Greater China equity investments. Prior to that, Mr. CHEUNG was a fund manager at Chase Asset Management Limited, the fund management arm of Chase Manhattan Bank. Mr. CHEUNG currently serves as a member of the investment committee of the Hong Kong Polytechnic University. Previously, Mr. CHEUNG was a member of the listing committee of the Stock Exchange from 2006 to 2007 and was also a member of the SFC Public Shareholders Group and the SFC Dual Filing Advisory Group. Mr. CHEUNG obtained a Master's degree in economics from York University, Canada and a Bachelor's degree in monetary economics from the London School of Economics and Political Science, UK. Mr. CHEUNG is a holder of the Chartered Financial Analyst designation awarded by the CFA Institute. Mr. CHEUNG was appointed as an Independent Non-executive Director of the Company in October 2011.

## Senior Management

**AU Matthew Kam-yuen**, aged 54
Mr. AU joined the Group in 2015 as Chief Financial Officer, and was appointed as Chief Operating Officer in 2018. Mr. AU has more than 25 years of leadership experience in global multi-national enterprises. He has held senior management roles with several high growth US-listed companies, including VP finance at Gilead Sciences and VP controller at KLA-Tencor and Tesla Motors. Most recently, he was chief operating officer of DiagCor Bioscience Limited in Hong Kong. Mr. AU earned his B.S. in Accounting & Finance from the University of California, Berkeley, USA and an M.B.A. in Finance and Operations Management from the University of Chicago, USA.

**POON Yiu Ming**, aged 46
Mr. POON joined the Group in 2018 as Chief Financial Officer. He has over 20 years of corporate finance, commercial and strategic development experience through his CFO and management positions held in leading conglomerates and multinational listed companies across retail, trading, manufacturing, banking and the technology sectors. Mr. POON is a member of CPA Australia. He holds a Bachelor degree in Environmental Science from the University of Hong Kong and a Master degree in Business Administration from Monash University.

**HA Wai Leung**, aged 60
Dr. HA joined the Group in 1998, and is the Executive Vice President – SALUS North America. He is a chartered engineer and a member of The Institute of Measurement and Control, The Institution of Engineering and Technology as well as senior member of The Institution of Electrical and Electronics Engineers, with over 30 years of working experience in engineering and research and development. Prior to joining us, he worked as senior management in research and development in various electronics companies in Hong Kong and Singapore. He obtained an Engineering Doctorate's Degree in Engineering Management from City University of Hong Kong, a Master degree in Electronic Systems Design from City University of Hong Kong, a Master degree in Engineering from The University of Hong Kong, and an Associateship and Higher Diploma in Electrical Engineering from The Hong Kong Polytechnic University.

**CHU Chun Kit**, aged 54
Mr. CHU joined the Group in 2018, and is the Vice President – Engineering. He has over 30 years of experience in consumer products segment, 20 years of which in mobile and telecommunication industry. He has extensive experience in end-to-end ecosystems, from infrastructure business model to content and service solutions. Mr. CHU gained valuable experience at Motorola where he had worked for 10 years in key roles from semiconductors sector to mobile solutions sector. As the director of Engineering at Motorola, one of his major achievements was to create the Taichi family of smart phones and J2ME OTA eco-system in the 2000s. Subsequent to his career in Motorola, Mr. CHU successfully took key positions at companies such as E28, Elite Holdings, ConvenientPower and WiTricity, and build an extensive track record in wireless charging for consumer and automotive segments. Mr. CHU holds a Bachelor degree in Engineering, majoring in Microelectronics & Microprocessor from University of Newcastle in the United Kingdom.

**HO Pak Tong, Jimmy**, aged 56
Mr. HO joined the Group in 2014, and is the Vice President – Global Human Resources. He has over 25 years of experience in Human Resources. Mr. HO has held senior positions as regional and global head of human resources in sizable multinational and local companies including WL Gore & Associates, Novo Nordisk, ASML, Spotless Group and Lee Kum Kee. Mr. HO graduated from the Hong Kong Polytechnic University and has a Master of Science degree in Human Resources Management from the College of Dublin, National University of Ireland.

**MAK Wing Kwong David**, aged 57

Mr. MAK joined the Group in 2018, and is the Vice President – Connected Solutions. He has over 30 years of working experience in developing/manufacturing and distribution of computer software and hardware, internet content development and electronic learning products. He assumes full responsibilities for the ODM, HVAC and IoT new products and business development. Mr. MAK worked for VTech Group for over 12 years where he was the managing director in VTech Computers Systems Limited, School Supervisor in VTech School of IT and an executive director of VTech eLearning Holdings Limited. He also served as the president of the IDT Electronic Products division and COO of Lung Cheong Group. Mr. MAK holds a Master degree in International Marketing from the University of Strathclyde in Glasgow, the United Kingdom.

**YICK Ka Lei**, aged 52

Mr. YICK joined the Group in 2018, and is the Vice President – Contract Manufacturing Service Business. He has over 25 years of experience in the field of consumer electronics. Before joining Computime, he was the Managing Director of Alco International Limited. He held senior management positions with Philips Consumer Lifestyle, TCL Multimedia Limited, and Binatone Group. Mr. YICK holds a Bachelor degree in Electrical & Electronics Engineering from the University of Manchester and an MBA from University of Warwick. He also serves as a member of Electronics/Electrical Appliances Industries Advisory Committee of Hong Kong Trade Development Council in the years of 2017 to 2019.

## Company Secretary

**SO Ka Man**, aged 45

Ms. SO was appointed as the Company Secretary in November 2017. She is a director of Corporate Services Division of Tricor Services Limited, which is a global professional services provider specializing in integrated business, corporate and investor services. She is a Chartered Secretary and a Fellow of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. SO has extensive experience in a diversified range of corporate services and has been providing professional services to a number of companies listed on the Stock Exchange.

# Report of the Directors

The Board is pleased to present this report together with the audited consolidated financial statements of the Group for the year ended 31 March 2019.

## Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding. The subsidiaries of the Company are primarily engaged in research and development, design, manufacture and trading of electronic control products. There was no significant change in the Group's principal activities during the Year.

An analysis of the Group's performance for the Year by business and geographical segments is set out in note 4 to the financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 March 2019 and financial position of the Group as at that date are set out in the sections headed "Consolidated Statement of Profit or Loss" and "Consolidated Statement of Financial Position" respectively in this annual report.

The Board has resolved to recommend to the Shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 5 September 2019 (the "2019 AGM") a final dividend of HK$0.0164 per share for the year ended 31 March 2019 (the "Proposed Final Dividend") to be paid on Tuesday, 8 October 2019 to those Shareholders whose names appear on the register of members of the Company on Thursday, 19 September 2019.

## Closure of Register of Members

### (a) Entitlement to attend and vote at the 2019 AGM

The 2019 AGM is scheduled to be held on Thursday, 5 September 2019. For determining the entitlement to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Monday, 2 September 2019 to Thursday, 5 September 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 2019 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 30 August 2019.

### (b) Entitlement to the Proposed Final Dividend

The Proposed Final Dividend is subject to the approval of the Shareholders at the 2019 AGM. For determining the entitlement to the Proposed Final Dividend, the register of members of the Company will also be closed from Tuesday, 17 September 2019 to Thursday, 19 September 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 16 September 2019.

## Business Review

A review of the Group's business during the Year, which includes a discussion of the principal risks and uncertainties facing by the Group, particulars of important events affecting the Group, an analysis of the Group's performance using financial key performance indicators, an indication of likely future developments in the Group's business, discussion on the Group's environmental policies and performance and discussion on the relationships with its stakeholders, can be found in the Chairman's Statement, Management Discussion and Analysis, and Corporate Governance Report contained in this annual report. The Environmental, Social and Governance ("ESG") Report for the Year is published separately on the Company's website, as well as the website of the Stock Exchange. The review forms part contained in this Report of the Directors.

## Donations

Charitable and other donations made by the Group during the Year amounted to approximately HK$357,000.

## Share Capital

Details of the share capital of the Company are set out in note 28 to the financial statements.

## Dividend Policy

The Company has adopted a Dividend Policy on payment of dividends. The Company does not have any predetermined dividend payout ratio. Depending on the financial conditions of the Company and the Group, and the conditions and factors as set out in the Dividend Policy (including but not limited to the Group's financial results, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans), dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

## Equity-Linked Agreements

For the year ended 31 March 2019, the Company has not entered into any equity-linked agreements, save for share options granted under the paragraph headed "Share Option Schemes" in this Report of the Directors and in note 29 to the financial statements.

## Distributable Reserves

Distributable reserves of the Company as at 31 March 2019, calculated in accordance with statutory provisions applicable in the Cayman Islands, amounted to HK$801,964,000 (before deduction of the proposed final dividend of HK$13,772,000).

## Bank Borrowings

Particulars of the bank borrowings of the Group as at 31 March 2019 are set out in note 26 to the financial statements.

## Pension Scheme

The pension scheme contributions are set out in note 7 to the financial statements.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles of Association") or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

## Financial Summary

A summary of the results and of the assets and liabilities of the Group for the previous financial years is set out in the section headed "Financial Summary" in this annual report.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2019.

## Property, Plant and Equipment

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

## Directors

The directors of the Company during the Year and up to the date of this report are as follows:

### Executive Directors:

Mr. AUYANG Ho *(Chairman)*
Dr. OWYANG King *(Chief Executive Officer)*

### Non-executive Directors:

Mr. KAM Chi Chiu, Anthony
Mr. Arvind Amratlal PATEL
Mr. WONG Chun Kong
Mr. AU Hing Lun, Dennis

### Independent Non-executive Directors:

Mr. LUK Koon Hoo
Mr. Patrick Thomas SIEWERT
Mr. CHEUNG Ching Leung, David

Pursuant to article 87 of the Articles of Association, Mr. KAM Chi Chiu, Anthony, Mr. WONG Chun Kong and Mr. Patrick Thomas SIEWERT will retire from office by rotation at the 2019 AGM.

All the above three retiring directors, being eligible, will offer themselves for re-election at the 2019 AGM.

## Independence Confirmation

The Company has received annual confirmations of independence from Mr. LUK Koon Hoo, Mr. Patrick Thomas SIEWERT and Mr. CHEUNG Ching Leung, David pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of these Independent Non-executive Directors remain independent as at the date of this report.

## Directors' Service Contracts

None of the directors being proposed for re-election at the 2019 AGM has a service agreement with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Directors' Interests in Transaction, Arrangement or Contract

Save as disclosed in note 33 to the financial statements, no transaction, arrangement or contract of significance in relation to the Group's businesses to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## Biographical Details of Directors and Senior Management

Biographical details of directors and senior management are set out under the section headed "Profile of Directors, Senior Management and Company Secretary" in this annual report. The directors' biographies are also available on the Company's website.

## Directors' and Senior Management's Emoluments

A summary of the directors' and senior management's remuneration is set out in note 8 to the financial statements and in the section headed "Corporate Governance Report" in this annual report respectively.

## Indemnity of Directors

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout the Year.

## Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporations

As at 31 March 2019, the interests of the directors of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO"); or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in the Listing Rules were as follows:

### (1) Long position in the shares of the Company

| Name of director | Capacity | Number of ordinary shares interested | *Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| Mr. AUYANG Ho | Interest of a controlled corporation | 352,500,000 *(Note)* | 41.98% |
| | Beneficial owner | 1,023,000 | 0.12% |
| | | 353,523,000 | 42.10% |
| Dr. OWYANG King | Beneficial owner | 4,090,000 | 0.49% |
| Mr. AU Hing Lun, Dennis | Beneficial owner | 5,810,000 | 0.69% |

*Note: These shares were held by Solar Power Group Limited ("SPGL"). SPGL is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. AUYANG Ho.*

* *The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 March 2019.*

(2) Long position in the underlying shares of the Company – physically settled unlisted equity derivatives

| Name of director | Capacity | Number of underlying shares in respect of the share options granted | *Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| Dr. OWYANG King | Beneficial owner | 28,800,000 | 3.43% |

Details of the above share options as required to be disclosed by the Listing Rules are disclosed in note 29 to the financial statements.

* *The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at 31 March 2019.*

Save as disclosed above, as at 31 March 2019, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept 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.

## Directors' Rights to Acquire Shares

Save as disclosed in note 29 to the financial statements about the Company's share option schemes, at no time during the Year was the Company, or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

## Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 March 2019, the following persons (other than the directors and chief executives of the Company) had interests of 5% or more in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### Long position in the shares of the Company

| Name of substantial shareholder | Capacity | Number of ordinary shares interested | *Approximate percentage of the Company's issued share capital |
|---|---|---|---|
| SPGL | Beneficial owner | 352,500,000 *(Note 1)* | 41.98% |
| Ms. TSE Shuk Ming | Interest of spouse | 353,523,000 *(Note 2)* | 42.10% |
| Crystalplaza Limited | Beneficial owner | 215,190,000 *(Note 3)* | 25.63% |
| Ms. LEUNG Yee Li, Lana | Interest of a controlled corporation | 215,190,000 *(Note 3)* | 25.63% |
| Mr. HEUNG Lap Chi, Eugene | Interest of spouse | 215,190,000 *(Note 4)* | 25.63% |

*Notes:*

1. *The interest of SPGL was also disclosed as the interest of Mr. AUYANG Ho in the above section headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporations".*

2. *Ms. TSE Shuk Ming was deemed to be interested in 353,523,000 shares of the Company through the interest of her spouse, Mr. AUYANG Ho.*

3. *These 215,190,000 shares of the Company were owned by Crystalplaza Limited, which was wholly-owned by Ms. LEUNG Yee Li, Lana.*

4. *Mr. HEUNG Lap Chi, Eugene was deemed to be interested in 215,190,000 shares of the Company through the interest of his spouse, Ms. LEUNG Yee Li, Lana.*

* *The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 March 2019.*

Save as disclosed above, as at 31 March 2019, no person, other than the directors of the Company whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporations" above, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## Share Option Schemes

The purpose of the share option schemes of the Company is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. The share option scheme adopted by the Company on 15 September 2006 (the "2006 Scheme") has expired on 15 September 2016. Unless otherwise cancelled or lapsed in accordance with the 2006 Scheme, the outstanding share options granted under the 2006 Scheme would remain exercisable. At the annual general meeting of the Company held on 14 September 2016, the Company adopted a new share option scheme (the "2016 Scheme") which, unless otherwise cancelled or terminated, would remain in force for 10 years from the adoption date. Further details of the 2006 Scheme and the 2016 Scheme are set out in note 29 to the financial statements.

Details and movements of the share options of the Company granted under the 2006 Scheme during the year ended 31 March 2019 are as follows:

| | Number of share options | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Category of participants | As at 1 April 2018 | Granted during the Year | Exercised during the Year | Cancelled during the Year | Lapsed during the Year | As at 31 March 2019 | Date of grant of share options[1] | Exercise period of share options | Exercise price per share HK$ |
| Senior management and other employees in aggregate | 240,000 | – | – | – | – | 240,000 | 22 October 2015 | from 22 October 2016 to 21 October 2025 | 1.24 |
| | 240,000 | – | – | – | – | 240,000 | 22 October 2015 | from 22 October 2017 to 21 October 2025 | 1.24 |
| | 320,000 | – | – | – | – | 320,000 | 22 October 2015 | from 22 October 2018 to 21 October 2025 | 1.24 |
| | 240,000 | – | – | – | – | 240,000 | 28 April 2016 | from 28 April 2017 to 27 April 2026 | 1.174 |
| | 360,000 | – | – | – | – | 360,000 | 28 April 2016 | from 28 April 2018 to 27 April 2026 | 1.174 |
| | 440,000 | – | – | – | – | 440,000 | 28 April 2016 | from 28 April 2019 to 27 April 2026 | 1.174 |
| | 160,000 | – | – | – | – | 160,000 | 28 April 2016 | from 28 April 2020 to 27 April 2026 | 1.174 |
| | 2,000,000 | – | – | – | – | 2,000,000 | | | |

| Category of participants | Number of share options: As at 1 April 2018 | Granted during the Year | Exercised during the Year | Cancelled during the Year | Lapsed during the Year | As at 31 March 2019 | Date of grant of share options[1] | Exercise period of share options | Exercise price per share HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Director** | | | | | | | | | |
| Dr. OWYANG King | 2,400,000 | – | – | – | – | 2,400,000 | 30 April 2010 | from 30 April 2011 to 29 April 2020 | 1.05 |
| | 2,400,000 | – | – | – | – | 2,400,000 | 30 April 2010 | from 30 April 2012 to 29 April 2020 | 1.05 |
| | 3,200,000 | – | – | – | – | 3,200,000 | 30 April 2010 | from 30 April 2013 to 29 April 2020 | 1.05 |
| | 2,400,000 | – | – | – | – | 2,400,000 | 28 June 2011 | from 28 June 2012 to 27 June 2021 | 0.79 |
| | 2,400,000 | – | – | – | – | 2,400,000 | 28 June 2011 | from 28 June 2013 to 27 June 2021 | 0.79 |
| | 3,200,000 | – | – | – | – | 3,200,000 | 28 June 2011 | from 28 June 2014 to 27 June 2021 | 0.79 |
| | 1,200,000 | – | – | – | – | 1,200,000 | 6 August 2012 | from 6 August 2014 to 5 August 2022 | 0.375 |
| | 1,600,000 | – | – | – | – | 1,600,000 | 6 August 2012 | from 6 August 2015 to 5 August 2022 | 0.375 |
| | 1,600,000 | – | – | – | – | 1,600,000 | 28 April 2016 | from 28 April 2017 to 27 April 2026 | 1.174 |
| | 1,600,000 | – | – | – | – | 1,600,000 | 28 April 2016 | from 28 April 2018 to 27 April 2026 | 1.174 |
| | 1,600,000 | – | – | – | – | 1,600,000 | 28 April 2016 | from 28 April 2019 to 27 April 2026 | 1.174 |
| | 1,600,000 | – | – | – | – | 1,600,000 | 28 April 2016 | from 28 April 2020 to 27 April 2026 | 1.174 |
| | 1,600,000 | – | – | – | – | 1,600,000 | 28 April 2016 | from 28 April 2021 to 27 April 2026 | 1.174 |
| | 26,800,000 | – | – | – | – | 26,800,000 | | | |

| Category of participants | Number of share options<br>As at 1 April 2018 | Granted during the Year | Exercised during the Year | Cancelled during the Year | Lapsed during the Year | As at 31 March 2019 | Date of grant of share options[1] | Exercise period of share options | Exercise price per share HK$ |
|---|---|---|---|---|---|---|---|---|---|
| Sub-total of Director category | 26,800,000 | – | – | – | – | 26,800,000 | | | |
| Total | 28,800,000 | – | – | – | – | 28,800,000 | | | |

*Note:*

1. *The vesting period of the share options granted under the 2006 Scheme is from the date of grant until the commencement of the exercise period.*

Details and movements of the share options of the Company granted under the 2016 Scheme during the year ended 31 March 2019 are as follows:

| Category of participants | Number of share options<br>As at 1 April 2018 | Granted during the Year | Exercised during the Year | Cancelled during the Year | Lapsed during the Year | As at 31 March 2019 | Date of grant of share options[1] | Exercise period of share options | Exercise price per share HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Director** | | | | | | | | | |
| Dr. OWYANG King | 200,000 | – | – | – | – | 200,000 | 28 April 2017 | from 28 April 2020 to 27 April 2027 | 1.04 |
| | 200,000 | – | – | – | – | 200,000 | 28 April 2017 | from 28 April 2021 to 27 April 2027 | 1.04 |
| | 1,600,000 | – | – | – | – | 1,600,000 | 28 April 2017 | from 28 April 2022 to 27 April 2027 | 1.04 |
| Total | 2,000,000 | – | – | – | – | 2,000,000 | | | |

*Note:*

1. *The vesting period of the share options granted under the 2016 Scheme is from the date of grant until the commencement of the exercise period.*

## Management Contracts

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

## Major Customers and Suppliers

The percentages of sales for the year ended 31 March 2019 attributable to the Group's major customers are as follows:

### Sales

| | | |
|---|---|---|
| – | the largest customer: | 22% |
| – | five largest customers combined: | 57% |

None of the Company's directors, their close associates or any shareholder (which to the knowledge of the directors owns more than 5% of the number of issued shares of the Company) had an interest in the major customers noted above.

The aggregate percentage of purchases attributable to the Group's five largest suppliers in the Year was less than 30% of the Group's purchases.

## Directors' Interest in Competing Business

As at 31 March 2019, to the best knowledge of the directors, none of the directors was considered to have any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the directors were appointed as directors to represent the interests of the Company and/or the Group.

## Corporate Governance

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

## Compliance with the Relevant Laws and Regulations

As far as the Board is aware, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

## Audit Committee

The Audit Committee of the Company, which comprises the three Independent Non-executive Directors of the Company, namely, Mr. LUK Koon Hoo (Chairman of the Audit Committee), Mr. Patrick Thomas SIEWERT and Mr. CHEUNG Ching Leung, David and two Non-executive Directors of the Company, namely, Mr. KAM Chi Chiu, Anthony and Mr. Arvind Amratlal PATEL, has reviewed the consolidated financial statements of the Group for the year ended 31 March 2019 and discussed with the management and the auditor of the Company on the accounting principles and practices adopted by the Group and internal controls and financial reporting matters.

## Continuing Connected Transactions

During the Year, the Group had a continuing connected transaction, details of which are disclosed in compliance with the requirement of Chapter 14A of the Listing Rules.

A Non-executive Director of the Company has been engaged as a consultant of a subsidiary of the Company for a term of one year with effect from 1 January 2019. The continuing connected transaction under the consultancy agreement also constitutes a de minimis transaction under the Listing Rules, and is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

In respect of the continuing connected transaction disclosed above, the directors confirm that the Company has complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules during the Year under review.

## Sufficiency of Public Float

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

## Auditor

Ernst & Young will retire and a resolution for their re-appointment as auditor of the Company will be proposed at the 2019 AGM.

## Appreciation

On behalf of the Board, I would like to express my gratitude to our management and staff for their dedication and contribution to the Group throughout the Year.

By Order of the Board

**AUYANG Ho**
*Chairman*

Hong Kong, 20 June 2019

# Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 March 2019.

## Corporate Governance Principles and Practices of the Company

The Board believes that good corporate governance practices are important for enhancing corporate value and investors' confidence and interests. The Company has taken a proactive approach in strengthening corporate governance practices in accordance with the needs of the business of the Group, the cornerstone of which is to have an experienced and committed Board and an effective internal control and to enhance its transparency and accountability to Shareholders.

The Company has applied the principles set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. The Board is of the view that the Company has complied with the code provisions set out in the CG Code throughout the Year, except for a deviation from code provision E.1.2 of the CG Code.

The Board will continue to enhance the corporate governance practices and standards of the Company appropriate to the conduct and growth of its business and to review such practices and standards regularly to ensure that they comply with the statutory and professional standards and align with the latest developments. The key corporate governance principles and practices of the Company are summarised as follows:

## The Board of Directors

### Responsibilities and Delegation

The overall management and control of the Company's business are vested in its Board. The Board is responsible for establishing policies, strategies and plans, providing leadership in the attainment of the objective of creating value to Shareholders, and, on behalf of the Shareholders, overseeing the Company's financial performance. All directors carry out their duties in good faith and in compliance with the standards of applicable laws and regulations, take decisions objectively and act in the interests of the Company and its Shareholders at all times.

The Board reserves for its decisions all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the senior management, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon reasonable request made to the Board.

The day-to-day management, administration and operation of the Company are led by the Executive Committee and the Chief Executive Officer of the Company. The Board has also delegated a schedule of responsibilities to the senior management of the Company, which include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the control systems. The Board has the full support of the senior management to discharge its responsibilities.

The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the foregoing officers and senior management.

## Board Composition

As at 31 March 2019, the Board comprised nine members in total, with two Executive Directors, four Non-executive Directors and three Independent Non-executive Directors. The Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors (representing at least one-third of its Board) with at least one Independent Non-executive Director possessing appropriate professional qualifications and accounting and related financial management expertise.

The list of all directors (by category) is set out under the section headed "Corporate Information" in this annual report and is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The Independent Non-executive Directors are expressly identified in all corporate communications of the Company. The Company also has maintained on its website an updated list of its directors identifying their roles and functions.

The relationships among the members of the Board are disclosed under the section headed "Profile of Directors, Senior Management and Company Secretary" in this annual report.

The composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business of the Group and for the exercise of independent judgement. Each Executive Director supervises specific areas of the Group's business in accordance with his expertise. The Non-executive Directors are of sufficient caliber and number for their views to carry weight and they bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflicts of interests and serving on Board committees, the Non-executive Directors have made various contributions to the effective direction of the Company.

The Company has received a written annual confirmation from each Independent Non-executive Director of his independence pursuant to the requirements under the Listing Rules. The Company considers all of its Independent Non-executive Directors independent in accordance with the independence guidelines set out in the Listing Rules.

The Company firmly believes that the increasing diversity at the board level is one of the essential elements in supporting the attainment of its strategic objectives and its sustainable development, therefore, the Company has formulated Board Diversity Policy. While determining the composition of the Board, the Company shall consider the diversity of the Board from various perspectives, including but not limited to gender, age, cultural and educational background, professional experiences, skills, knowledge and service tenure, and finally make decisions based on the value of candidates and contributions they can bring to the Board.

## Chairman and Chief Executive Officer

There are two key aspects of the management of the Company – the management of the Board and the day-to-day management of the Group's business. The Company fully supports that there should be a clear division of these responsibilities at the Board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.

Currently, Mr. AUYANG Ho, who is the Chairman of the Board, takes up the responsibility of the management of the Board whereas Dr. OWYANG King, the Chief Executive Officer of the Company, is responsible for the day-to-day management of the Group's business. The respective responsibilities between the Chairman of the Board and the Chief Executive Officer have been clearly established and set out in writing.

## Appointment and Re-Election of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Articles of Association. The Company has established a Nomination Committee, which is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of Independent Non-executive Directors. Additional information on such Nomination Committee is set out in the "Board Committees and Corporate Governance Functions" section below.

Each of the Executive Directors of the Company is engaged on a service contract with the Company for a term of three years. The Company has also issued respective letters of appointment to its Non-executive Directors and Independent Non-executive Directors specifying their term of appointment. The current term of appointment of all the Non-executive Directors and Independent Non-executive Directors is 2 years.

In addition, in accordance with the Articles of Association, all the directors are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment.

## Induction and Continuing Development for Directors

Each newly appointed director of the Company receives an induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Such induction is normally supplemented with visits to the Group's key plant sites and/or meetings with the senior management of the Company.

Directors of the Company are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities.

Besides, continuing briefings and professional development for directors will be arranged whenever necessary.

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.

According to the records of training maintained by the Company, during the year ended 31 March 2019, all the directors pursued continuous professional development and relevant details are set out below:

| **Name of Director** | **Type of Training** *(Notes)* |
|---|---|
| Mr. AUYANG Ho | A |
| Dr. OWYANG King | A |
| Mr. KAM Chi Chiu, Anthony | B |
| Mr. Arvind Amratlal PATEL | A |
| Mr. WONG Chun Kong | B |
| Mr. AU Hing Lun, Dennis | A |
| Mr. LUK Koon Hoo | B |
| Mr. Patrick Thomas SIEWERT | A |
| Mr. CHEUNG Ching Leung, David | A |

*Notes: A: reading journals, updates, articles and/or materials, etc.*
*B: attending seminars, conference and/or forums*

## Board Practices and Conduct of Meetings

Schedules for regular Board meetings are normally agreed with the directors in advance in order to facilitate them to attend. In addition to the above, notice of at least 14 days is given of a regular Board meeting. For other Board meetings, reasonable notice is generally given.

Draft agenda of each Board meeting is usually sent to all directors together with the notice in order to give them an opportunity to include any other matters in the agenda for discussion in the meeting.

Board papers together with appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting to keep the directors apprised of the latest developments and financial position of the Group, when necessary, and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer and other relevant senior management normally attend regular Board meetings and, where necessary, other Board meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Group.

The Company Secretary is responsible to keep minutes of all Board meetings. Draft minutes are normally circulated to directors for comments within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The 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 close associates have a material interest.

### Model Code for Securities Transactions

The Company has adopted its own code of conduct (the "Own Code") regarding dealings in the securities of the Company by the directors, senior personnel and certain employees of the Group (who are likely to be in possession of inside information in relation to the Company or its securities) on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules. Each director has been given a copy of the Own Code. The Company will notify its directors and relevant employees in advance in respect of the restricted period on dealings in the Company's securities, if the period is known to the Company.

Specific enquiry has been made of the Company's directors and all of them have confirmed that they have complied with the required standards set out in the Model Code and the Own Code throughout the period from 1 April 2018 to the date of this report.

In addition, no incident of non-compliance of the Own Code by the employees of the Group was noted for the period from 1 April 2018 to the date of this report.

## Board Committees and Corporate Governance Functions

The Board has established four Board committees, namely, the Remuneration Committee, the Audit Committee, the Nomination Committee and the Executive Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the Company's website "www.computime.com" (the terms of reference of the Remuneration, Audit and Nomination Committees are also posted on the website of the Stock Exchange) and are available to Shareholders upon request. All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings set out above.

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

## Remuneration Committee

The Remuneration Committee comprises a total of four members, being one Executive Director, namely, Mr. AUYANG Ho and three Independent Non-executive Directors, namely, Mr. Patrick Thomas SIEWERT, Mr. LUK Koon Hoo and Mr. CHEUNG Ching Leung, David. Accordingly, a majority of the members are Independent Non-executive Directors. The chairman of the Remuneration Committee is Mr. Patrick Thomas SIEWERT, who is an Independent Non-executive Director of the Company.

The principal duties of the Remuneration Committee are to make recommendations to the Board on the Company's remuneration policy and structure for directors and senior management and the establishment of a formal and transparent procedure for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration; make recommendations on the remuneration packages of Executive Directors and senior management (i.e. the model described in the code provision B.1.2(c)(ii) is adopted); and review and approve performance-based remuneration by reference to corporate goals and objectives.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee consults with the Chairman of the Board and the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

During the year ended 31 March 2019, the Remuneration Committee has met twice and performed the following works:

– Review and recommendation of the remuneration packages of directors of the Company and senior management of the Group;

– Review and recommendation of the terms of the director's service contract; and

– Review and recommendation of performance-based remuneration and bonus to the directors and senior management of the Group.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of senior management by band for the year ended 31 March 2019 is set out below:

| | Number of Employees |
|---|---|
| Nil to HK$500,000 | 0 |
| HK$500,001 to HK$1,000,000 | 0 |
| HK$1,000,001 to HK$1,500,000 | 0 |
| HK$1,500,001 to HK$2,000,000 | 3 |
| HK$2,000,001 to HK$2,500,000 | 1 |
| HK$2,500,001 to HK$3,000,000 | 1 |
| HK$3,000,001 to HK$3,500,000 | 0 |
| HK$3,500,001 to HK$4,000,000 | 2 |
| | 7 |

Details of the remuneration of each director for the year ended 31 March 2019 are set out in note 8 to the financial statements.

## Audit Committee

The Audit Committee comprises a total of five members, being three Independent Non-executive Directors, namely, Mr. LUK Koon Hoo, Mr. Patrick Thomas SIEWERT and Mr. CHEUNG Ching Leung, David and two Non-executive Directors, namely, Mr. KAM Chi Chiu, Anthony and Mr. Arvind Amratlal PATEL. The chairman of the Audit Committee is Mr. LUK Koon Hoo who possesses the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules and is an Independent Non-executive Director of the Company. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The principal duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditor before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditor and making the relevant recommendation to the Board; and reviewing the Company's financial reporting system, internal control system and risk management system.

During the year ended 31 March 2019, the Audit Committee met four times with the presence of the Company's senior management and/or the external auditor and performed the following major works:

– Review of the financial statements, results announcements and reports for the year ended 31 March 2018 and for the six months ended 30 September 2018, the accounting principles and practices adopted by the Group and the relevant audit findings;

– Review and discussion with the auditor on the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures; and the review of the arrangements for employees of the Company to raise concerns about possible improprieties; and

– Consideration of the internal audit plan and report.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditor.

## Nomination Committee

The Nomination Committee comprises a total of three members, being one Executive Director, namely, Mr. AUYANG Ho and two Independent Non-executive Directors, namely, Mr. LUK Koon Hoo and Mr. Patrick Thomas SIEWERT. Accordingly, a majority of the members are Independent Non-executive Directors. The Chairman of the Nomination Committee is Mr. AUYANG Ho, who is an Executive Director and the Chairman of the Board of the Company.

The principal duties of the Nomination Committee are reviewing and giving recommendation on the composition of the Board, formulating relevant procedures for nomination and appointment of directors, identifying qualified individuals to become members of the Board, monitoring the appointment and succession planning of directors, and assessing the independence of the Independent Non-executive Directors.

During the Year, in response to the amendment to the CG Code effective on 1 January 2019, the Company has adopted the Director Nomination Policy. Such policy, devising the criteria and process of selection and performance evaluation, provides guidance to the Board on nomination and appointment of directors of the Company. The Board believes that the defined selection process is good for corporate governance in ensuring the Board's continuity and appropriate leadership at the Board level, and enhancing better Board effectiveness and diversity as well as in compliance with the applicable rules and regulations.

The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents. In selecting and evaluating candidates for directorship, the Nomination Committee may make reference to certain criteria, such as the needs of the Company, the integrity, experience, skills and professional knowledge of the candidate, and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. Each candidate shall be ranked by order of preference based on the needs of the Company and his/her reference check. The Nomination Committee shall report its findings and make recommendations to the Board on the appointment of appropriate candidate for directorship for decision. The Human Resources Department of the Company will also assist and an external recruitment agency may be engaged in carrying out the recruitment and selection process where necessary.

The Company also recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage. The Company believes that greater diversity of directors is good for corporate governance and is committed to attract and retain candidate(s) for the Board with a combination of competencies from the widest possible pool of available talents; and to assess regularly the diversity profile of the Board and, where applicable, senior management prepared for Board positions under the succession planning of the Company and the progress on achieving diversity objectives, if any. A Board Diversity Policy was adopted by the Company, pursuant to which the Board and the Nomination Committee is responsible for reviewing and assessing the composition of the Board under diversified perspectives (including but not limited to gender, age, cultural and educational background, or professional experience) and for ensuring that changes to the composition of the Board be managed without undue disruption. The Nomination Committee shall report its findings and make recommendations to the Board, if any. Such policy and objectives, if any, will be reviewed from time to time to ensure their appropriateness in determining the optimal composition of the Board that are aligning with the Company's strategies and objectives.

During the year ended 31 March 2019, the Nomination Committee has met once and performed the following major works:

– Review and discussion of the existing structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group;

– Assessment of the independence of the Independent Non-executive Directors; and

– Recommendation on the re-appointment of retiring directors at the 2018 annual general meeting of the Company.

Pursuant to article 87 of the Articles of Association, Mr. KAM Chi Chiu, Anthony, Mr. WONG Chun Kong and Mr. Patrick Thomas SIEWERT will retire from office by rotation at the 2019 AGM.

The Nomination Committee recommended the re-appointment of these three retiring directors at the 2019 AGM. The Company's circular, sent together with this annual report, contains detailed information of these retiring directors pursuant to the Listing Rules requirements.

### Executive Committee

The Executive Committee comprises all the Executive Directors of the Company with the Chairman of the Board, Mr. AUYANG Ho, acting as the Chairman of this Committee. The Executive Committee operates as a general management committee under the direct authority of the Board to increase the efficiency for the business decision. It monitors the execution of the Company's strategic plans and operations of all business units of the Group and discusses and makes decisions on matters relating to the management and day-to-day operations of the Group.

### Corporate Governance Functions

The Board is responsible for performing the functions set out in code provision D.3.1 of the CG Code.

During the year ended 31 March 2019, the Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## Attendance Records of Directors and Committee Members

During the year ended 31 March 2019, the Board held five Board meetings. The attendance records of each director at the Board and Board Committee meetings (except the Executive Committee) and the annual general meeting of the Company held during the year ended 31 March 2019 is set out in the table below:

| | Attendance/Number of Meetings | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Board** | **Audit Committee** | **Nomination Committee** | **Remuneration Committee** | **Annual General Meeting** |
| Mr. AUYANG Ho | 4/5 | _ | 1/1 | 1/2 | 0/1 |
| Dr. OWYANG King | 5/5 | _ | _ | _ | 1/1 |
| Mr. KAM Chi Chiu, Anthony | 4/5 | 3/4 | _ | _ | 0/1 |
| Mr. Arvind Amratlal PATEL | 5/5 | 4/4 | _ | _ | 0/1 |
| Mr. WONG Chun Kong | 5/5 | _ | _ | _ | 1/1 |
| Mr. AU Hing Lun, Dennis | 5/5 | _ | _ | _ | 1/1 |
| Mr. LUK Koon Hoo | 5/5 | 4/4 | 1/1 | 2/2 | 1/1 |
| Mr. Patrick Thomas SIEWERT | 5/5 | 4/4 | 1/1 | 2/2 | 1/1 |
| Mr. CHEUNG Ching Leung, David | 4/5 | 3/4 | _ | 2/2 | 1/1 |

Code provision E.1.2 of the CG Code stipulates that the chairman of the board of directors should attend the annual general meeting. Mr. AUYANG Ho, the Chairman of the Board, was unable to attend the Company's annual general meeting held on 7 September 2018 due to a special engagement. In view of his absence, Mr. AUYANG had arranged for other directors and management, who are well-versed in the Company's business and affairs, to attend the meeting and communicate with shareholders of the Company.

## Directors' Responsibilities for Financial Reporting in respect of the Financial Statements

The directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 March 2019.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

## Risk Management and Internal Controls

The Board has delegated the responsibilities to oversee the Group's Risk Management and Internal Control Systems to the Audit Committee of the Group. These Systems include responsibilities to oversee the Group's Enterprise Risk Management ("ERM") Framework, to advise the Board on the Group's risk-related matters, to approve the Group's risk policies, and to assess the effectiveness of the Group's risk controls and mitigation tools.

The Board acknowledges that such systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

## Risk Management Process

### Risk context establishment

The ERM Framework and the Risk Management Committee was set up in April 2016. The Group's risk appetite defining the extent of risks that the Group is willing to undertake was set up for the Group as to ensure risks are assessed in a consistent manner.

### Risk identification

Management's input on risk exposures across the business lines is solicited through facilitated workshops and a series of Internal Control Questionnaires. A comprehensive list of threats and opportunities based on those events that might enhance, prevent, degrade, accelerate or delay the achievement of objectives is generated.

### Risk assessment and prioritisation

Identified risks are further evaluated by management using a scale to evaluate their likelihood of occurrence and impact to the Group's business activities, finances, operations and regulatory compliance. The risks are then prioritised based on the evaluation results.

### Risk treatment

Identified risk owners assess effectiveness of existing controls and provide treatment plans when required. Individual risks that fall outside the Group's risk tolerance are treated, monitored and reviewed in accordance with a priority order.

### Risk review

The Risk Officers and the respective process owners in Risk Management Committee review and update their risk registers, facilitate and monitor the implementation of effective risk management practices, report adequate risk-related information throughout the Group to the Board and Audit Committee. Risk Management Committee is responsible for identifying and assessing risks in a macroscopic and strategic view, including emerging risks.

### Risk reporting

Management reports key corporate and business level risks and action plans to Audit Committee on a regular basis. Significant changes in key risks on a day-to-day basis are mitigated and reported to management as they arise.

### Risk monitoring activities

The Board and Audit Committee oversee the process, assisted by Internal Audit Department. Management updates its updated reports to the Audit Committee on movements of top risks and appropriate mitigating measures.

## Risk Governance

The Group's risk governance structure is based on a "Three Lines of Defence" model, with oversight and directions from the Audit Committee of the Group, as below:

**Board of Directors**

- Establishes business strategy and approves risk appetite

**Audit Committee**

**Risk related duties**

- Oversees the Group ERM Framework and approves risk management policies
- Advises the Board on the Group's risk-related matters
- Reviews the overall risk assessment along with the effectiveness of the risk controls and mitigation process
- Considers emerging risks related to the Group's business and strategies
- Reviews risk reports and breaches of risk tolerances and the related policies

**Financial and fiduciary duties**

- Oversees financial reporting
- Oversees internal control systems

**Risk Management Committee**

Functions that oversee risks

- Reviews departmental reports on key risks and considers common risks across the Group
- Oversees implementation of the Group's ERM Framework applicable throughout the Group

**Internal Audit Department**

- Provides independent assurance

**Management**

Functions that own and manage risks

- Maintains effective internal controls and for executing risk and controls procedures on a day-to-day basis
- Implements corrective actions to address process and controls deficiencies
- Identifies, assesses, controls, and mitigates risks, guides the development and implementation of internal policies and procedures and ensures that activities are consistent with the Group's goals and objectives

The Three Lines of Defence model distinguishes among three groups (or lines) involved in effective risk management:

1. First Line of Defence, functions that own and manage risks:

    At the first line of defence, operational managers own and manage risks. The operational managers are also responsible for implementing corrective actions to address process and controls deficiencies. Operational management is responsible for maintaining effective internal controls and for executing risk and controls procedures on a day-to-day basis. Operational management identifies, assesses, controls, and mitigates risks, guiding the development and implementation of internal policies and procedures and ensuring that activities are consistent with goals and objectives. Through a cascading responsibility structure, mid-level managers design and implement detailed procedures that serve as controls and supervise execution of those procedures by their employees.

    Operational management naturally serves as the first line of defence because controls are designed into systems and processes under their guidance of operational management. There should be adequate managerial and supervisory controls in place to ensure compliance and to highlight controls breakdown, inadequate processes, and unexpected events.

2. Second Line of Defence, functions that oversee risks:

    Management establishes various risk management and compliance functions to help building and/or monitoring the first line of defence controls. The Risk Management Committee facilitates and monitors the implementation of effective risk management practices by operational management and assists different risk owners in defining the target risk exposure and reporting adequate risk-related information throughout the Group. The Risk Management Committee classifies all identified risks into four major categories, and delegates to the corresponding management to oversee and manage the associated identified risks. The four major categories comprise of financial, compliance, operational and business related risk matters. Each corresponding management is required to ensure that the first line of defence is properly designed, in place, and operating as intended.

3. Third Line of Defence, functions that provide independent assurance:

    Internal audit function provides the Audit Committee and senior management with assurance based on the highest level of independence and objectivity within the Group. This high level of independence is not available in the second line of defence. Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls.

## Disclosure of Inside Information Procedures

The Group has incorporated procedures for reporting and disseminating inside information. These procedures ensure the timely disclosure of information on the Group and the fulfilment of the Group's continuous disclosure obligations.

### Review on the Effectiveness of Risk Management and Internal Controls

During the Year, the Group conducted an annual Group-wide review based on the Group's ERM Framework to assess the risks relevant to both existing and new businesses of the Group.

In respect of the year ended 31 March 2019, the Board considered the risk management and internal control systems effective and adequate. No significant areas of concern that may affect the financial, operational, compliance, business controls, and risk management functions of the Group have been identified.

During the review, the Board also considered the resources, qualification and experience of staff of the Group's internal controls, accounting and financial reporting function, and their training and budget were adequate.

### Forward-looking in Risk Management and Internal Controls

In the context of a fast-changing global and local environment, the monitoring of "emerging risks" will be a focus. In general, maintaining an effective risk management system on a day-to-day basis by our operating units is a continuous journey. The Group shall continue this path, with further integration of internal controls and risk management into its business processes.

## External Auditor and Auditor's Remuneration

The statement of the external auditor of the Company about their reporting responsibilities on the Company's financial statements for the year ended 31 March 2019 is set out in the section headed "Independent Auditor's Report" in this annual report.

A summary of audit and non-audit services provided by the external auditor for the year ended 31 March 2019 and their corresponding remuneration is as follows:

| **Nature of services** | | **Amount** |
|---|---|---|
| | | HK$'000 |
| Audit services | | 2,100 |
| Non-audit services | | |
| (i) | Tax services | 1,021 |
| (ii) | Services rendered in connection with the Company's interim report | 219 |
| (iii) | Services rendered in connection with the Company's announcement of final results | 24 |
| (iv) | Advisory service on Environmental, Social and Governance Reporting | 134 |

## Company Secretary

Ms. SO Ka Man of Tricor Services Limited, external service provider, has been engaged by the Company as its Company Secretary. Her primary contact person at the Company is Dr. OWYANG King, Executive Director and Chief Executive Officer of the Company.

During the year ended 31 March 2019, Ms. SO has taken no less than 15 hours of relevant professional trainings to update her skills and knowledge.

## Communications with Shareholders and Investors

The Board believes that a transparent and timely disclosure of the Group's information will enable Shareholders and investors to make the best investment decision and to have better understanding on the Group's business performance and strategies. It is also vital for developing and maintaining continuing investor relations with the Company's potential and existing investors.

The Company maintains a website at "www.computime.com" as a communication platform with Shareholders and investors, where information and updates on the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may write directly to the Company's principal place of business in Hong Kong or via email to "hq@computime.com" or "ir@computime.com" for any inquiries. Inquiries are dealt with in an informative and timely manner.

The Board also considers that general meetings of the Company provide a useful forum for Shareholders to exchange views with the Board. The Chairman of the Board as well as the chairmen and/or other members of the Audit Committee, Remuneration Committee and Nomination Committee normally attend the annual general meetings and other shareholders' meetings of the Company to answer questions raised.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Group's developments.

## Shareholders' Rights

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. The Shareholders may convene an extraordinary general meeting or put forward proposals at Shareholders' meetings as follows:

(1) Shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The objectives of the meeting must be stated in the written requisition.

(2) If a Shareholder wishes to propose a person other than a retiring director for election as a director of the Company at a general meeting, the Shareholder (other than the person to be proposed) duly qualified to attend and vote at the general meeting shall send a written notice, duly signed by the Shareholder, of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected. These notices should be lodged at the Company's principal place of business in Hong Kong, or the office of the Company's branch share registrar. The period for lodgement of such notices shall commence on the day after the despatch of the notice of such general meeting and end 7 days prior to the date of such general meeting.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address: 6/F, Building 20E, Phase 3, Hong Kong Science Park, 20 Science Park East Avenue, Shatin, New Territories, Hong Kong

Email: "hq@computime.com" or "ir@computime.com"

For the avoidance of doubt, Shareholder(s) must provide their full name, contact details and identification, in the originally signed written requisition, notice or statement, or enquiry (as the case may be), in order to give effect thereto. Shareholders' information may be disclosed as required by law.

During the Year under review, the Company has not made any changes to its Articles of Association. An up-to-date version of the Articles of Association is available on the websites of the Company and the Stock Exchange. Shareholders may refer to the Articles of Association for further details of the rights of Shareholders.

All resolutions proposed at Shareholders' 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.computime.com) immediately after the relevant general meetings.

# Independent Auditor's Report

EY安永

**To the shareholders of Computime Group Limited**
*(Incorporated in the Cayman Islands with limited liability)*

## Opinion

We have audited the consolidated financial statements of Computime Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 147, which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of profit or loss, the consolidated statement of 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

## Key Audit Matters (continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment of trade receivables** | |
| As at 31 March 2019, the Group had a gross trade receivables balance of HK$691,192,000 and impairment allowances of HK$85,324,000.<br><br>Significant management judgement and estimates were involved to evaluate the impairment allowances for trade receivables, based on the lifetime expected credit losses to be incurred, by taking into account the ageing of the trade receivable balances, a review of the customers' accounts, experience of collection trends, history and status of disputes or legal proceedings with customers, current business conditions as well as the extent of coverage by credit insurance. Both current and future general economic conditions are also taken into consideration by management in the estimation.<br><br>The accounting policies and disclosures for the impairment allowances for trade receivables are included in notes 2.4, 3 and 19 to the consolidated financial statements. | Our audit procedures included: (i) selecting samples for the circularisation of debtor confirmations, (ii) testing and evaluating the trade receivables' ageing report to identify any long overdue debts and their historical pattern of settlement, (iii) reviewing the status of disputes and legal proceedings with customers, (iv) assessing the subsequent settlement of trade receivables, and (v) checking the credit insurance agreements on a sample basis. In addition, we examined the information used by management to estimate the loss allowances for trade receivables, including testing of the historical default data and forward-looking information by checking to the published macroeconomics factors, and examining the actual losses recorded during the current financial year. |

## Key Audit Matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Provision for inventories** | |
| As at 31 March 2019, the Group had a gross inventory balance of HK$699,649,000 and an inventory provision of HK$28,680,000. In determining the provision, management applied significant judgement and estimates, which included assumptions that are affected by current and future market conditions, and which took into account factors such as the historical usage, age, and forecast purchases and sales of inventories.<br><br>The accounting policies and disclosures for provision for inventories are included in notes 2.4, 3 and 18 to the consolidated financial statements. | Our audit procedures included: (i) assessing the lower of cost and net realisable value, by reviewing the gross profit margin analysis of products and discussing with management regarding the pricing policy, margin and provision basis, (ii) performing an obsolescence review by evaluating the subsequent usage of raw materials, work in progress and delivery of finished goods to customers, and (iii) attending the physical inventory counts. |

## Other Information Included in the Annual Report

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

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

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

## Responsibilities of the Directors for the Consolidated Financial Statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our 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 judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Wan Fung.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong
20 June 2019

# Consolidated Statement of Profit or Loss

Year ended 31 March 2019

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| REVENUE | 5 | **3,420,131** | 3,867,510 |
| Cost of sales | | **(3,018,883)** | (3,304,836) |
| Gross profit | | **401,248** | 562,674 |
| Other income | 5 | **11,289** | 7,346 |
| Selling and distribution expenses | | **(107,866)** | (120,307) |
| Administrative expenses | | **(269,356)** | (287,338) |
| Other operating income, net | | **3,972** | 12,236 |
| Finance costs | 6 | **(25,420)** | (16,370) |
| Share of profit of an associate | | **53** | 580 |
| PROFIT BEFORE TAX | 7 | **13,920** | 158,821 |
| Income tax expense | 10 | **(3,646)** | (32,435) |
| PROFIT FOR THE YEAR | | **10,274** | 126,386 |
| ATTRIBUTABLE TO: | | | |
| Owners of the Company | | **10,289** | 126,404 |
| Non-controlling interests | | **(15)** | (18) |
| | | **10,274** | 126,386 |
| EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY | 12 | | |
| Basic | | **1.23 HK cents** | 15.1 HK cents |
| Diluted | | **1.22 HK cents** | 14.9 HK cents |

# Consolidated Statement of Comprehensive Income

Year ended 31 March 2019

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| PROFIT FOR THE YEAR | **10,274** | 126,386 |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) | | |
| Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods: | | |
| Cash flow hedges: | | |
| Effective portion of changes in fair value of hedging instruments arising during the year | **9,401** | (33,538) |
| Reclassification adjustments for losses included in the consolidated statement of profit or loss | **6,794** | 15,623 |
| | **16,195** | (17,915) |
| Exchange differences on translation of foreign operations | **(24,556)** | 49,221 |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX | **(8,361)** | 31,306 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **1,913** | 157,692 |
| Attributable to: | | |
| Owners of the Company | **1,928** | 157,710 |
| Non-controlling interests | **(15)** | (18) |
| | **1,913** | 157,692 |

# Consolidated Statement of Financial Position

31 March 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **234,876** | 228,301 |
| Goodwill | 14 | **36,420** | 36,420 |
| Club debenture | | **705** | 705 |
| Intangible assets | 15 | **154,543** | 121,161 |
| Interest in an associate | 16 | **5,166** | 5,624 |
| Financial asset at fair value through other comprehensive income | 17 | **–** | – |
| Available-for-sale investment | 17 | **–** | – |
| Prepayments and deposits | | **5,828** | 8,291 |
| Deferred tax assets | 27 | **13,052** | 6,404 |
| Total non-current assets | | **450,590** | 406,906 |
| CURRENT ASSETS | | | |
| Inventories | 18 | **670,969** | 638,279 |
| Trade receivables | 19 | **605,868** | 483,278 |
| Prepayments, deposits and other receivables | 20 | **52,355** | 37,303 |
| Derivative financial instruments | 25 | **294** | – |
| Cash and cash equivalents | 21 | **436,488** | 729,615 |
| Total current assets | | **1,765,974** | 1,888,475 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 22 | **592,091** | 499,659 |
| Other payables and accrued liabilities | 23 | **89,409** | 128,804 |
| Interest-bearing bank borrowings | 26 | **210,039** | 250,689 |
| Amount due to a non-controlling shareholder | | **160** | 160 |
| Tax payable | | **6,540** | 24,794 |
| Derivative financial instruments | 25 | **–** | 24,763 |
| Contract liabilities | 24 | **4,934** | – |
| Total current liabilities | | **903,173** | 928,869 |
| NET CURRENT ASSETS | | **862,801** | 959,606 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **1,313,391** | 1,366,512 |

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 27 | **24,464** | 14,718 |
| Net assets | | **1,288,927** | 1,351,794 |
| EQUITY | | | |
| **Equity attributable to owners of the Company** | | | |
| Issued capital | 28 | **83,974** | 83,974 |
| Reserves | 30 | **1,204,211** | 1,267,063 |
| | | **1,288,185** | 1,351,037 |
| **Non-controlling interests** | | **742** | 757 |
| Total equity | | **1,288,927** | 1,351,794 |

**AUYANG Ho**
*Director*

**Dr. OWYANG King**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 March 2019

| | | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital HK$'000 *(note 28)* | Share premium account* HK$'000 *(note 28)* | Contributed surplus* HK$'000 *(note 30)* | Share option reserve* HK$'000 *(note 29)* | Hedging reserve* HK$'000 | Exchange fluctuation reserve* HK$'000 | Retained profits* HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 April 2017 | | 83,642 | 391,947 | 1,879 | 11,400 | 1,720 | 11,541 | 749,052 | 1,251,181 | 775 | 1,251,956 |
| Profit for the year | | – | – | – | – | – | – | 126,404 | 126,404 | (18) | 126,386 |
| Other comprehensive income/(expense) for the year: | | | | | | | | | | | |
| Cash flow hedges, net of tax | | – | – | – | – | (17,915) | – | – | (17,915) | – | (17,915) |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | 49,221 | – | 49,221 | – | 49,221 |
| Total comprehensive income/(expense) for the year | | – | – | – | – | (17,915) | 49,221 | 126,404 | 157,710 | (18) | 157,692 |
| Issue of shares upon exercise of share options | | 332 | 2,987 | – | (1,062) | – | – | – | 2,257 | – | 2,257 |
| Equity-settled share option arrangements | | – | – | – | 2,870 | – | – | – | 2,870 | – | 2,870 |
| Final 2017 dividend paid | *11* | – | – | – | – | – | – | (62,981) | (62,981) | – | (62,981) |
| At 31 March 2018 | | 83,974 | 394,934 | 1,879 | 13,208 | (16,195) | 60,762 | 812,475 | 1,351,037 | 757 | 1,351,794 |
| Effect of adoption of Hong Kong Financial Reporting Standard ("HKFRS") 9 | *2.2* | – | – | – | – | – | – | (1,742) | (1,742) | – | (1,742) |
| At 1 April 2018 (restated) | | 83,974 | 394,934 | 1,879 | 13,208 | (16,195) | 60,762 | 810,733 | 1,349,295 | 757 | 1,350,052 |
| Profit for the year | | – | – | – | – | – | – | 10,289 | 10,289 | (15) | 10,274 |
| Other comprehensive income/(expense) for the year: | | | | | | | | | | | |
| Cash flow hedges, net of tax | | – | – | – | – | 16,195 | – | – | 16,195 | – | 16,195 |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | (24,556) | – | (24,556) | – | (24,556) |
| Total comprehensive income/(expense) for the year | | – | – | – | – | 16,195 | (24,556) | 10,289 | 1,928 | (15) | 1,913 |
| Equity-settled share option arrangements | | – | – | – | (57) | – | – | – | (57) | – | (57) |
| Final 2018 dividend paid | *11* | – | – | – | – | – | – | (62,981) | (62,981) | – | (62,981) |
| At 31 March 2019 | | 83,974 | 394,934 | 1,879 | 13,151 | – | 36,206 | 758,041 | 1,288,185 | 742 | 1,288,927 |

* *These reserve accounts comprise the consolidated reserves of HK$1,204,211,000 (2018: HK$1,267,063,000) in the consolidated statement of financial position as at 31 March 2019.*

# Consolidated Statement of Cash Flows

Year ended 31 March 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **13,920** | 158,821 |
| Adjustments for: | | | |
| Bank interest income | 5 | **(1,608)** | (2,531) |
| Finance costs | 6 | **25,420** | 16,370 |
| Depreciation | 7 | **51,913** | 50,853 |
| Amortisation of deferred expenditure | 7 | **48,601** | 54,357 |
| Write-down of inventories to net realisable value | 7 | **7,856** | 6,569 |
| Loss on disposal of items of property, plant and equipment, net | 7 | **162** | 630 |
| Impairment of trade receivables, net | 7 | **1,748** | 3,463 |
| Equity-settled share option expenses/(reversal of equity-settled share option expenses), net | 7 | **(57)** | 2,870 |
| Fair value losses from cash flow hedges (transfer from equity) | 7 | **6,794** | 15,623 |
| Fair value gains from derivative instruments – transactions not qualifying as hedges, net | 7 | **(521)** | – |
| Share of profit of an associate | | **(53)** | (580) |
| | | **154,175** | 306,445 |
| Increase in inventories | | **(40,546)** | (17,780) |
| Decrease/(increase) in trade receivables | | **(126,455)** | 115,895 |
| Decrease/(increase) in prepayments, deposits and other receivables | | **(12,589)** | 13,991 |
| Increase/(decrease) in trade and bills payables | | **92,432** | (229,921) |
| Increase/(decrease) in other payables and accrued liabilities | | **(38,516)** | 13,800 |
| Increase in contract liabilities | | **4,055** | – |
| Movement in derivative financial instruments | | **(15,135)** | 10,379 |
| Effect of foreign exchange rate changes, net | | **(386)** | 25,628 |
| Cash generated from operations | | **17,035** | 238,437 |
| Hong Kong profits tax paid | | **(5,902)** | (10,883) |
| Overseas tax paid | | **(13,340)** | (25,973) |
| Dividends paid | | **(62,981)** | (62,981) |
| Net cash flows from/(used in) operating activities (to be continued) | | **(65,188)** | 138,600 |

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Net cash flows from/(used in) operating activities (continued) | | **(65,188)** | 138,600 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **1,608** | 2,531 |
| Purchases of items of property, plant and equipment | *13* | **(72,454)** | (96,250) |
| Increase in prepayments and deposits | | **–** | (4,953) |
| Proceeds from disposal of items of property, plant and equipment | | **429** | 2,365 |
| Dividend income from an associate | | **–** | 1,233 |
| Additions to deferred expenditure | *15* | **(81,983)** | (68,717) |
| Net cash flows used in investing activities | | **(152,400)** | (163,791) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Decrease in interest-bearing bank borrowings | *38* | **(38,535)** | (18,957) |
| Interest paid | | **(25,420)** | (16,370) |
| Proceeds from issue of shares upon exercise of share options | | **–** | 2,257 |
| Effect of foreign exchange rate changes, net | *38* | **(2,115)** | 4,769 |
| Net cash flows used in financing activities | | **(66,070)** | (28,301) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(283,658)** | (53,492) |
| Cash and cash equivalents at beginning of year | | **729,615** | 771,920 |
| Effect of foreign exchange rate changes, net | | **(9,469)** | 11,187 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **436,488** | 729,615 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | *21* | **434,157** | 661,464 |
| Time deposits with original maturity of less than three months when acquired | *21* | **2,331** | 68,151 |
| Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows | | **436,488** | 729,615 |

## 1. Corporate and Group Information

Computime Group Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 23 June 2006 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business is changed from 9th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong to 6/F, Building 20E, Phase 3, Hong Kong Science Park, 20 Science Park East Avenue, Shatin, New Territories, Hong Kong with effect from 16 April 2018.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") is principally engaged in the research and development, design, manufacture and trading of electronic control products.

### Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued ordinary shares/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| Computime International Limited ("CIL") | British Virgin Islands/ Hong Kong | US$400 | 100 | Investment holding |
| Computime Limited | Hong Kong | HK$2,000,000 | 100 | Investment holding, research and development, design, manufacture and trading of electronic control products |
| 金寶通電子(深圳)有限公司 Computime Electronics (Shenzhen) Co. Ltd.*# | People's Republic of China | US$14,000,000 | 100 | Manufacture and trading of electronic control products, and provision of research and development support services |
| 金寶通智能製造(深圳)有限公司 Computime Control Devices Manufacturing (Shenzhen) Co. Ltd.*# | People's Republic of China | RMB20,920,000 | 100 | Manufacture and trading of electronic control products |
| Asia Electronics HK Technologies Limited | Hong Kong | HK$23,250,100 | 100 | Trading of electronic control products |

## 1. Corporate and Group Information (continued)

### Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and business | Issued ordinary shares/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| Asia Electronics Technologies (Dongguan) Co. Ltd.*# | People's Republic of China | US$3,300,000 | 100 | Manufacture and trading of electronic control products |
| 金寶通電器(深圳)有限公司*# | People's Republic of China | RMB12,396,572 | 100 | Manufacture and trading of electronic control products |
| Salus North America, Inc.* | United States of America | N/A | 100 | Distribution and trading of electronic control products, and provision of research and development support services |
| Salus Canada Inc.* | Canada | CAD100 | 100 | Distribution and trading of electronic control products |
| Salus Controls Plc* | United Kingdom | GBP3,000,000 | 100 | Distribution and trading of electronic control products |
| Salus Controls GmbH* | Germany | EUR3,025,000 | 100 | Distribution and trading of electronic control products |
| Salus Controls Romania s.r.l.* | Romania | LEI200 | 100 | Distribution and trading of electronic control products |
| Salus Nordic A/S* | Denmark | DKK9,000,000 | 100 | Distribution and trading of electronic control products |

* *Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network*

\# *Registered as a wholly-owned foreign enterprise under the PRC law*

Except for CIL, all the above subsidiaries are indirectly held by the Company.

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

## 2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* |
| HKFRS 9 | *Financial Instruments* |
| HKFRS 15 | *Revenue from Contracts with Customers* |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers* |
| Amendments to HKAS 40 | *Transfers of Investment Property* |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* |
| *Annual Improvements 2014-2016 Cycle* | Amendments to HKFRS 1 and HKAS 28 |

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 April 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

***Classification and measurement***

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

## 2.2 Changes in Accounting Policies and Disclosures (continued)

(a) (continued)

***Classification and measurement (continued)***

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 April 2018 is as follows:

| | | HKAS 39 measurement | | | | HKFRS 9 measurement | |
|---|---|---|---|---|---|---|---|
| | *Notes* | Category | Amount HK$'000 | Reclassification HK$'000 | ECL HK$'000 | Amount HK$'000 | Category |
| **Financial assets** | | | | | | | |
| Trade receivables | *(i)* | L&R[1] | 483,278 | (146,484) | (2,117) | 334,677 | AC[2] |
| Trade receivables | *(ii)* | N/A | – | 146,484 | – | 146,484 | FVOCI (debt)[3] |
| | | | 483,278 | – | (2,117) | 481,161 | |
| Available-for-sale investment | *(iii)* | AFS[4] | – | – | – | – | N/A |
| Financial asset at fair value through other comprehensive income | *(iii)* | N/A | – | – | – | – | FVOCI (equity)[5] |
| Financial assets included in prepayments, deposits and other receivables | | L&R[1] | 29,566 | – | – | 29,566 | AC[2] |
| Cash and cash equivalents | | L&R[1] | 729,615 | – | – | 729,615 | AC[2] |
| | | | 1,242,459 | – | (2,117) | 1,240,342 | |
| **Financial liabilities** | | | | | | | |
| Trade and bills payables | | AC[2] | 499,659 | – | – | 499,659 | AC[2] |
| Financial liabilities included in other payables and accrued liabilities | | AC[2] | 27,726 | – | – | 27,726 | AC[2] |
| Interest-bearing bank borrowings | | AC[2] | 250,689 | – | – | 250,689 | AC[2] |
| Amount due to a non-controlling shareholder | | AC[2] | 160 | – | – | 160 | AC[2] |
| | | | 778,234 | – | – | 778,234 | |

1 *L&R: Loans and receivables*
2 *AC: Financial assets or financial liabilities at amortised cost*
3 *FVOCI (debt): Debt instruments at fair value through other comprehensive income*
4 *AFS: Available-for-sale investment*
5 *FVOCI (equity): Equity instruments designated at fair value through other comprehensive income*

## 2.2 Changes in Accounting Policies and Disclosures (continued)

(a) (continued)

***Classification and measurement (continued)***

*Notes:*

(i) *The gross carrying amount of the trade receivables under the column "HKAS 39 measurement – Amount" represent the amount before the measurement of ECLs.*

(ii) *The Group has reclassified the trade receivables of certain customers, which are designated in trade receivable factoring arrangements entered into between the Group and banks, previously classified as loans and receivables as financial assets at fair value through other comprehensive income as these trade receivables are managed within a business model with the objective of both holding to collect contractual cash flows and selling for working capital management and the contractual terms of these receivables give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.*

(iii) *The Group has elected the option to irrevocably designate its previous available-for-sale investment as financial asset at fair value through other comprehensive income.*

***Impairment***

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 19 to the financial statements.

| | **Impairment allowances under HKAS 39 at 31 March 2018** | **Re-measurement** | **ECL allowances under HKFRS 9 at 1 April 2018** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Trade receivables | – | 2,117 | 2,117 |

***Impact on retained profits***

The impact of transition to HKFRS 9 on retained profits is as follows:

| | **Retained profits** |
|---|---|
| | HK$'000 |
| Balance as at 31 March 2018 under HKAS 39 | 812,475 |
| Recognition of ECLs for trade receivables under HKFRS 9 | (2,117) |
| Deferred tax in relation to the above | 375 |
| Balance as at 1 April 2018 under HKFRS 9 | 810,733 |

## 2.2 Changes in Accounting Policies and Disclosures (continued)

(a) (continued)

***Hedge accounting***

The Group has applied hedge accounting under HKFRS 9 prospectively. At the date of initial application of HKFRS 9, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Before the adoption of HKFRS 9, the Group designated the change in fair value of the entire forward currency contracts in its cash flow hedge relationships. Upon adoption of HKFRS 9, the Group continues to designate the entire forward currency contracts in the cash flow hedge relationships. The adoption of the hedge accounting requirements of HKFRS 9 has had no impact on the Group's financial statements.

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 April 2018.

The Group's contracts with customers for the sale of goods include only single performance obligation. The Group has concluded that revenue from sales of goods should be recognised at the point in time when a customer obtains control of goods. The Group has concluded that the initial application of HKFRS 15 did not have a significant impact on the Group's revenue recognition.

Before the adoption of HKFRS 15, the Group recognised advances from customers as other payables. Under HKFRS 15, a contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue, or when the Group receives consideration from a customer and expects to refund some or all of that consideration to the customer (i.e., refund liability).

Therefore, upon adoption of HKFRS 15, the Group reclassified HK$879,000 from advances from customers included in other payables and accrued liabilities to contract liabilities as at 1 April 2018 in relation to the short-term advances received from customers as at 1 April 2018.

## 2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Definition of a Business*[2] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 16 | *Leases*[1] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material*[2] |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement*[1] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[1] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[1] |
| *Annual Improvements 2015-2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1] |

1 *Effective for annual periods beginning on or after 1 January 2019*
2 *Effective for annual periods beginning on or after 1 January 2020*
3 *Effective for annual periods beginning on or after 1 January 2021*
4 *No mandatory effective date yet determined but available for adoption*

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 April 2020.

## 2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17.

Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 April 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 April 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During the year ended 31 March 2019, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of HK$56,272,000 and lease liabilities of HK$59,325,000 will be recognised at 1 April 2019 with a corresponding adjustment of HK$3,053,000 to the opening balance of retained earnings.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 April 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Other than the above, the Group is also in the process of making an assessment of the impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

## 2.4 Summary of Significant Accounting Policies

### Interests in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. 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 Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

## 2.4 Summary of Significant Accounting Policies (continued)

### Business combinations and goodwill (continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 March. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

## 2.4 Summary of Significant Accounting Policies (continued)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## 2.4 Summary of Significant Accounting Policies (continued)

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (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); and
- (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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold improvements | Over the shorter of the lease term and 10% |
| Furniture, fixtures and equipment | 10% – 33.3% |
| Tools and machinery | 10% – 33.3% |
| Motor vehicles | 10% – 33.3% |
| Moulds and tooling | 20% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## 2.4 Summary of Significant Accounting Policies (continued)

### 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 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.

***Deferred expenditure***

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Deferred expenditure which does not meet these criteria is expensed when incurred.

Deferred expenditure is stated at cost less any impairment losses and is amortised using the straight-line basis over the commercial lives of the underlying products of three or five years, commencing from the date when the products are put into commercial production.

### Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

### Fair value measurement

The Group measures its derivative financial instruments and financial assets at fair value through other comprehensive income at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

## 2.4 Summary of Significant Accounting Policies (continued)

### Fair value measurement (continued)

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 2.4 Summary of Significant Accounting Policies (continued)

### Investments and other financial assets (policies under HKFRS 9 applicable from 1 April 2018)

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 April 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## 2.4 Summary of Significant Accounting Policies (continued)

### Investments and other financial assets (policies under HKFRS 9 applicable from 1 April 2018) (continued)

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at amortised cost (debt instruments)*

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The 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.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

*Financial assets at fair value through other comprehensive income (debt instruments)*

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The 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.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

## 2.4 Summary of Significant Accounting Policies (continued)

### Investments and other financial assets (policies under HKFRS 9 applicable from 1 April 2018) (continued)

***Subsequent measurement (continued)***

*Financial assets designated at fair value through other comprehensive income (equity investments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

## 2.4 Summary of Significant Accounting Policies (continued)

### Investments and other financial assets (policies under HKFRS 9 applicable from 1 April 2018) (continued)

***Subsequent measurement (continued)***

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

### Investments and other financial assets (policies under HKAS 39 applicable before 1 April 2018)

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as loans and receivables, available-for-sale financial investment, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss.

## 2.4 Summary of Significant Accounting Policies (continued)

### Investments and other financial assets (policies under HKAS 39 applicable before 1 April 2018) (continued)

***Available-for-sale financial investment***

Available-for-sale investment is non-derivative financial asset in unlisted equity investment. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale investment is subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss. Interest earned whilst holding the available-for-sale financial investment is reported as interest income, and is recognised in the statement of profit or loss in accordance with the policies set out for "Revenue recognition (applicable before 1 April 2018)" below.

When the fair value of unlisted equity investment cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investment is stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

## 2.4 Summary of Significant Accounting Policies (continued)

### Investments and other financial assets (policies under HKAS 39 applicable before 1 April 2018) (continued)

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 April 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

### Derecognition of financial assets (policies under HKFRS 9 applicable from 1 April 2018 and policies under HKAS 39 applicable before 1 April 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 2.4 Summary of Significant Accounting Policies (continued)

### Derecognition of financial assets (policies under HKFRS 9 applicable from 1 April 2018 and policies under HKAS 39 applicable before 1 April 2018) (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets (policies under HKFRS 9 applicable from 1 April 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

***General approach***

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

## 2.4 Summary of Significant Accounting Policies (continued)

### Impairment of financial assets (policies under HKFRS 9 applicable from 1 April 2018) (continued)

***General approach (continued)***

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

***Simplified approach***

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### Impairment of financial assets (policies under HKAS 39 applicable before 1 April 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 2.4 Summary of Significant Accounting Policies (continued)

### Impairment of financial assets (policies under HKAS 39 applicable before 1 April 2018) (continued)

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

***Assets carried at cost***

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

***Available-for-sale investment***

For available-for-sale investment, the Group assesses at the end of each reporting period whether there is any objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

## 2.4 Summary of Significant Accounting Policies (continued)

### Impairment of financial assets (policies under HKAS 39 applicable before 1 April 2018) (continued)

***Available-for-sale investment (continued)***

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

### Financial liabilities (policies under HKFRS 9 applicable from 1 April 2018 and HKAS 39 applicable before 1 April 2018)

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, certain other payables and accrued liabilities, derivative financial instruments, interest-bearing bank borrowings, and an amount due to a non-controlling shareholder.

## 2.4 Summary of Significant Accounting Policies (continued)

### Financial liabilities (policies under HKFRS 9 applicable from 1 April 2018 and HKAS 39 applicable before 1 April 2018) (continued)

***Subsequent measurement***

The subsequent measurement of financial liabilities depends on their classification as follows:

***Loans and borrowings***

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the statement of profit or loss.

### Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 April 2018 and HKAS 39 applicable before 1 April 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

### Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 April 2018 and HKAS 39 applicable before 1 April 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## 2.4 Summary of Significant Accounting Policies (continued)

### Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 April 2018 and HKAS 39 applicable before 1 April 2018)

***Initial recognition and subsequent measurement***

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before 1 April 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

## 2.4 Summary of Significant Accounting Policies (continued)

### Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 April 2018 and HKAS 39 applicable before 1 April 2018) (continued)

***Initial recognition and subsequent measurement (continued)***

Starting from 1 April 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

***Cash flow hedges***

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

## 2.4 Summary of Significant Accounting Policies (continued)

### Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 April 2018 and HKAS 39 applicable before 1 April 2018) (continued)

***Hedges of a net investment***

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

***Current versus non-current classification***

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and 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.

## 2.4 Summary of Significant Accounting Policies (continued)

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

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. The increase in the discounted present value amount arising from the passage of time is included in the statement of profit or loss.

The Group provides for warranties for designated customers in relation to the sale of goods for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 2.4 Summary of Significant Accounting Policies (continued)

### Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## 2.4 Summary of Significant Accounting Policies (continued)

### Revenue recognition (applicable from 1 April 2018)

***Revenue from contracts with customers***

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

*Sale of products*

Revenue from the sale of electronic control products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the electronic control products.

Some contracts for the sale of electronic control products provide customers with early settlement rebates. The rebates give rise to variable consideration.

## 2.4 Summary of Significant Accounting Policies (continued)

### Revenue recognition (applicable from 1 April 2018) (continued)

***Other income***

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

Dividend income is recognised when the shareholder's right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

### Revenue recognition (applicable before 1 April 2018)

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 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;

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

(c) dividend income, when the shareholders' right to receive payment has been established.

### Contract assets (applicable from 1 April 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

### Contract liabilities (applicable from 1 April 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

## 2.4 Summary of Significant Accounting Policies (continued)

### Contract costs (applicable from 1 April 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

### Right-of-return assets (applicable from 1 April 2018)

A right-of-return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned goods.

### Refund liabilities (applicable from 1 April 2018)

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

### 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

## 2.4 Summary of Significant Accounting Policies (continued)

### Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a trinomial model, further details of which are given in note 29 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

## 2.4 Summary of Significant Accounting Policies (continued)

### Other employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of 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.

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 a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional 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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

## 2.4 Summary of Significant Accounting Policies (continued)

### Foreign currencies (continued)

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other 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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and the associate are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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 financial statements.

***Impairment of assets***

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment testing.

## 3. 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 the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

***(a) Impairment of trade receivables***

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the financial statements.

***(b) Write-down of inventories to net realisable value***

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates and judgements. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed. The carrying amount of inventories at 31 March 2019 was HK$670,969,000 (2018: HK$638,279,000). Further details are given in note 18 to the financial statements.

***(c) Impairment of goodwill***

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made. The carrying amount of goodwill at 31 March 2019 was HK$36,420,000 (2018: HK$36,420,000). Further details are given in note 14 to the financial statements.

## 4. Operating Segment Information

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

(a) the smart solutions segment, which is engaged in the research and development, design, manufacture, trading and distribution of building and home control and appliance control products; and

(b) the contract manufacturing services segment, which is engaged in the research and development, design, manufacture, trading and distribution of commercial and industrial control products.

Management monitors the results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that other income, finance costs, share of profit of an associate as well as corporate and unallocated expenses are excluded from such measurement.

Segment assets mainly exclude property, plant and equipment, goodwill, a club debenture, cash and cash equivalents, a financial asset at fair value through other comprehensive income, an available-for-sale investment, derivative financial instruments, deferred tax assets, certain balances of intangible assets, inventories, and prepayments, deposits and other receivables, and corporate and other unallocated assets as these assets are managed on a group basis.

Segment liabilities mainly exclude interest-bearing bank borrowings, derivative financial instruments, tax payable, an amount due to a non-controlling shareholder, deferred tax liabilities, certain balances of trade and bills payables and other payables and accruals, and corporate and other unallocated liabilities as these liabilities are managed on a group basis.

Inter-segment revenue and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 4. Operating Segment Information (continued)

| | Smart solutions | | Contract manufacturing services | | Total | |
|---|---|---|---|---|---|---|
| | **2019 HK$'000** | 2018 HK$'000 | **2019 HK$'000** | 2018 HK$'000 | **2019 HK$'000** | 2018 HK$'000 |
| **Segment revenue:** | | | | | | |
| Sales to external customers | **1,295,866** | 1,522,710 | **2,124,265** | 2,344,800 | **3,420,131** | 3,867,510 |
| **Segment results** | **106,216** | 182,980 | **2,715** | 89,887 | **108,931** | 272,867 |
| Bank interest income | | | | | **1,608** | 2,531 |
| Government grants | | | | | **4,146** | – |
| Other income (excluding bank interest income and government grants) | | | | | **5,535** | 4,815 |
| Corporate and other unallocated expenses | | | | | **(80,933)** | (105,602) |
| Finance costs | | | | | **(25,420)** | (16,370) |
| Share of profit of an associate | **53** | 580 | **–** | – | **53** | 580 |
| Profit before tax | | | | | **13,920** | 158,821 |
| Income tax expense | | | | | **(3,646)** | (32,435) |
| Profit for the year | | | | | **10,274** | 126,386 |
| **Assets and liabilities** | | | | | | |
| Segment assets | **769,005** | 590,938 | **674,217** | 632,118 | **1,443,222** | 1,223,056 |
| Interest in an associate | **5,166** | 5,624 | **–** | – | **5,166** | 5,624 |
| Corporate and other unallocated assets | | | | | **768,176** | 1,066,701 |
| Total assets | | | | | **2,216,564** | 2,295,381 |
| Segment liabilities | **27,520** | 13,698 | **1,888** | 46,003 | **29,408** | 59,701 |
| Corporate and other unallocated liabilities | | | | | **898,229** | 883,886 |
| Total liabilities | | | | | **927,637** | 943,587 |
| **Other segment information:** | | | | | | |
| Capital expenditure* | | | | | **154,437** | 164,967 |
| Depreciation | | | | | **51,913** | 50,853 |
| Amortisation of deferred expenditure | **35,636** | 38,698 | **12,965** | 15,659 | **48,601** | 54,357 |
| Impairment/(reversal of impairment) of trade receivables, net | **383** | (304) | **1,365** | 3,767 | **1,748** | 3,463 |
| Write-down of inventories to net realisable value | **7,271** | 1,702 | **585** | 4,867 | **7,856** | 6,569 |

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets.*

*Note: The 2018 comparative amounts have been reclassified to conform with current year's presentation and enable a better comparison of performance.*

## 4. Operating Segment Information (continued)

### Geographical information

***(a) Revenue from external customers***

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| The America | **1,013,993** | 1,072,853 |
| Europe | **1,479,939** | 1,830,404 |
| Asia | **926,199** | 964,253 |
| | **3,420,131** | 3,867,510 |

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

***(b) Non-current assets***

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| The America | **1,737** | 1,952 |
| Europe | **1,819** | 2,042 |
| Asia | **242,314** | 238,222 |
| | **245,870** | 242,216 |

The non-current assets information above is based on the locations of the assets and excludes a club debenture, goodwill, intangible assets, deferred tax assets, a financial asset at fair value through other comprehensive income and an available-for-sale investment.

### Information about major customers

For the year ended 31 March 2019, revenue of approximately HK$759,587,000 and HK$472,370,000, which represented 22.2% and 13.8% of the Group's total revenue, respectively, were derived from sales by contract manufacturing services segment to two separate single customers. Revenue of approximately HK$343,220,000, which represented 10.0% of the Group's total revenue, was derived from sales by smart solutions segment to one single customer. They included sales to a group of entities which are known to be under common control with these customers.

For the year ended 31 March 2018, revenue of approximately HK$911,267,000 and HK$426,508,000, which represented 23.6% and 11.0% of the Group's total revenue, respectively, were derived from sales by contract manufacturing services segment to two separate single customers, including sales to a group of entities which are known to be under common control with these customers.

## 5. Revenue and Other Income

An analysis of revenue is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Revenue from contracts with customers** | | |
| Sale of goods | **3,420,131** | 3,867,510 |

### Revenue from contracts with customers

***(i) Disaggregated revenue information***

**For the year ended 31 March 2019**

| | HK$'000 |
|---|---|
| **Geographical markets** | |
| The America | **1,013,993** |
| Europe | **1,479,939** |
| Asia | **926,199** |
| | **3,420,131** |

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

Revenue recognised that was included in contract liabilities at the beginning of the reporting period:

| | 2019<br>HK$'000 |
|---|---|
| Sale of goods | 879 |

***(ii) Performance obligations***

*Sale of goods*

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 120 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with early settlement rebates which give rise to variable consideration subject to constraint.

## 5. Revenue and Other Income (continued)

An analysis of other income is as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Bank interest income | 1,608 | 2,531 |
| Government grants* | 4,146 | – |
| Sundry income | 5,535 | 4,815 |
| | 11,289 | 7,346 |

* *Government grants of RMB3,559,000 (2018: Nil) (equivalent to approximately HK$4,146,000 (2018: Nil)) was granted by a governmental authority in the PRC during the year ended 31 March 2019 to subsidise the technological development of the industry. There are no unfulfilled conditions and other contingencies attached to the receipts of those grants. There is no assurance that the Group will continue to receive such grant in the future.*

## 6. Finance Costs

An analysis of finance costs is as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Interest on bank loans | 25,420 | 16,370 |

## 7. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Cost of inventories sold* | | 3,011,027 | 3,298,267 |
| Depreciation | 13 | 51,913 | 50,853 |
| Research and development costs: | | | |
| Amortisation of deferred expenditure^ | 15 | 48,601 | 54,357 |
| Current year expenditure | | 2,177 | 7,780 |
| | | 50,778 | 62,137 |

## 7. Profit Before Tax (continued)

The Group's profit before tax is arrived at after charging/(crediting): (continued)

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Minimum lease payments under operating leases | | **54,578** | 55,962 |
| Auditor's remuneration | | **2,100** | 2,031 |
| Employee benefit expense* | | | |
| (including directors' remuneration – *note 8*): | | | |
| Wages, salaries and other benefits | | **678,581** | 651,334 |
| Pension scheme contributions | | **3,860** | 3,462 |
| Equity-settled share option expenses/(reversal of equity-settled share option expenses), net | | **(57)** | 2,870 |
| | | **682,384** | 657,666 |
| Foreign exchange differences, net# | | **(1,257)** | (32,619) |
| Loss on disposal of items of property, plant and equipment, net# | | **162** | 630 |
| Impairment of trade receivables, net# | *19* | **1,748** | 3,463 |
| Write-down of inventories to net realisable value** | | **7,856** | 6,569 |
| Fair value losses/(gains), net: | | | |
| Cash flow hedges (transfer from equity)# | | **6,794** | 15,623 |
| Derivative instruments – transactions not qualifying as hedges# | *25* | **(521)** | – |

* *Employee benefit expense of HK$449,697,000 (2018: HK$457,232,000) is included in "Cost of inventories sold" above.*

** *Write-down of inventories to net realisable value is included in "Cost of sales" on the face of the consolidated statement of profit or loss.*

^ *The amortisation of deferred expenditure for the year is included in "Administrative expenses" on the face of the consolidated statement of profit or loss.*

# *These items are included in "Other operating income, net" on the face of the consolidated statement of profit or loss.*

## 8. Directors' and Chief Executive's Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Fees | **1,661** | 1,279 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **9,489** | 11,399 |
| Performance related bonuses* | **4,528** | 9,036 |
| Equity-settled share option expenses | **(130)** | 2,615 |
| Pension scheme contributions | **–** | 12 |
| | **15,548** | 24,341 |

* *Certain executive directors of the Company are entitled to bonus payments which are determined based on the financial performance of the Group.*

As at 31 March 2019, one director (2018: one) has outstanding share options granted by the Company, in respect of his services to the Group, under the share option schemes of the Company, further details of which are set out in note 29 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

## 8. Directors' and Chief Executive's Remuneration (continued)

The remuneration of each of the directors and chief executive for the year ended 31 March 2019 is set out below:

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Equity-settled share option expenses HK$'000 | Pension scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Mr. AUYANG Ho | – | 3,266 | – | – | – | 3,266 |
| Dr. OWYANG King* | – | 6,223 | 4,528 | 984 | – | 11,735 |
| | – | 9,489 | 4,528 | 984 | – | 15,001 |
| **Non-executive Directors** | | | | | | |
| Mr. WONG Chun Kong | 186 | – | – | – | – | 186 |
| Mr. KAM Chi Chiu, Anthony | 214 | – | – | – | – | 214 |
| Mr. Arvind Amratlal PATEL | 327 | – | – | – | – | 327 |
| Mr. AU Hing Lun, Dennis# | 186 | – | – | (1,114) | – | (928) |
| | 913 | – | – | (1,114) | – | (201) |
| **Independent Non-executive Directors** | | | | | | |
| Mr. LUK Koon Hoo | 259 | – | – | – | – | 259 |
| Mr. Patrick Thomas SIEWERT | 259 | – | – | – | – | 259 |
| Mr. CHEUNG Ching Leung, David | 230 | – | – | – | – | 230 |
| | 748 | – | – | – | – | 748 |
| | 1,661 | 9,489 | 4,528 | (130) | – | 15,548 |

## 8. Directors' and Chief Executive's Remuneration (continued)

The remuneration of each of the directors and chief executive for the year ended 31 March 2018 is set out below:

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Performance related bonuses HK$'000 | Equity-settled share option expenses HK$'000 | Pension scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Mr. AUYANG Ho | – | 2,685 | – | – | – | 2,685 |
| Dr. OWYANG King* | – | 6,104 | 5,783 | 1,410 | – | 13,297 |
| Mr. AU Hing Lun, Dennis# | – | 2,610 | 3,253 | 1,205 | 12 | 7,080 |
| | – | 11,399 | 9,036 | 2,615 | 12 | 23,062 |
| **Non-executive Directors** | | | | | | |
| Mr. WONG Chun Kong | 178 | – | – | – | – | 178 |
| Mr. KAM Chi Chiu, Anthony | 226 | – | – | – | – | 226 |
| Mr. Arvind Amratlal PATEL | 226 | – | – | – | – | 226 |
| Mr. AU Hing Lun, Dennis# | 21 | – | – | – | – | 21 |
| | 651 | – | – | – | – | 651 |
| **Independent Non-executive Directors** | | | | | | |
| Mr. LUK Koon Hoo | 242 | – | – | – | – | 242 |
| Mr. Patrick Thomas SIEWERT | 193 | – | – | – | – | 193 |
| Mr. CHEUNG Ching Leung, David | 193 | – | – | – | – | 193 |
| | 628 | – | – | – | – | 628 |
| | 1,279 | 11,399 | 9,036 | 2,615 | 12 | 24,341 |

There was no arrangement under which a Director or the Chief Executive waived or agreed to waive any remuneration during the year (2018: Nil).

* *Dr. OWYANG King is also the Chief Executive of the Company.*

# *Mr. AU Hing Lun, Dennis was re-designated as a Non-executive Director with effect from 28 February 2018.*

## 9. Five Highest Paid Employees

The five highest paid employees during the year included two (2018: three) directors, details of whose emoluments are set out in note 8 above. Details of the remuneration of the remaining three (2018: two) non-director highest paid employees for the year are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | 10,053 | 6,639 |
| Equity-settled share option expenses | 73 | 255 |
| Pension scheme contributions | 54 | 36 |
| | 10,180 | 6,930 |

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

| | Number of employees | |
|---|---|---|
| | 2019 | 2018 |
| Nil to HK$2,500,000 | – | – |
| HK$2,500,001 to HK$3,000,000 | 1 | – |
| HK$3,000,001 to HK$3,500,000 | – | 1 |
| HK$3,500,001 to HK$4,000,000 | 2 | 1 |
| | 3 | 2 |

During the year and in prior years, share options were granted to a non-director highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

## 10. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group entities operate.

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Current – Hong Kong: | | |
| Charge for the year | **586** | 12,041 |
| Overprovision in prior years | **–** | (1,408) |
| Current – Mainland China and other countries: | | |
| Charge for the year | **8,495** | 28,034 |
| Overprovision in prior years | **(4,555)** | (1,438) |
| Deferred *(note 27)* | **(880)** | (4,794) |
| Total tax charge for the year | **3,646** | 32,435 |

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the Group's effective tax rate is as follows:

| | **2019** **HK$'000** | **%** |
|---|---|---|
| Profit before tax | **13,920** | |
| Tax at the statutory tax rate | **2,297** | **16.5** |
| Higher tax rates for other countries | **2,364** | **17.0** |
| Adjustments in respect of current tax of previous periods | **(4,555)** | **(32.7)** |
| Recognition of previously unrecognised tax losses | **(984)** | **(7.1)** |
| Profit attributable to an associate | **(9)** | **(0.0)** |
| Income not subject to tax | **(11,132)** | **(80.0)** |
| Expenses not deductible for tax | **4,005** | **28.8** |
| Recognition of tax losses | **9,832** | **70.6** |
| Tax losses not recognised | **1,925** | **13.8** |
| Tax losses utilised | **(171)** | **(1.2)** |
| Other temporary differences | **74** | **0.5** |
| Tax charge at the Group's effective rate | **3,646** | **26.2** |

## 10. Income Tax Expense (continued)

| | 2018 HK$'000 | % |
|---|---|---|
| Profit before tax | 158,821 | |
| Tax at the statutory tax rate | 26,205 | 16.5 |
| Higher tax rates for other countries | 6,123 | 3.9 |
| Adjustments in respect of current tax of previous periods | (2,846) | (1.8) |
| Profit attributable to an associate | (96) | (0.1) |
| Income not subject to tax | (13,483) | (8.5) |
| Expenses not deductible for tax | 21,422 | 13.5 |
| Tax losses utilised | (4,890) | (3.1) |
| Tax charge at the Group's effective rate | 32,435 | 20.4 |

## 11. Dividends

### Dividend paid during the year

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Final dividend in respect of the financial year ended 31 March 2018 – HK$0.075 per ordinary share (2018: final dividend of HK$0.075 per ordinary share, in respect of the financial year ended 31 March 2017) | **62,981** | 62,981 |

### Proposed final dividend

| | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|
| Final – HK$0.0164 (2018: HK$0.075) per ordinary share | **13,772** | 62,981 |

The proposed final dividend for the year ended 31 March 2019 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

## 12. Earnings Per Share Attributable to Owners of the Company

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of HK$10,289,000 (2018: HK$126,404,000) and the weighted average number of ordinary shares of 839,740,000 (2018: 838,176,000) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to owners of the Company of HK$10,289,000 (2018: HK$126,404,000). The weighted average number of ordinary shares used in the calculation of 843,408,000 (2018: 846,917,000) is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

A reconciliation between the weighted average number of shares used in calculating the basic and diluted earnings per share is as follows:

| | **2019** | 2018 |
|---|---|---|
| Weighted average number of ordinary shares used in calculating the basic earnings per share | **839,740,000** | 838,176,000 |
| Weighted average number of ordinary shares assumed to have been issued at nil consideration on deemed exercise of all dilutive options in issue during the year | **3,668,000** | 8,741,000 |
| Weighted average number of ordinary shares used in calculating the diluted earnings per share | **843,408,000** | 846,917,000 |

## 13. Property, Plant and Equipment

| | Note | Leasehold improvements HK$'000 | Construction in progress HK$'000 | Furniture, fixtures and equipment HK$'000 | Tools and machinery HK$'000 | Motor vehicles HK$'000 | Moulds and tooling HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **At 31 March 2019** | | | | | | | | |
| At 31 March 2018 and at 1 April 2018: | | | | | | | | |
| Cost | | 97,716 | – | 206,598 | 391,930 | 5,142 | 33,883 | 735,269 |
| Accumulated depreciation | | (79,088) | – | (153,457) | (248,109) | (3,323) | (22,991) | (506,968) |
| Net carrying amount | | 18,628 | – | 53,141 | 143,821 | 1,819 | 10,892 | 228,301 |
| At 1 April 2018, net of accumulated depreciation | | 18,628 | – | 53,141 | 143,821 | 1,819 | 10,892 | 228,301 |
| Additions | | 14,720 | 830 | 13,317 | 40,374 | 368 | 2,845 | 72,454 |
| Disposals and write-offs | | (14) | – | (80) | (431) | (66) | – | (591) |
| Depreciation provided during the year | 7 | (7,143) | – | (16,220) | (22,434) | (553) | (5,563) | (51,913) |
| Exchange realignment | | (942) | – | (3,104) | (9,165) | (164) | – | (13,375) |
| At 31 March 2019, net of accumulated depreciation | | 25,249 | 830 | 47,054 | 152,165 | 1,404 | 8,174 | 234,876 |
| At 31 March 2019: | | | | | | | | |
| Cost | | 107,940 | 830 | 210,166 | 403,654 | 5,084 | 36,728 | 764,402 |
| Accumulated depreciation | | (82,691) | – | (163,112) | (251,489) | (3,680) | (28,554) | (529,526) |
| Net carrying amount | | 25,249 | 830 | 47,054 | 152,165 | 1,404 | 8,174 | 234,876 |

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

| | Note | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Tools and machinery HK$'000 | Motor vehicles HK$'000 | Moulds and tooling HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 31 March 2018** | | | | | | | |
| At 1 April 2017 | | | | | | | |
| Cost | | 80,206 | 178,828 | 334,971 | 4,609 | 23,086 | 621,700 |
| Accumulated depreciation | | (66,835) | (127,377) | (234,890) | (2,379) | (19,253) | (450,734) |
| Net carrying amount | | 13,371 | 51,451 | 100,081 | 2,230 | 3,833 | 170,966 |
| At 1 April 2017, net of accumulated depreciation | | 13,371 | 51,451 | 100,081 | 2,230 | 3,833 | 170,966 |
| Additions | | 7,665 | 19,474 | 57,710 | 604 | 10,797 | 96,250 |
| Disposals and write-offs | | – | (201) | (2,794) | – | – | (2,995) |
| Depreciation provided during the year | 7 | (7,919) | (16,350) | (21,755) | (1,091) | (3,738) | (50,853) |
| Exchange realignment | | 5,511 | (1,233) | 10,579 | 76 | – | 14,933 |
| At 31 March 2018, net of accumulated depreciation | | 18,628 | 53,141 | 143,821 | 1,819 | 10,892 | 228,301 |
| At 31 March 2018: | | | | | | | |
| Cost | | 97,716 | 206,598 | 391,930 | 5,142 | 33,883 | 735,269 |
| Accumulated depreciation | | (79,088) | (153,457) | (248,109) | (3,323) | (22,991) | (506,968) |
| Net carrying amount | | 18,628 | 53,141 | 143,821 | 1,819 | 10,892 | 228,301 |

## 14. Goodwill

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| At 1 April and 31 March: | | |
| Cost | **38,164** | 38,164 |
| Accumulated impairment | **(1,744)** | (1,744) |
| Net carrying amount | **36,420** | 36,420 |

### Impairment testing of goodwill

Included in the balance was mainly the goodwill acquired through business combination of Asia Electronics HK Technologies Limited and Asia Electronics Technologies (Dongguan) Co. Ltd. (collectively the "Asia Electronics Entity"), which have been regarded as one cash-generating unit for impairment testing.

The recoverable amount of the Asia Electronics Entity has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management, with cash flows beyond the five-year period being extrapolated using a growth rate of 2% (2018: 2%). The discount rate applied to the cash flow projections is 17% (2018: 13%).

The carrying amount of goodwill allocated to the Asia Electronics Entity was HK$34,136,000 (2018: HK$34,136,000) as at 31 March 2019.

Certain key assumptions were used in the value in use calculation of the Asia Electronics Entity for 31 March 2019. Management determined the value assigned to the budgeted gross margins based on the average gross margins achieved in the year immediately before the budget year, adjusted for expected efficiency improvements. Changes in revenue and costs are based on management experience and expectations of future changes in the market. The discount rate used is a pre-tax rate and reflects specific risks relating to the relevant unit.

## 15. Intangible Assets

| | | Deferred expenditure | |
|---|---|---|---|
| | *Note* | **2019** **HK$'000** | 2018 HK$'000 |
| At 1 April: | | | |
| Cost | | **458,465** | 389,748 |
| Accumulated amortisation | | **(337,304)** | (282,947) |
| Net carrying amount | | **121,161** | 106,801 |
| At beginning of year, net of accumulated amortisation | | **121,161** | 106,801 |
| Additions | | **81,983** | 68,717 |
| Amortisation provided during the year | 7 | **(48,601)** | (54,357) |
| At 31 March, net of accumulated amortisation | | **154,543** | 121,161 |
| At 31 March: | | | |
| Cost | | **540,448** | 458,465 |
| Accumulated amortisation | | **(385,905)** | (337,304) |
| Net carrying amount | | **154,543** | 121,161 |

## 16. Interest in an Associate

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Share of net assets | **3,608** | 4,066 |
| Goodwill on acquisition | **1,558** | 1,558 |
| | **5,166** | 5,624 |

The trade receivable balance with the associate is disclosed in note 19 to the financial statements.

Particulars of the associate are as follows:

| Name | Particulars of issued shares held | Place of incorporation | Percentage of ownership interest attributable to the Group | Principal activity |
|---|---|---|---|---|
| Braeburn Systems LLC* | Ordinary shares | United States of America | 27% | Trading of electronic products |

* *Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.*

The associate has financial year ending 31 December, which is not coterminous with that of the Group. The consolidated financial statements are adjusted for the material transactions between the associate and the Group between 1 January and 31 March.

The following table illustrates the aggregate financial information of the associate:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Share of the associate's profit for the year | **53** | 580 |
| Share of the associate's total comprehensive income | **53** | 580 |
| Aggregate carrying amount of the interest in the associate | **5,166** | 5,624 |

## 17. Financial Asset at Fair Value through Other Comprehensive Income/Available-For-Sale Investment

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Financial asset at fair value through other comprehensive income** | | |
| Equity investment, at fair value | | |
| Glen Canyon Corporation | – | – |
| **Available-for-sale investment** | | |
| Equity investment, at cost | – | 10,521 |
| Provision for impairment | – | (10,521) |
| | – | – |

The above investment represents the investment in unlisted equity securities which was irrevocably designated at fair value through other comprehensive income as the Group considers this investment to be strategic in nature. The investee company was engaged in the development of energy saving products and solutions. In the opinion of the directors, the fair value of the investment was minimal with reference to the fair value of the underlying assets and liabilities held by the investee company.

As at 31 March 2018, the unlisted equity investment was stated at cost less impairment because the range of reasonable fair value estimates was so significant that the directors were of the opinion that the fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future due to the valuable underlying technology developed by the investee company.

## 18. Inventories

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Raw materials | 217,852 | 258,822 |
| Work in progress | 42,410 | 44,443 |
| Finished goods | 410,707 | 335,014 |
| | 670,969 | 638,279 |

## 19. Trade Receivables

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Trade receivables | **691,192** | 572,348 |
| Impairment | **(85,324)** | (89,070) |
| | **605,868** | 483,278 |

As at 31 March 2019, gross trade receivables of certain customers of HK$232,696,000, which are designated in trade receivable factoring arrangements entered into between the Group and banks, were measured at fair value through other comprehensive income as these trade receivables are managed within a business model with the objective of both holding to collect contractual cash flows and selling for working capital management and the contractual terms of these receivables give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's trading terms with its customers are mainly on credit. The credit period granted to customers generally ranges from one to four months. The Group maintains strict credit control over its customers and outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. At the end of the reporting period, 10.2% (2018: 11.7%) and 30% (2018: 39.5%) of the total trade receivables were due from the Group's largest customer and the five largest customers, respectively. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the payment due date and net of loss allowance, is as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Current and due within 1 month | **568,177** | 453,733 |
| 1 to 2 months | **15,284** | 7,098 |
| 2 to 3 months | **12,807** | 9,755 |
| Over 3 months | **9,600** | 12,692 |
| | **605,868** | 483,278 |

As part of its normal business, the Group entered into trade receivable factoring arrangements (the "Arrangements") pursuant to which the Group assigned the rights to certain trade receivables to certain banks. The Group is not exposed to default risks of the trade debtors after the assignment. The Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. Trade receivables as if without assignment of the Arrangements as at 31 March 2019 was HK$1,283,288,000 (as at 31 March 2018: HK$1,184,899,000).

## 19. Trade Receivables (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| At beginning of year | **89,070** | 80,407 |
| Effect of adoption of HKFRS 9 | **2,117** | – |
| At beginning of year (restated) | **91,187** | 80,407 |
| Impairment losses, net *(note 7)* | **1,748** | 3,463 |
| Amount written off as uncollectible | **(383)** | (5,579) |
| Exchange realignment | **(7,228)** | 10,779 |
| At end of year | **85,324** | 89,070 |

### Impairment under HKFRS 9 for the year ended 31 March 2019

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

**As at 31 March 2019**

| | | Past due | | | |
|---|---|---|---|---|---|
| | Current | Less than 1 month | 1 to 3 months | Over 3 months | Total |
| Expected credit loss rate | **0.20%** | **0.20%** | **1.82%** | **89.71%** | **12.34%** |
| Gross carrying amount (HK$'000) | **535,099** | **34,228** | **28,611** | **93,254** | **691,192** |
| Expected credit losses (HK$'000) | **1,081** | **69** | **520** | **83,654** | **85,324** |

Included in the Group's provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$83,068,000 (2018: HK$89,070,000) with a carrying amount before provision of HK$83,068,000 (2018: HK$89,351,000). The individually impaired trade receivables mainly relate to balances that were in dispute, or in the status of insolvency and reorganisation proceedings for Fagor Electrodomesticos Sociedad Cooperativa, FagorBrandt SAS, and Fagor Mastercook S.A. (collectively the "Fagor Group") as detailed below.

## 19. Trade Receivables (continued)

On 13 November 2013, Fagor Electrodomesticos Sociedad Cooperativa, a company incorporated under the laws of Spain, submitted a petition to open formal insolvency proceedings (concurso) before the Commercial Court No. 1 of San Sebastian (Spain). The Court opened the insolvency proceedings on 19 November 2013.

FagorBrandt SAS, a company incorporated under the laws of France, was subject to reorganisation proceedings (redressement judiciaire) before the Commercial Court of Nanterre (France) since 7 November 2013. On 11 April 2014, the Commercial Court of Nanterre (France) converted the reorganisation proceedings into liquidation proceedings. On 15 April 2014, the Commercial Court of Nanterre (France) approved various bids for the assets of FagorBrandt SAS, including the bid of Cevital. During the year ended 31 March 2017, FagorBrandt SAS has completed the realisation of most of the assets to Cevital in order to raise funds for settlement to its creditors.

On 31 October 2013, Fagor Mastercook S.A., a company incorporated under the laws of Poland, submitted a petition to open formal insolvency proceedings (concurso) before the Commercial Court No. 1 of San Sebastian (Spain). The Court opened the insolvency proceedings on 19 November 2013. On 18 February 2014, the Polish Court in Wroclaw opened the secondary proceedings of Fagor Mastercook S.A. These proceedings under the EC Regulation 1346/2000 are liquidation proceedings.

Full impairment provision of EUR8,123,000 (2018: EUR8,123,000) (approximately HK$71,671,000 (2018: approximately HK$78,841,000)) has already been made in prior years against the Group's trade receivables of EUR8,123,000 (2018: EUR8,123,000) (approximately HK$71,671,000 (2018: approximately HK$78,841,000)) due from the Fagor Group as at 31 March 2019 in view of the insolvency and reorganisation proceedings of Fagor Group underway.

### Impairment under HKAS 39 for the year ended 31 March 2018

The ageing analysis of the trade receivables as at 31 March 2018 that were neither individually nor collectively considered to be impaired under HKAS 39 is as follows:

| | 2018<br>HK$'000 |
|---|---|
| Neither past due nor impaired | 424,876 |
| Less than 1 month past due | 28,857 |
| 1 to 3 months past due | 16,853 |
| Over 3 months past due | 12,411 |
| | 482,997 |

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

## 19. Trade Receivables (continued)

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

Included in trade receivables is an amount due from an associate of HK$41,075,000 (2018: HK$24,345,000) which is repayable on credit terms similar to those offered to the major customers of the Group.

## 20. Prepayments, Deposits and Other Receivables

None of the assets included in the balances is either past due or impaired. The financial assets included in the balances related to receivables for which there was no recent history of default. The ECLs are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. No loss allowance was provided because management estimated that the ECLs as at 31 March 2019 were not significant.

## 21. Cash and Cash Equivalents

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Cash and bank balances | **434,157** | 661,464 |
| Time deposits | **2,331** | 68,151 |
| | **436,488** | 729,615 |

At the end of the reporting period, the cash and bank balances denominated in Renminbi ("RMB") amounted to HK$47,888,000 (2018: HK$145,935,000). 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 are deposited with creditworthy banks with no recent history of default.

## 22. Trade and Bills Payables

An ageing analysis of trade and bills payables as at the end of the reporting period, based on the payment due date, is as follows:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Current and due within 1 month | **398,179** | 446,105 |
| 1 to 2 months | **123,331** | 42,999 |
| 2 to 3 months | **32,408** | 6,782 |
| Over 3 months | **38,173** | 3,773 |
| | **592,091** | 499,659 |

The trade payables are non-interest-bearing and generally have payment terms ranging from one to three months.

## 23. Other Payables and Accrued Liabilities

The other payables and accrued liabilities are non-interest-bearing and have payment terms ranging from one to three months.

## 24. Contract Liabilities

| | **31 March**<br>**2019**<br>**HK$'000** | 1 April<br>2018*<br>HK$'000 |
|---|---|---|
| Receipts in advance from customers | **4,934** | 879 |

Contract liabilities include short-term advances received to deliver products. The increase in contract liabilities in 2019 was mainly due to the increase in short-term advances received from customers in relation to the delivery of products at the end of the year.

* *The amount disclosed in this column is after adjustment upon application of HKFRS 15. The Group reclassified HK$879,000 from other payables to contract liabilities as at 1 April 2018 in relation to the consideration received from customers in advance as at 1 April 2018.*

## 25. Derivative Financial Instruments

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Contract Amount HK$'000 | Assets HK$'000 | Liabilities HK$'000 | Contract Amount HK$'000 | Assets HK$'000 | Liabilities HK$'000 |
| Forward currency contracts | **39,370** | **294** | **–** | 205,670 | – | (24,763) |

As at 31 March 2019, the forward currency contracts are not designated for hedge accounting and are measured at fair value through profit or loss. Changes in the fair value of non-hedging forward currency contracts amounting to HK$521,000 (2018: Nil) were credited to the statement of profit or loss during the year.

As at 31 March 2018, the forward currency contracts were qualified as hedging instruments in respect of forecast future sales and operating expenses in EUR and GBP to which the Group had firm commitments. The forward currency contract balances varied with the levels of expected foreign currency sales and operating expenses and changes in foreign exchange forward rates.

The terms of the forward currency contracts matched the terms of the commitments. The cash flow hedges relating to expected future sales and operating expenses in the coming 6 months from the end of the reporting period were assessed to be highly effective and net gains of HK$16,195,000 (2018: losses of HK$17,915,000) were included in the hedging reserve as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Total fair value gains/(losses) included in the hedging reserve | **9,401** | (33,538) |
| Reclassified from other comprehensive income and recognised in the statement of profit or loss | **6,794** | 15,623 |
| Net gains/(losses) on cash flow hedges | **16,195** | (17,915) |

## 26. Interest-Bearing Bank Borrowings

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate p.a. (%) | Maturity | HK$'000 | Effective interest rate p.a. (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Bank revolving loans – unsecured | 1.4–2.6 | 2019 | 46,469 | 1.50 | 2018 | 33,969 |
| Bank import loans – unsecured | 2.73–2.90 | 2019 | 163,570 | 2.18–3.31 | 2018 | 216,720 |
| | | | 210,039 | | | 250,689 |

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Analysed into:** | | |
| Bank loans repayable: | | |
| Within one year or on demand | 210,039 | 250,689 |

Other interest rate information:

| | Floating rate | |
|---|---|---|
| | 2019 HK$'000 | 2018 HK$'000 |
| Bank loans – unsecured | 210,039 | 250,689 |

Except for unsecured bank loans of approximately HK$26,469,000 denominated in EUR (2018: approximately HK$2,493,000 and HK$33,969,000 denominated in US$ and EUR, respectively) at 31 March 2019, all other borrowings were denominated in Hong Kong dollars at 31 March 2019.

At 31 March 2019 and 2018, the interest-bearing bank borrowings were supported by corporate guarantees executed by the Company and certain of its wholly-owned subsidiaries.

## 27. Deferred Tax

The movements in deferred tax liabilities and assets during the year are as follows:

### Deferred tax liabilities/(assets)

| | Deferred tax liabilities/(assets) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Inventory | Unutilised tax losses | Credit losses | Depreciation allowance in excess of related depreciation | Deferred expenditure | Unrealised losses | Net deferred tax liabilities |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 April 2017 | – | – | – | – | 12,609 | 580 | 13,189 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year *(note 10)* | (5,663) | (660) | – | (1,185) | 2,714 | – | (4,794) |
| Exchange realignment | (40) | (41) | – | – | – | – | (81) |
| At 31 March 2018 and 1 April 2018 | (5,703) | (701) | – | (1,185) | 15,323 | 580 | 8,314 |
| Opening adjustment | – | – | (375) | – | 3,885 | – | 3,510 |
| Deferred tax charged/(credited) to the statement of profit or loss during the year *(note 10)* | 4,043 | (10,784) | – | 1,339 | 5,102 | (580) | (880) |
| Exchange realignment | 377 | 91 | – | – | – | – | 468 |
| At 31 March 2019 | (1,283) | (11,394) | (375) | 154 | 24,310 | – | 11,412 |

## 27. Deferred Tax (continued)

### Deferred tax liabilities/(assets) (continued)

Represented as:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Deferred tax assets | **(13,052)** | (6,404) |
| Deferred tax liabilities | **24,464** | 14,718 |

At 31 March 2019, the Group has unrecognised tax losses arising in Hong Kong of HK$9,293,000 (2018: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has unrecognised tax losses arising in Mainland China of HK$22,012,000 (2018: HK$14,458,000) that will expire in one to five years for offsetting against future profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not certain that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 March 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$197,671,000 at 31 March 2019 (2018: HK$182,237,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 28. Issued Capital

### Shares

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Authorised: | | |
| 5,000,000,000 (2018: 5,000,000,000) ordinary shares of HK$0.10 each | **500,000** | 500,000 |
| Issued and fully paid: | | |
| 839,740,000 (2018: 839,740,000) ordinary shares of HK$0.10 each | **83,974** | 83,974 |

A summary of movements in the Company's share capital is as follows:

| | **Number of shares in issue** | **Share capital**<br>HK$'000 | **Share premium account**<br>HK$'000 | **Total**<br>HK$'000 |
|---|---|---|---|---|
| At 1 April 2017 | 836,420,000 | 83,642 | 391,947 | 475,589 |
| Issue of shares upon exercise of share options | 3,320,000 | 332 | 2,987 | 3,319 |
| At 31 March 2018, 1 April 2018 and 31 March 2019 | 839,740,000 | 83,974 | 394,934 | 478,908 |

### Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

## 29. Share Option Schemes

The purpose of the share option schemes of the Company is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operation. Eligible participants of the share option schemes of the Company include Directors (including Executive, Non-executive and Independent Non-executive Directors) and employees of the Group, any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters or service providers of any member of the Group.

The share option scheme adopted by the Company on 15 September 2006 (the "2006 Scheme") expired on 15 September 2016. Unless otherwise cancelled or lapsed in accordance with the 2006 Scheme, the outstanding share options granted under the 2006 Scheme would remain exercisable. Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 14 September 2016, the Company adopted a new share option scheme (the "2016 Scheme") which, unless otherwise cancelled or terminated, would remain in force for 10 years from that date.

The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2006 Scheme and the 2016 Scheme and any other schemes of the Company must not exceed 30% of the shares in issue at any time. The maximum number of shares issued and to be issued under share options to each eligible participant under the 2006 Scheme and 2016 Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, Chief Executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors of the Company. In addition, any grant of share options to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to shareholders' approval in advance in a general meeting.

As at the date of this report, the total number of shares available for issue under the 2016 Scheme was 81,642,000, representing approximately 9.72% of the shares of the Company in issue as at that date. Since the 2006 Scheme expired on 15 September 2016, no further share option could be issued under the 2006 Scheme thereafter.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, which may commence from the date of offer of the share options, and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

## 29. Share Option Schemes (continued)

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

The Group recognised reversal of share option expenses, net of HK$57,000 (2018: share option expenses of HK$2,870,000) during the year ended 31 March 2019.

The following share options were outstanding during the year:

| **2006 Scheme** | **Weighted average exercise price** HK$ per share | **Number of options** |
|---|---|---|
| At 1 April 2017 | 0.944 | 32,726,000 |
| Exercised during the year | 0.680 | (3,320,000) |
| Lapsed/forfeited during the year | 1.750 | (606,000) |
| At 31 March 2018, 1 April 2018 and 31 March 2019 | 0.957 | 28,800,000 |

| **2016 Scheme** | **Weighted average exercise price** HK$ per share | **Number of options** |
|---|---|---|
| At 1 April 2017 | – | – |
| Granted during the year | 1.452 | 6,150,000 |
| Lapsed/forfeited during the year | 1.650 | (4,150,000) |
| At 31 March 2018, 1 April 2018 and 31 March 2019 | 1.040 | 2,000,000 |

## 29. Share Option Schemes (continued)

Details and movements of the share options of the Company granted under the 2006 Scheme during the year ended 31 March 2019 are as follows:

| Category of participants | As at 1 April 2018 | Exercised during the year | Lapsed/ forfeited during the year | As at 31 March 2019 | Date of grant of share options | Exercise period of share options | Date of share options vested/to be vested | Exercise price per share HK$ | The price of the Company's shares at the grant date HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Senior management and other employees in aggregate** | 240,000 | – | – | 240,000 | 22 October 2015 | From 22 October 2016 to 21 October 2025 | 22 October 2016 | 1.24 | 1.24 |
| | 240,000 | – | – | 240,000 | 22 October 2015 | From 22 October 2017 to 21 October 2025 | 22 October 2017 | 1.24 | 1.24 |
| | 320,000 | – | – | 320,000 | 22 October 2015 | From 22 October 2018 to 21 October 2025 | 22 October 2018 | 1.24 | 1.24 |
| | 240,000 | – | – | 240,000 | 28 April 2016 | From 28 April 2017 to 27 April 2026 | 28 April 2017 | 1.174 | 1.13 |
| | 360,000 | – | – | 360,000 | 28 April 2016 | From 28 April 2018 to 27 April 2026 | 28 April 2018 | 1.174 | 1.13 |
| | 440,000 | – | – | 440,000 | 28 April 2016 | From 28 April 2019 to 27 April 2026 | 28 April 2019 | 1.174 | 1.13 |
| | 160,000 | – | – | 160,000 | 28 April 2016 | From 28 April 2020 to 27 April 2026 | 28 April 2020 | 1.174 | 1.13 |
| | 2,000,000 | – | – | 2,000,000 | | | | | |

## 29. Share Option Schemes (continued)

Details and movements of the share options of the Company granted under the 2006 Scheme during the year ended 31 March 2019 are as follows: (continued)

| Category of participants | As at 1 April 2018 | Exercised during the year | Lapsed/ forfeited during the year | As at 31 March 2019 | Date of grant of share options | Exercise period of share options | Date of share options vested/to be vested | Exercise price per share HK$ | The price of the Company's shares at the grant date HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Director**<br>Dr. OWYANG King | 2,400,000 | – | – | 2,400,000 | 30 April 2010 | From 30 April 2011 to 29 April 2020 | 30 April 2011 | 1.05 | 1.05 |
| | 2,400,000 | – | – | 2,400,000 | 30 April 2010 | From 30 April 2012 to 29 April 2020 | 30 April 2012 | 1.05 | 1.05 |
| | 3,200,000 | – | – | 3,200,000 | 30 April 2010 | From 30 April 2013 to 29 April 2020 | 30 April 2013 | 1.05 | 1.05 |
| | 2,400,000 | – | – | 2,400,000 | 28 June 2011 | From 28 June 2012 to 27 June 2021 | 28 June 2012 | 0.79 | 0.79 |
| | 2,400,000 | – | – | 2,400,000 | 28 June 2011 | From 28 June 2013 to 27 June 2021 | 28 June 2013 | 0.79 | 0.79 |
| | 3,200,000 | – | – | 3,200,000 | 28 June 2011 | From 28 June 2014 to 27 June 2021 | 28 June 2014 | 0.79 | 0.79 |

## 29. Share Option Schemes (continued)

Details and movements of the share options of the Company granted under the 2006 Scheme during the year ended 31 March 2019 are as follows: (continued)

| Category of participants | As at 1 April 2018 | Exercised during the year | Lapsed/ forfeited during the year | As at 31 March 2019 | Date of grant of share options | Exercise period of share options | Date of share options vested/to be vested | Exercise price per share HK$ | The price of the Company's shares at the grant date HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Director (continued)**<br>Dr. OWYANG King (continued) | 1,200,000 | – | – | 1,200,000 | 6 August 2012 | From 6 August 2014 to 5 August 2022 | 6 August 2014 | 0.375 | 0.375 |
| | 1,600,000 | – | – | 1,600,000 | 6 August 2012 | From 6 August 2015 to 5 August 2022 | 6 August 2015 | 0.375 | 0.375 |
| | 1,600,000 | – | – | 1,600,000 | 28 April 2016 | From 28 April 2017 to 27 April 2026 | 28 April 2017 | 1.174 | 1.13 |
| | 1,600,000 | – | – | 1,600,000 | 28 April 2016 | From 28 April 2018 to 27 April 2026 | 28 April 2018 | 1.174 | 1.13 |
| | 1,600,000 | – | – | 1,600,000 | 28 April 2016 | From 28 April 2019 to 27 April 2026 | 28 April 2019 | 1.174 | 1.13 |
| | 1,600,000 | – | – | 1,600,000 | 28 April 2016 | From 28 April 2020 to 27 April 2026 | 28 April 2020 | 1.174 | 1.13 |

## 29. Share Option Schemes (continued)

Details and movements of the share options of the Company granted under the 2006 Scheme during the year ended 31 March 2019 are as follows: (continued)

| Category of participants | As at 1 April 2018 | Exercised during the year | Lapsed/ forfeited during the year | As at 31 March 2019 | Date of grant of share options | Exercise period of share options | Date of share options vested/to be vested | Exercise price per share HK$ | The price of the Company's shares at the grant date HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Director (continued)**<br>Dr. OWYANG King (continued) | 1,600,000 | – | – | 1,600,000 | 28 April 2016 | From 28 April 2021 to 27 April 2026 | 28 April 2021 | 1.174 | 1.13 |
| | 26,800,000 | – | – | 26,800,000 | | | | | |
| Total | 28,800,000 | – | – | 28,800,000 | | | | | |

*Notes:*

1. *3,320,000 share options granted under the 2006 Scheme were exercised by a director on 19 September 2017. The weighted average closing price of the Company's shares immediately before the exercise date of the share options was HK$1.25 per share as at 18 September 2017. The share option reserve of HK$1,062,000 was released to the share premium account.*

2. *No share options granted under the 2006 Scheme have been exercised, cancelled or lapsed during the year ended 31 March 2019.*

3. *The vesting period of the share options granted under the 2006 Scheme is from the date of grant until the commencement of the exercise period.*

## 29. Share Option Schemes (continued)

Details and movements of the share options of the Company granted under the 2016 Scheme during the year ended 31 March 2019 are as follows:

| Category of participants | As at 1 April 2018 | Granted during the year | Lapsed/ forfeited during the year | As at 31 March 2019 | Date of grant of share options | Exercise period of share options | Date of share options vested/to be vested | Exercise price per share HK$ | The price of the Company's shares at the grant date HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Director** Dr. OWYANG King | 200,000 | – | – | 200,000 | 28 April 2017 | From 28 April 2020 to 27 April 2027 | 28 April 2020 | 1.04 | 1.04 |
| | 200,000 | – | – | 200,000 | 28 April 2017 | From 28 April 2021 to 27 April 2027 | 28 April 2021 | 1.04 | 1.04 |
| | 1,600,000 | – | – | 1,600,000 | 28 April 2017 | From 28 April 2022 to 27 April 2027 | 28 April 2022 | 1.04 | 1.04 |
| Total | 2,000,000 | – | – | 2,000,000 | | | | | |

*Notes:*

1. *6,150,000 share options were granted to two directors under the 2016 Scheme on 28 April 2017 and 22 August 2017. The closing prices of the Company's shares immediately before these dates of grant were HK$1.03 and HK$1.67 per share respectively. The fair value of share options granted to the directors during the year ended 31 March 2018 was HK$4,041,000. During the year ended 31 March 2018, 4,150,000 share options granted to Mr. AU Hing Lun, Dennis under the 2016 Scheme were forfeited upon his resignation in his own accord as Deputy Chief Executive Officer and Executive Director of the Company with effect from 28 February 2018.*

2. *No share options granted under the 2016 Scheme have been exercised, cancelled or lapsed during the year ended 31 March 2019.*

3. *The vesting period of the share options granted under the 2016 Scheme is from the date of grant until the commencement of the exercise period.*

## 29. Share Option Schemes (continued)

The fair value of the equity-settled share options granted under the 2016 Scheme during the year ended 31 March 2018 was estimated as at the date of grant, using a trinomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | Granted on 28 April 2017 |
|---|---|
| Exercise price (HK$) | 1.04 |
| Share price at the date of grant (HK$) | 1.04 |
| Dividend yield (%) | 5.58 |
| Expected volatility (%) | 60.23 |
| Risk-free interest rate (%) | 2.160 |
| Expected life of options (number of years) | 10 |

The expected life of the options is based on the contractual life and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

At the end of the reporting period, the Company had 28,800,000 and 2,000,000 share options outstanding (2018: 28,800,000 and 2,000,000) under the 2006 Scheme and the 2016 Scheme respectively, which in aggregate represented approximately 3.67% (2018: 3.67%) of the Company's shares. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 30,800,000 additional ordinary shares of the Company (2018: 30,800,000) and additional share capital of HK$3,080,000 (2018: HK$3,080,000) and share premium of HK$26,563,000 (2018: HK$26,563,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 28,800,000 (2018: 28,800,000) and 2,000,000 (2018: 2,000,000) share options outstanding under the 2006 Scheme and the 2016 Scheme respectively, which represented approximately 3.43% and 0.24% of the Company's shares in issue as at that date.

## 30. Reserves

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

The Group's contributed surplus represents (i) the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation of certain subsidiaries of the Group which took place in a prior year over the nominal value of CIL's shares issued in exchange therefor; and (ii) the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the Company's shares issued in exchange therefor.

## 31. Operating Lease Arrangements

The Group leases certain of its office properties, warehouses, factories and staff quarters under operating lease arrangements, with leases negotiated for terms ranging from one to five years (2018: one to five years).

At 31 March 2019, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **43,123** | 51,700 |
| In the second to fifth years, inclusive | **19,413** | 43,129 |
| | **62,536** | 94,829 |

## 32. Commitments

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Contracted, but not provided for: | | |
| Leasehold improvements | **904** | 567 |
| Plant and machinery | **2,762** | 5,364 |
| | **3,666** | 5,931 |

## 33. Related Party Transactions

In addition to the transactions and balances set out elsewhere in these financial statements, the Group had the following significant related party transactions during the year.

### (a) The Group had the following material transactions with related parties during the year:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Sale of finished goods to an associate | **85,434** | 65,411 |

The sales were made with reference to the prices and conditions offered to the major customers of the Group.

| | Note | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| Consultancy fee to a Non-executive Director | *(i)* | **93** | – |

*Note:*

*(i) Mr. Arvind Amratlal PATEL has been engaged as a consultant of a subsidiary of the Company for a term of one year with effect from 1 January 2019. The terms of the consultancy fee were based on consultancy agreement entered into between the subsidiary of the Company and Mr. Arvind Amratlal PATEL.*

The above transaction constitutes continuing connected transaction as defined in Chapter 14A of the Listing Rules and the detail is disclosed in the Report of the Directors.

The Directors are of the opinion that above transaction was conducted on a mutually agreed basis.

### (b) Compensation of key management personnel of the Group

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Short term employee benefits | **40,922** | 39,292 |
| Post-employment benefits | **192** | 138 |
| Equity-settled share option expenses | **(57)** | 2,870 |
| | **41,057** | 42,300 |

Further details of directors' emoluments are included in note 8 to the financial statements.

## 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:

### Financial assets

**2019**

| | Financial assets at amortised cost HK$'000 | Financial assets at fair value through other comprehensive income — Debt investments HK$'000 | Financial assets at fair value through other comprehensive income — Equity investment HK$'000 | Financial assets at fair value through profit or loss — Held for trading HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Financial asset at fair value through other comprehensive income | – | – | – | – | – |
| Trade receivables | 373,172 | 232,696 | – | – | 605,868 |
| Financial assets included in prepayments, deposits and other receivables | 35,707 | – | – | – | 35,707 |
| Derivative financial instruments | – | – | – | 294 | 294 |
| Cash and cash equivalents | 436,488 | – | – | – | 436,488 |
| | 845,367 | 232,696 | – | 294 | 1,078,357 |

**2018**

| | Loans and receivables HK$'000 | Available-for-sale financial asset HK$'000 | Designated as financial assets at fair value through profit or loss upon initial recognition HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Available-for-sale investment | – | – | – | – |
| Trade receivables | 483,278 | – | – | 483,278 |
| Financial assets included in prepayments, deposits and other receivables | 29,566 | – | – | 29,566 |
| Derivative financial instruments | – | – | – | – |
| Cash and cash equivalents | 729,615 | – | – | 729,615 |
| | 1,242,459 | – | – | 1,242,459 |

## 34. Financial Instruments by Category (continued)

### Financial assets that are derecognised in their entirety

As part of its normal business, the Group entered into trade receivable factoring arrangements (the "Arrangements") pursuant to which the Group assigned the rights to certain trade receivables to certain banks. The Group is not exposed to default risks of the trade debtors after the assignment. The Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the trade receivables assigned under the Arrangements that have not been settled as at 31 March 2019 was HK$677,420,000 (2018: HK$701,621,000).

### Financial liabilities

**2019**

| | **Financial liabilities at amortised cost HK$'000** | **Derivative financial instruments designated for hedging HK$'000** | **Total HK$'000** |
|---|---|---|---|
| Trade and bills payables | **592,091** | **–** | **592,091** |
| Financial liabilities included in other payables and accrued liabilities | **19,529** | **–** | **19,529** |
| Derivative financial instruments | **–** | **–** | **–** |
| Interest-bearing bank borrowings | **210,039** | **–** | **210,039** |
| Amount due to a non-controlling shareholder | **160** | **–** | **160** |
| | **821,819** | **–** | **821,819** |

2018

| | Financial liabilities at amortised cost HK$'000 | Derivative financial instruments designated for hedging HK$'000 | Total HK$'000 |
|---|---|---|---|
| Trade and bills payables | 499,659 | – | 499,659 |
| Financial liabilities included in other payables and accrued liabilities | 27,726 | – | 27,726 |
| Derivative financial instruments | – | 24,763 | 24,763 |
| Interest-bearing bank borrowings | 250,689 | – | 250,689 |
| Amount due to a non-controlling shareholder | 160 | – | 160 |
| | 778,234 | 24,763 | 802,997 |

## 35. Fair Value and Fair Value Hierarchy of Financial Instruments

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accrued liabilities, interest-bearing bank borrowings, and an amount due to a non-controlling shareholder approximate to their carrying amounts largely due to the short term maturities of these instruments. The valuations of the Group's financial asset at fair value through other comprehensive income as at 31 March 2019 and 1 April 2018 were made reference to the net asset value of the investment based on cost approach by management.

During the year ended 31 March 2019, the Group entered into derivative financial instruments with various counterparties, principally creditworthy banks with no recent history of default. Derivative financial instruments, including forward currency contracts, are measured using valuation techniques similar to forward pricing, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties and foreign exchange spot and forward rates. The carrying amounts of forward currency contracts are the same as their fair values.

As at 31 March 2019, the derivative financial instruments and trade receivables designated as debt investments at fair value through other comprehensive income were classified under fair value measurement using significant observable inputs within level 2. As at 31 March 2018, the derivative financial instruments were classified under fair value measurement using significant observable inputs within level 2.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

## 36. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and bank balances and time 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, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accrued liabilities, 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. Management meets periodically to analyse and formulate measurements to manage the Group's exposure to financial risks. Generally, the Group employs a conservative strategy regarding its risk management.

## 36. Financial Risk Management Objectives and Policies (continued)

### (i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank deposits and debt obligations with floating interest rates.

The interest rates and the terms of repayment of the Group's bank deposits and interest-bearing bank borrowings are disclosed in notes 21 and 26, respectively. The Group did not use any derivative instruments to hedge against its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on interest-bearing bank borrowings and bank deposits) and the Group's equity.

| | **Increase/ (decrease) in basis points** | **Increase/ (decrease) in profit before tax** HK$'000 | **Increase/ (decrease) in equity** HK$'000 |
|---|---|---|---|
| **2019** | | | |
| Bank deposits | **100** | **4,365** | **4,155** |
| Bank borrowings | **100** | **(2,100)** | **(1,754)** |
| Bank deposits | **(100)** | **(4,365)** | **(4,155)** |
| Bank borrowings | **(100)** | **2,100** | **1,754** |
| 2018 | | | |
| Bank deposits | 100 | 7,296 | 6,935 |
| Bank borrowings | 100 | (2,584) | (2,158) |
| Bank deposits | (100) | (7,296) | (6,935) |
| Bank borrowings | (100) | 2,584 | 2,158 |

## 36. Financial Risk Management Objectives and Policies (continued)

### (ii) Foreign currency risk

The Group's exposure to the risk of changes in market currency rates relates primarily to the Group's sales and purchases which are mainly denominated in United States dollars and, to a lesser extent, Euro zone currencies. Certain production and operating overheads of the Group's production facilities in Mainland China are denominated in RMB. Due to the fact that the Hong Kong dollars are pegged to the United States dollars, the Group's exposure to foreign currency risk regarding United States dollars is low. During the year, the Group managed foreign currency risk arising from certain transactions of RMB, EUR and GBP by the use of forward currency contracts.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates of RMB, EUR and GBP against HK$, with all other variables held constant, of the Group's profit before tax and equity (due to changes in the fair value of monetary assets and liabilities, including trade and other receivables, cash and cash equivalents and trade and other payables).

| | Increase/ (decrease) in exchange rate against HK$<br>% | Increase/ (decrease) in profit before tax<br>HK$'000 | Increase/ (decrease) in equity<br>HK$'000 |
|---|---|---|---|
| **2019** | | | |
| If Hong Kong dollars weaken against RMB | **5** | **(11,853)** | **(11,853)** |
| If Hong Kong dollars weaken against Euro | **5** | **4,842** | **5,513** |
| If Hong Kong dollars weaken against GBP | **5** | **7,039** | **12,042** |
| If Hong Kong dollars strengthen against RMB | **(5)** | **11,853** | **11,853** |
| If Hong Kong dollars strengthen against Euro | **(5)** | **(4,842)** | **(5,513)** |
| If Hong Kong dollars strengthen against GBP | **(5)** | **(7,039)** | **(12,042)** |
| 2018 | | | |
| If Hong Kong dollars weaken against RMB | 5 | (7,763) | (7,763) |
| If Hong Kong dollars weaken against Euro | 5 | 2,454 | 3,192 |
| If Hong Kong dollars weaken against GBP | 5 | 8,440 | 8,889 |
| If Hong Kong dollars strengthen against RMB | (5) | 7,763 | 7,763 |
| If Hong Kong dollars strengthen against Euro | (5) | (2,454) | (3,192) |
| If Hong Kong dollars strengthen against GBP | (5) | (8,440) | (8,889) |

## 36. Financial Risk Management Objectives and Policies (continued)

### (iii) 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. Outstanding receivable balances are monitored on an ongoing basis. In addition, the Group had no significant historical bad debt record in prior years. Accordingly, the Group's exposure to credit risk is not significant.

***Maximum exposure and year-end staging as at 31 March 2019***

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 March 2019. The amounts presented are gross carrying amounts for financial assets.

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 HK$'000 | Stage 2 HK$'000 | Stage 3 HK$'000 | Simplified approach HK$'000 | HK$'000 |
| Debt investments at fair value through other comprehensive income | | | | | |
| – Trade receivables* | – | – | – | 232,696 | 232,696 |
| Trade receivables* | – | – | – | 373,172 | 373,172 |
| Financial assets included in prepayments, deposits and other receivables | | | | | |
| – Normal** | 35,707 | – | – | – | 35,707 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 436,488 | – | – | – | 436,488 |
| | 472,195 | – | – | 605,868 | 1,078,063 |

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to the financial statements.*

** *The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.*

***Maximum exposure as at 31 March 2018***

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents 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 creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk with the Group as the customer bases of the Group's trade receivables were widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

## 36. Financial Risk Management Objectives and Policies (continued)

### (iv) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and loans. In addition, banking facilities have been put in place for contingency purposes.

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

| | Within one year/ on demand | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Trade and bills payables | **592,091** | 499,659 |
| Financial liabilities included in other payables and accrued liabilities | **19,529** | 27,726 |
| Derivative financial instruments | **–** | 24,763 |
| Interest-bearing bank borrowings | **210,694** | 251,373 |
| Amount due to a non-controlling shareholder | **160** | 160 |
| | **822,474** | 803,681 |

### (v) Capital management

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

The Group manages its capital structure and makes adjustments to it in the 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 2019 and 2018.

The Group's capital comprises all components of equity. As at 31 March 2019, the Group had net cash of HK$226,449,000 (2018: HK$478,926,000), representing total cash and cash equivalents less total interest-bearing bank borrowings.

The Group is subject to capital requirements imposed by various banks for banking facilities granted. During the year, the Group has complied with the capital requirements imposed by these banks.

## 37. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Interests in subsidiaries | **903,151** | 788,296 |
| Deposits | **1,772** | – |
| Total non-current assets | **904,923** | 788,296 |
| CURRENT ASSETS | | |
| Prepayments, deposits and other receivables | **552** | 403 |
| Tax recoverable | **510** | 307 |
| Cash and cash equivalents | **3,733** | 2,470 |
| Total current assets | **4,795** | 3,180 |
| CURRENT LIABILITIES | | |
| Other payables and accrued liabilities | **10,629** | 10,169 |
| NET CURRENT LIABILITIES | **(5,834)** | (6,989) |
| Net assets | **899,089** | 781,307 |
| EQUITY | | |
| Issued capital | **83,974** | 83,974 |
| Reserves | **815,115** | 697,333 |
| Total equity | **899,089** | 781,307 |

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

*Note:*

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

| | Share premium account HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Retained profits/ (accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2017 | 391,947 | 353,435 | 11,400 | (1,668) | 755,114 |
| Issue of shares upon exercise of share options | 2,987 | – | (1,062) | – | 1,925 |
| Equity-settled share option arrangements | – | – | 2,870 | – | 2,870 |
| Total comprehensive income for the year | – | – | – | 405 | 405 |
| 2017 final dividends declared and paid | – | – | – | (62,981) | (62,981) |
| At 31 March 2018 and 1 April 2018 | 394,934 | 353,435 | 13,208 | (64,244) | 697,333 |
| Equity-settled share option arrangements | – | – | (57) | – | (57) |
| Total comprehensive income for the year | – | – | – | 180,820 | 180,820 |
| 2018 final dividends declared and paid | – | – | – | (62,981) | (62,981) |
| At 31 March 2019 | 394,934 | 353,435 | 13,151 | 53,595 | 815,115 |

*The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation referred to in note 30, over the previous nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, the contributed surplus may be distributed to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.*

## 38. Note to the Consolidated Statement of Cash Flows

### Changes in liabilities arising from financing activities

| | **Interest-bearing bank borrowings** HK$'000 |
|---|---|
| At 1 April 2017 | 264,877 |
| Changes from financing cash flows | (18,957) |
| Effect of foreign exchange rate changes, net | 4,769 |
| At 31 March 2018 and 1 April 2018 | 250,689 |
| Changes from financing cash flows | (38,535) |
| Effect of foreign exchange rate changes, net | (2,115) |
| At 31 March 2019 | 210,039 |

## 39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 20 June 2019.

# Financial Summary

## Results

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| REVENUE | **3,420,131** | 3,867,510 | 3,683,598 | 3,521,758 | 3,164,321 |
| PROFIT BEFORE TAX | **13,920** | 158,821 | 162,654 | 125,720 | 103,182 |
| INCOME TAX EXPENSE | **(3,646)** | (32,435) | (36,220) | (28,012) | (26,878) |
| PROFIT FOR THE YEAR | **10,274** | 126,386 | 126,434 | 97,708 | 76,304 |
| ATTRIBUTABLE TO: | | | | | |
| Owners of the Company | **10,289** | 126,404 | 126,449 | 97,724 | 76,307 |
| Non-controlling interests | **(15)** | (18) | (15) | (16) | (3) |
| | **10,274** | 126,386 | 126,434 | 97,708 | 76,304 |

## Assets, Liabilities and Non-controlling Interests

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TOTAL ASSETS | **2,216,564** | 2,295,381 | 2,401,620 | 2,213,992 | 2,159,347 |
| TOTAL LIABILITIES | **(927,637)** | (943,587) | (1,149,664) | (1,027,383) | (1,033,182) |
| NET ASSETS | **1,288,927** | 1,351,794 | 1,251,956 | 1,186,609 | 1,126,165 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | **1,288,185** | 1,351,037 | 1,251,181 | 1,185,819 | 1,125,359 |
| NON-CONTROLLING INTERESTS | **742** | 757 | 775 | 790 | 806 |
| TOTAL EQUITY | **1,288,927** | 1,351,794 | 1,251,956 | 1,186,609 | 1,126,165 |