# 2019 Annual Report

**MEXAN LIMITED**
**茂 盛 控 股 有 限 公 司**

*(Incorporated in Bermuda with limited liability)*
(Stock Code: 22)

*This annual report, in both English and Chinese versions, is available on the Company's website at www.mexanhk.com (The "Company Website").*

Shareholders who have chosen or have been deemed consent to receive the corporate communications of the Company (the "Corporate Communications") via the Company Website and who for any reason have difficulty in receiving or gaining access to the annual report posted on the Company Website will promptly upon request be sent the annual report in printed form free of charge.

Shareholders may at any time change their choice of the means of receipt (either in printed form or via the Company Website) and/or language(s) (either English only or Chinese only or both languages) of Corporate Communications.

Shareholders may send their request to receive the annual report in printed form, and/or to change their choice of the means of receipt and/or language(s) of Corporate Communications by notice in writing to the Hong Kong Branch Share Registrar of the Company, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by sending an email to the Hong Kong Branch Share Registrar of the Company at is-ecom@hk.tricorglobal.com.

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS
***Executive Directors:***
Lun Yiu Kay Edwin (Chairman)
Ng Tze Ho Joseph

***Independent Non-Executive Directors:***
Tse Kwing Chuen
Ng Hung Sui Kenneth
Lau Shu Kan

## COMPANY SECRETARY
Au Chung Shing
(resigned on 28 Feb 2019)
Tang Sik Ho (appointed on 28 Feb 2019)

## PRINCIPAL BANKERS
Dah Sing Bank, Limited
The Hongkong and Shanghai Banking Corporation Limited

## AUDITOR
BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

## REGISTERED OFFICE
Clarendon House
Church Street
Hamilton HM11
Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG
7th Floor, Winland 800 Hotel
Hotel 2, Rambler Crest
No. 1 Tsing Yi Road
Tsing Yi
New Territories
Hong Kong

## PRINCIPAL REGISTRARS
MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton
HM 11
Bermuda

## BRANCH REGISTRARS IN HONG KONG
Tricor Tengis Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

## WEBSITE
www.mexanhk.com

## STOCK CODE
22

# CHAIRMAN'S STATEMENT

I am pleased to present the results of MEXAN LIMITED (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 March 2019.

## RESULTS

The Group's profit/(loss) and total comprehensive income for the year from hotel business and other operation was presented as follows:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Profit/(loss) and total comprehensive income for the year | **1,105** | (264) |

Revenue of the Group for the year ended 31 March 2019 amounted to approximately HK$72 million which solely comprised the turnover generated from the hotel operations, representing an increase of 16% when compared with the turnover of approximately HK$62 million generated in last year.

The Group recorded a profit attributable to owners of the Company of approximately HK$1.27 million for the year ended 31 March 2019, compared with a loss attributable to owners of the Company of approximately HK$0.11 million for the year ended 31 March 2018.

The profit and total comprehensive income in this year was mainly attributable to the increase of turnover generated from the hotel operation.

## PROSPECTS

Although there was steady overall increase in the number of visitors to Hong Kong in the year under review, looking forward, the hotel market may be affected by variety of uncertainties prevailing in the global economic environment. It may be a challenge to drive up revenue and to control costs. The management will make an effort to manage the business prudently, to deliver satisfactory results and sustainable returns to our shareholders.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend our sincere appreciation to our shareholders, professional advisers, bankers and customers for their continuous support and trust. I would also like to thank the management and staff for their dedication and commitment.

**Lun Yiu Kay Edwin**
*Chairman*
Hong Kong, 25 June 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Hotel business

The Group operates the Winland 800 Hotel (formerly known as Mexan Harbour Hotel), a 800-room hotel in Tsing Yi, New Territories, Hong Kong which maintained an average occupancy rate of approximately 97% for the year under review. Turnover increased when compared with turnover last year due to increase in average room rate.

### Turnover generated from hotel operations for recent years

The turnover generated from hotel operations for recent years was presented as follows:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| Hotel room sales | **68,134** | 58,246 | 80,911 |
| Food and beverage income | **3,747** | 3,515 | 3,660 |
| Miscellaneous sales | **314** | 403 | 314 |
| Turnover | **72,195** | 62,164 | 84,885 |

Turnover generated from hotel room sales was increasing when compared with the amount between years ended 31 March 2019 and 31 March 2018.

## LIQUIDITY AND FINANCIAL INFORMATION

During the year under review, cash flow of the Group was mainly generated from the hotel operations. As at 31 March 2019, the Group's total borrowings amounted to approximately HK$31 million compared with approximately HK$40 million as at 31 March 2018. The decrease of the Group's total borrowings was due to partial repayment of the bank loan.

As at 31 March 2019, cash and bank balances amounted to approximately HK$30 million compared with cash and bank balances of approximately HK$23 million last year. The Group's net assets as at 31 March 2019 amounted to approximately HK$582 million, which increased from approximately HK$421 million as at 31 March 2018, mainly due to acquisition of an office premises.

## LIQUIDITY AND FINANCIAL INFORMATION – CONTINUED

Gearing ratio of the Group that is expressed as a percentage of total borrowings to total equity was approximately 5.31% as at 31 March 2019 compared with approximately 9.58% as at 31 March 2018. Net gearing ratio of the Group which is expressed as a percentage of net borrowings (total borrowings less cash and bank balance) to total equity was approximately 0.12% compared with approximately 4.12% last year.

Of the Group's total borrowings as at 31 March 2019, approximately HK$10 million would be due within one year and approximately HK$21 million would be due for repayment after one year which contain a repayable on demand clause. The total borrowings were denominated in HK$ and bear a variable interest rate.

The above borrowings were secured by the hotel property and the corporate guarantee from the Company.

## TREASURY POLICIES

The Group generally financed its operations with internally generated resources and credit facilities. Bank deposits are denominated in HK$.

## EQUITY

Total equity of the Group as at 31 March 2019 was approximately HK$582 million while there was approximately HK$421 million as at 31 March 2018. Total equity attributable to owners of the Company as at 31 March 2019 was approximately HK$584 million while there was approximately HK$423 million as at 31 March 2018. The increase in equity was due to the open offer completed during the year.

## OPEN OFFER

On 7 September 2018, the Company issued 655,462,622 ordinary shares on the basis of one ordinary shares for every two ordinary shares held on 31 July 2018 at the offer price of HK$0.25 each (the "Open Offer"). The Company raised approximately HK$163,866,000 before any related issuance costs arising from the Open Offer, resulting in an increase in the issued share capital of the Company by approximately HK$13,110,000 and the share premium of the Company by approximately HK$147,278,000 after netting off with the related share issue expense of approximately HK$3,478,000.

The net proceeds from Open Offer were fully applied to the acquisition of an office premises during the year. Details of the Open Offer were included in the Prospectus issued by the Company on 15 August 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

## MAJOR TRANSACTION

The Group has completed a major transaction of acquiring an office premises through acquisition of a subsidiary during the year.

On 27 September 2018, the Group completed acquiring 100% equity interest of Castle Charm Limited for a cash consideration of approximately HK$167,665,000 (including the acquisition related costs of approximately HK$3,639,000 incurred during acquisition). The acquisition was made for the purpose of using the property as the Group's office.

Details of the Major Transaction were included in the Circular issued by the Company on 29 August 2018.

## EMPLOYEE INFORMATION AND EMOLUMENT POLICY

As at 31 March 2019, the total number of employees of the Group was 111 (2018: 110). Remuneration packages are generally structured by reference to market terms and individual qualifications. The emoluments of the directors are determined having regard to the comparable market statistics. No director of the Company, or any of his associates, and executive is involved in dealing his own remuneration. The remuneration policies of the Group are normally reviewed on periodic basis. The Group participates in pension schemes that cover all the eligible employees of the Group.

## CONTINGENT LIABILITIES

At the end of the reporting period, the Company provided a financial guarantee to a bank for the banking facilities of an aggregate amount of approximately HK$530,920,000 (2018: HK$40,284,000) granted to its subsidiaries. The amount utilised by the subsidiaries amounted to approximately HK$30,920,000 (2018: HK$40,284,000) as at 31 March 2019. There was unutilised banking facilities of HK$500,000,000, which the Group may utilise in case there is any appropriate investment opportunity. The directors of the Company are of the view that such obligation will not cause an outflow of resources embodying economic benefits.

The Company has not recognised any deferred income in respect of the guarantees as the fair value is insignificant and its transaction price was nil. The Company has not recognised any provision in the Company's financial statements as at 31 March 2019 as the directors considered that the probability for the holder of the guarantees to call upon the Company as a result of default in repayment is remote.

# CORPORATE GOVERNANCE REPORT

## CODE ON CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of MEXAN LIMITED (the "Company") is committed to maintain a high standard of corporate governance. The Board believes that a good, solid and sensible framework of corporate governance will enhance the Company and its subsidiaries (the "Group") to run its business in the best interest of its shareholders as a whole.

In the opinion of the directors of the Company ("Directors" or individually, the "Director"), the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year under review, except for the followings:

(a) Under code provision A.2.1 of the CG Code, the roles of chairman and managing director should be separate and should not be performed by the same individual. Mr. Lun Yiu Kay Edwin is both the Chairman of the Board and Managing Director of the Company. The Board considers that although such structure deviates from A.2.1 of the CG Code, the effective operation of the Group will not be impaired since Mr. Lun Yiu Kay Edwin has exercised sufficient delegation in the daily operation of the Group's business as Managing Director while being responsible for the effective operation of the Board as Chairman of the Board. The Board and senior management have benefited from the leadership and experience of Mr. Lun Yiu Kay Edwin.

(b) Under the code provision A.2.7 of the CG Code provides that the chairman should at least annually hold meetings with the independent non-executive directors without the executive directors present. Although the Chairman did not hold a meeting with the Independent Non-Executive Directors during the year ended 31 March 2019, he delegated the company secretary to gather any concerns and/or questions that the Independent Non-Executive Directors might have and report to him for setting up follow-up meetings, whenever necessary, in due course.

## CODE ON CORPORATE GOVERNANCE PRACTICES – CONTINUED

(c) Under the code provision A.4.2 of the CG Code, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, in accordance with the Bye-laws, the Chairman and Managing Director are not subject to retirement by rotation or taken into account on determining the number of Directors to retire. This constitutes as a deviation from code provision of A.4.2 of the CG Code. As continuation is a key factor to the successful implementation of business plans, the Board believes that the roles of the Chairman and Managing Director provide the Group with strong and consistent leadership and are beneficial to the Company especially in planning and execution of business strategies and also believes that the present arrangement is beneficial to the Company and the shareholders of the Company as a whole.

(d) Under the code provision A.6.7 of the CG Code, the independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Ng Hung Sui Kenneth ("Mr. Kenneth Ng") and Mr. Lau Shu Kan ("Mr. Lau"), both of them are independent non-executive directors of the Company were unable to attend the annual general meeting of the Company held on 5 September 2018 as Mr. Kenneth Ng had other business engagement and Mr. Lau could not attend due to illness.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry to all directors, all directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transaction throughout the year.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

The directors during the year ended 31 March 2019 and up to the date of this report were:

### Executive Directors

Lun Yiu Kay Edwin
Ng Tze Ho Joseph

### Independent Non-Executive Directors

Dr. Tse Kwing Chuen
Ng Hung Sui Kenneth
Lau Shu Kan

As at the date of this report, the Board comprised five directors, two of whom are Executive Directors (including the Chairman of the Board) and three of whom are Independent Non-Executive Directors. Details of backgrounds and qualifications of each director are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. The Company has arranged appropriate insurance cover in respect of legal actions against the directors.

The Board is responsible for the leadership and control of the Company and collectively responsible for promoting the success of the Company and supervising the Company's affairs. It also monitors overall strategic development of the Group, financial performance and the internal controls of the Group's business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The day-to-day running of the Company is delegated to the management with department heads responsible for different aspects of the business/functions.

Independent Non-Executive Directors serve the relevant function of bringing independent judgement on issues of strategy, policy, development, performance and risk management of the Group through their contributions in Board meetings. The Board considers that each Independent Non-Executive Director of the Company is independent in character and judgement. The Company has received from each Independent Non-Executive Director a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules.

## BOARD OF DIRECTORS – CONTINUED

The Board meets at least four times each year to discuss the Group's business development, operation and financial performance. Notice of at least 14 days is given to all directors for all regular Board meetings to give all directors an opportunity to attend. All regular Board meetings adhere to a formal agenda in which a schedule of matters is addressed to the Board. All directors have access to board papers and related materials, and are provided with adequate information that enables the Board to make an informed decision on the matters to be discussed and considered at the Board meetings. Minutes of Board meetings are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any director.

For the year ended 31 March 2019, other than resolutions passed by means of resolutions in writing of Directors, the Board held eleven meetings. The following table shows the attendance records of individual Director at the meetings of the Board held for the year ended 31 March 2019:

### Directors' Attendance

| | Number of Board Meetings held during the Director's term of office during the year ended 31 March 2019 | Number of meeting(s) attended |
|---|---|---|
| **Executive Directors** | | |
| Mr. Lun Yiu Kay Edwin (Chairman) | 11 | 11 |
| Mr. Ng Tze Ho Joseph | 11 | 11 |
| **Independent Non-Executive Directors** | | |
| Dr. Tse Kwing Chuen | 11 | 11 |
| Mr. Ng Hung Sui Kenneth | 11 | 10 |
| Mr. Lau Shu Kan | 11 | 10 |

## BOARD OF DIRECTORS – CONTINUED

### Training and Support for Directors

The Company recognises the importance of keeping the directors updated with latest information of duties and obligations of a director of a company which shares are listed on the Stock Exchange of Hong Kong Limited and the general regulatory requirements and environment for such listed company. To meet this goal, each newly appointed director would receive an introductory training regarding the statutory and regulatory obligations of a director of a listed company in Hong Kong. The Company would also provide regular updates in relation to the latest developments regarding Listing Rules and other applicable regulations.

During the year ended 31 March 2019, the directors participated in the following types of continuous professional development:

| Name of Directors | Type of continuous professional development |
|---|---|
| Lun Yiu Kay Edwin | A, B |
| Ng Tze Ho Joseph | A, B |
| Lau Shu Kan | A, B |
| Ng Hung Sui Kenneth | A, B |
| Dr. Tse Kwing Chuen | A, B |

A: attending business meetings relating to the directors of listed companies
B: reading guidance notes and updates relating to regulatory requirements for listed companies and obligations as directors

### Directors' Liability Insurance

The Company has in place an appropriate directors' and officers' liability insurance policy for each member of the Board to cover their liabilities on damages arising out of corporate activities. The coverage and the sum insured under the policy are reviewed on an annual basis.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The term of office of each present independent non-executive director is for a period of 2 years from 19 April 2018 to 18 April 2020, subject to retirement by rotation in accordance with the Bye-laws of the Company.

## EXECUTIVE COMMITTEE

The Executive Committee was established with specific written terms of reference. The functions of the Executive Committee include dealing with all financial, commercial, business, legal, management and administration issues of the Company. The Executive Committee comprises two executive directors, Mr. Lun Yiu Kay Edwin and Mr. Ng Tze Ho Joseph. Mr. Lun Yiu Kay Edwin is the chairman of the Executive Committee.

During the year, two Executive Committee meetings were held and the individual attendance of each member is set out below:

| Name of Members | Number of Executive Committee meetings held during member's term of office during the year ended 31 March 2019 | Number of meeting(s) attended |
|---|---|---|
| Mr. Lun Yiu Kay Edwin (Chairman) | 3 | 3 |
| Mr. Ng Tze Ho Joseph | 3 | 3 |

## REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") with specific written terms of reference. In line with its terms of reference approved by the Board, the role and function of the Remuneration Committee is to review, discuss and approve the remuneration mechanism of the directors and senior management of the Company and to establish and maintain a reasonable and competitive remuneration level in order to attract and retain the directors and senior management. The Remuneration Committee comprises four members, including Mr. Lun Yiu Kay Edwin and three Independent Non-Executive Directors, Mr. Ng Hung Sui Kenneth, Dr. Tse Kwing Chuen and Mr. Lau Shu Kan. The chairman of Remuneration Committee is Mr. Lau Shu Kan.

## REMUNERATION COMMITTEE – CONTINUED

The major roles and functions of the Remuneration Committee are:

(a) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The Remuneration Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions of the Company and its subsidiaries and the desirability of performance-based remuneration. The Remuneration Committee shall also ensure that the levels of remuneration should be sufficient to attract and retain the directors needed to run the Company successfully but should avoid paying more than is necessary for this purpose;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(e) to ensure that no director or any of his associates is involved in deciding his own remuneration; and

(f) to advise shareholders of the Company on how to vote with respect to any service contracts of directors that require shareholders' approval in accordance with the Listing Rules.

## REMUNERATION COMMITTEE – CONTINUED

During the year, two Remuneration Committee meetings were held and the individual attendance of each member is set out below:

| Name of Members | Number of Remuneration Committee meeting held during the member's term of office during the year ended 31 March 2019 | Number of meetings attended |
|---|---|---|
| Mr. Lau Shu Kan (Chairman) | 2 | 2 |
| Mr. Lun Yiu Kay Edwin | 2 | 2 |
| Mr. Ng Hung Sui Kenneth | 2 | 2 |
| Dr. Tse Kwing Chuen | 2 | 2 |

During the meeting, the Remuneration Committee discussed and determined the director's fee for individual director. The emoluments of the directors are based on their respective responsibilities and their involvement in the Group's affairs and are determined by reference to the Group's business condition and the prevailing market practice. A director is not allowed to approve his/her remuneration.

To comply with the code provision B.1.4 of the CG Code, the terms of reference of the Remuneration Committee are included on the Company's website and also available on request.

## AUDIT COMMITTEE

The Audit Committee was established in March 1999 with specific written terms of reference and comprised three members, all of them are Independent Non-Executive Directors. The Audit Committee comprises three members, including Dr. Tse Kwing Chuen, Mr. Ng Hung Sui Kenneth and Mr. Lau Shu Kan. The chairman of the Audit Committee is Mr. Lau Shu Kan. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management in the Audit Committee.

## AUDIT COMMITTEE – CONTINUED

The major roles and functions of the Audit Committee are:

(a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to develop and implement policies regarding the engagement of an external auditor to supply non-audit services. For this purpose, an external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(d) to monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should focus particularly on:

    (i) any changes in accounting policies and practices;

    (ii) major judgemental areas;

    (iii) significant adjustments resulting from the audit;

    (iv) the going concern assumptions and any qualifications;

    (v) compliance with accounting standards; and

    (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;

## AUDIT COMMITTEE – CONTINUED

(e) in relation to paragraph (d) above: (i) members of the committee must liaise with the Company's board of directors and senior management and the committee must meet, at least once a year, with the Company's auditors; and (ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(f) to review the Company's financial controls, internal control and risk management systems;

(g) to discuss with management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget;

(h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

(i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

(j) to review the Group's financial and accounting policies and practices;

(k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

(l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(m) to report to the Board on the matters set out in the Code on Corporate Governance Practices (Appendix 14 of the Listing Rules);

(n) to review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action;

## AUDIT COMMITTEE – CONTINUED

(o) to act as the key representative body for overseeing the Company's relationship with the external auditor;

(p) to review ongoing connected transactions of the Company and ensure compliance with terms of approval by shareholders of the Company; and

(q) to consider such other matters as the Board may from time to time determine.

During the year, two Audit Committee meetings were held, one of which was attended by the external auditor, BDO Limited. The individual attendance of each member is set out below:

| Name of Members | Number of Audit Committee meetings held during the member's term of office during the year ended 31 March 2019 | Number of meetings attended |
|---|---|---|
| Mr. Lau Shu Kan (Chairman) | 2 | 1 |
| Mr. Ng Hung Sui Kenneth | 2 | 2 |
| Dr. Tse Kwing Chuen | 2 | 2 |

Summary of work done for the year ended 31 March 2019:–

- review of final results and draft audited financial statements for the year ended 31 March 2019;
- review of interim results and draft unaudited consolidated financial statements for the six months ended 30 September 2018; and
- consider and approve of the re-appointment of auditors.

The Audit Committee and BDO Limited have also reviewed with management the accounting principles and practices adopted by the Group and the consolidated financial statements of the Group for the year ended 31 March 2019.

To comply with the code provision C.3.4 of the CG Code, the terms of reference of the Audit Committee are included on the Company's website and also available on request.

## NOMINATION COMMITTEE

The Nomination Committee was established in April 2012 with specific written terms of reference and comprised three members. The Nomination Committee comprises three members, including Mr. Lun Yiu Kay Edwin, Dr. Tse Kwing Chuen and Mr. Lau Shu Kan. The chairman of the Nomination Committee is Mr. Lun Yiu Kay Edwin.

The major roles and functions of the Nomination Committee are:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) to develop the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship;

(c) to identify individuals who are qualified/suitable to become a member of the Board and to select or make recommendations to the Board on the selection of individuals nominated for directorships;

(d) to assess the independence of independent non-executive directors and determine their eligibility;

(e) to make recommendations to the Board on matters relating to the appointment or reappointment of directors and succession planning for directors, in particular, the chairman and the chief executive officer; and

(f) to review and assess the adequacy of the corporate governance guidelines of the Company and to recommend any proposed changes to the Board for approval.

During the year, one meeting was held by the Nomination Committee and the individual attendance of each member is set out below:

| Name of Members | Number of Nomination Committee meetings held during the member's term of office during the year ended 31 March 2019 | Number of meetings attended |
|---|---|---|
| Mr. Lun Yiu Kay Edwin (Chairman) | 1 | 1 |
| Mr. Lau Shu Kan | 1 | 0 |
| Dr. Tse Kwing Chuen | 1 | 1 |

Summary of work done for the year ended 31 March 2019:

- review the structure, composition of the Board and the Board diversity policy; and
- make recommendation on the re-appointment of the retiring directors and assessment of the independence of independent non-executive directors.

# CORPORATE GOVERNANCE REPORT

## SUMMARY OF BOARD DIVERSITY POLICY

The Company recognises the benefits of having a diverse Board to enhance the quality of its performance. The Company sees increasing diversity at the Board as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, consideration has been made from a number of aspects, such as gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All appointments of Board members will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee will review the Board Diversity Policy periodically. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval. The Nomination Committee comprises two independent non-executive Director and one executive Director. The Company Secretary acts as the secretary to the Nomination Committee. As at 31 March 2019, the members of the Nomination Committee were Dr. Tse Kwing Chuen, Mr. Lau Shu Kan and Mr Lun Yiu Kay Edwin. The Nomination Committee held 1 meeting during the year ended 31 March 2019, whereby the members of the Nomination Committee discussed and made recommendation to the Board on the re-election of retiring Directors and re-appointment of Directors, reviewed the size, structure, composition and diversity of the Board, assessed the independence of independent non-executive Directors and discussed the roles of the Chairman and the Managing Director.

## AUDITORS' REMUNERATION

BDO Limited is the auditor of the Company. During the year ended 31 March 2019, the fees charged to the financial statements of the Company and its subsidiaries for statutory audit amounted to HK$670,000.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledged their responsibilities for the preparation of the consolidated financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant period. In preparing the consolidated financial statements for the year ended 31 March 2019, the directors ensured that the consolidated financial statements are prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgements and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The directors are also responsible for the timely publication of the consolidated financial statements of the Group.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

The statement of the auditor of the Company, BDO Limited, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" section of this annual report.

The directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## CORPORATE COMMUNICATION

The Company established a shareholders' communication policy and shall review it on a periodic basis to ensure its effectiveness.

The Company communicates with the Shareholders mainly in the following ways: (i) the holding of annual general meeting and extraordinary general meetings, if any, which may be convened for specific purposes and provide opportunities for the Shareholders to communicate directly to the Board; (ii) the publication of announcements, annual reports, interim reports and circulars on the websites of the Company and the Stock Exchange of Hong Kong; and (iii) the availability of latest information of the Group on the website of the Company.

Separate resolutions are proposed at the general meetings for such substantial issues, including the re-election of retiring directors and continuous appointment of independent non-executive directors serving more than 9 years.

The Company's notices to Shareholders for the annual general meeting ("AGM") held in 2018 were sent to Shareholders at least 20 clear business days or 21 clear days before the meetings, whichever is the longest.

The chairman of the Board and the representative of external auditor were available at the AGM held on 5 September 2018 to answer questions from the Shareholders. The chairman of the AGM explained the procedures for conducting a poll during the meeting. All resolutions proposed at the AGM were voted separately by way of poll. All the votes cast at the said meeting were properly counted and recorded.

# CORPORATE GOVERNANCE REPORT

## CONSTITUTIONAL DOCUMENTS

There was no significant change in the memorandum and articles of association of the Company during the year.

The memorandum and articles of association of the Company are available on the websites of the Company and the Stock Exchange of Hong Kong.

## INTERNAL CONTROLS

The Board is responsible for maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the assets of the Group.

The Audit Committee and the Board also considered the adequacy of resources, qualification and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget under the internal control review.

The Board has reviewed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 March 2019, which covered all material controls, including financial, operational and compliance controls of the Group and considered that they are effective and adequate. The Board is also of the opinion that the resources for and qualifications of staff of the Company's accounting, internal audit and financial reporting functions are adequate and sufficient.

The Company does not have internal audit department and the chairman and the senior management of the Company are responsible to perform the internal audit function during the year ended 31 March 2019. The Company would review the arrangement of the internal audit function from time to time. The Audit Committee reviewed the Company's internal audit function and the internal control systems for the year ended 31 March 2019 and considered that they are effective and adequate.

## COMPANY SECRETARY

Mr. Tang Sik Ho ("Mr. Tang") was appointed as the Company Secretary of the Company. He is also an Authorised Representative of the Company. According to rule 3.29 of the Listing Rules, Mr. Tang takes no less than 15 hours of relevant professional training for the year ended 31 March 2019.

# DIRECTORS' REPORT

The directors ("Directors" or individually, the "Director") of MEXAN LIMITED (the "Company") submit their report together with the audited consolidated financial statements for the year ended 31 March 2019.

## PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding. During the year, the principal activity of its subsidiaries is hotel operation. Further details of subsidiaries during the year ended 31 March 2019 are set out in note 25 to the consolidated financial statements.

An analysis of revenue and results from operations of the Company and its subsidiaries (the "Group") for the year by principal activities is set out in note 7 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 36.

The state of affairs of the Group and the Company as at 31 March 2019 are set out in the consolidated statement of financial position on pages 37 to 38 and in note 24 to the consolidated financial statement respectively.

The cash flows of the Group are set out in the consolidated statement of cash flows on pages 40 to 41.

As at 31 March 2019, the distributable reserves of the Company, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to approximately HK$35,897,000 (2018: HK$37,257,000).

The Directors does not recommend the payment of final dividend for the year ended 31 March 2019 (2018: Nil).

## SHARE CAPITAL

Details of the share capital of the Company during the year are set out in note 20 to the consolidated financial statements.

## RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 39 and in note 21 to the consolidated financial statements respectively.

# DIRECTORS' REPORT

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 115.

## PROPERTY, PLANT AND EQUIPMENT

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

## PRINCIPAL PROPERTIES

Particulars of the Group's principal properties are set out on page 116.

## BANK LOANS

Particulars of the Group's bank loans are set out in note 19 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws in Bermuda.

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

The Company has not redeemed any of its listed securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

Turnover attributable to the largest customer accounted for 52% of the revenue of the Group for the year.

The aggregate purchases attributable to the largest and the five largest suppliers were more than 59% and 96% in the year under review.

None of the Directors, their associates or any shareholders (who, to the knowledge of the Directors, owns more than 5% of the Company's share capital) had any beneficial interest in the major customers and suppliers noted above.

# DIRECTORS' REPORT

## DIRECTORS

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

*Executive Directors:*

Lun Yiu Kay Edwin (Chairman)
Ng Tze Ho Joseph

*Independent Non-Executive Directors:*

Tse Kwing Chuen
Ng Hung Sui Kenneth
Lau Shu Kan

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Ng Hung Sui Kenneth shall retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Pursuant to code provision A.4.2 of Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Mr. Lun Yiu Kay Edwin and Mr. Ng Hung Sui Kenneth were re-elected at 2016 annual general meeting and they have held office as the Directors for three years since their last re-election. Accordingly, Mr. Lun Yiu Kay Edwin although not subject to retirement by rotation by virtue of his office as being chairman and managing director of the Company under the Bye-Laws of the Company, will voluntary retire for compliance with the requirement set out in code provision A.4.2 and offer himself for re-election at the Annual General Meeting.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Group, which is not determinable by the Group within one year without payment of compensation, other than statutory compensations.

The Company has received from each of the Independent Non-Executive Directors their annual confirmations of independence and considers that each of the Independent Non-Executive Directors is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

# DIRECTORS' REPORT

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors of the Company as at the date of this report are set out below:

### *Executive Directors*

**Mr. Lun Yiu Kay Edwin** ("**Mr. Lun**"), aged 49, has been a Director and the Managing Director of the Company since April 2007 and has been the Chairman of the Company since December 2014. Mr. Lun holds a Bachelor's Degree in Science (Land Management) from the University of Reading, United Kingdom. He has over 25 years' experience in property investment, finance and management. He is also experienced in hotel management and in the tourism industry. Mr. Lun joined the group of companies operating various businesses, which ultimately owned and controlled by him and his immediate family member (the "Winland Group") in 1994 and is currently a director of various companies in the Winland Group.

Mr. Lun is also the member of the executive committee, nomination committee and remuneration committee of the Board, and a director of all the subsidiaries of the Company.

**Mr. Ng Tze Ho Joseph** ("**Mr. Joseph Ng**"), aged 47, has been a Director since April 2007. He is also a member of the executive committee. Mr. Joseph Ng holds a Bachelor's Degree in Science (Quantity Surveying) from the University of Reading, United Kingdom. He has over 24 years' experience in property investment and development, leasing and management. Mr. Joseph Ng joined the Winland Group in 1997 and is currently a director of several companies in the Winland Group.

### *Independent Non-Executive Directors*

**Dr. Tse Kwing Chuen** ("**Dr. Tse**"), aged 67, has been a Director since April 2007. He is also a member of the audit committee, remuneration committee and nomination committee of the Board. Dr. Tse obtained a Master's Degree in Economics from the Zhongshan University, the PRC and a Doctorate's Degree of Philosophy in Business Administration from the Bulacan State University, the Republic of the Philippines. Dr. Tse is a Certified Dealmaker as approved by China Mergers & Acquisitions Association. He is also an executive director of Hong Kong Financial Assets Management Limited and the Observer in the Independent Police Complaints Council.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT – CONTINUED

***Independent Non-Executive Directors*** **– continued**

**Mr. Ng Hung Sui Kenneth** ("**Mr. Kenneth Ng**"), aged 52, has been a Director since April 2007. He is also a member of the audit committee and remuneration committee of the Board. Mr. Kenneth Ng obtained a Bachelor's Degree in Laws from the University of Hong Kong and is a solicitor practising in Hong Kong since 1992. He was also admitted as a solicitor in England and Wales in 1993 and as a legal practitioner in Tasmania, Australia in 1994. He is a managing partner of Ng, Au Yeung & Partners Solicitors & Notaries. Mr. Kenneth Ng is a Notary Public of Hong Kong and a China-Appointed Attesting Officer. Mr. Kenneth Ng is the Chairman of the Criminal Law & Procedure Committee of the Law Society of Hong Kong.

Mr. Kenneth Ng currently also serves as an independent non-executive director of Samson Paper Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange.

**Mr. Lau Shu Kan** ("**Mr. Lau**"), aged 60, has been a Director since September 2016. He is also a member of the audit committee, remuneration committee and nomination committee. Mr. Lau has over 30 years' experience in working in European and Hong Kong based banks in commercial, corporate and PRC banking sectors. Graduated from the Hong Kong Polytechnic with a Professional Diploma in Company Secretaries and Administration and obtained a Master's degree in Business Administration (Financial Services) from the University of Greenwich. Mr. Lau is currently an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators of the United Kingdom.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries, holding companies or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2019, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

### (i) Long positions in shares of the Company

| Name of Director | No. of shares of HK$0.02 each held | Capacity and nature of interest | Approximate shareholding percentage (%) |
|---|---|---|---|
| Lun Yiu Kay Edwin | 1,358,055,354 | Interest of controlled corporation | 69.06 |

Note:

These 1,358,055,354 shares are held by Winland Wealth (BVI) Limited. Winland Wealth (BVI) Limited is wholly owned by Winland Stock (BVI) Limited which is in turn wholly owned by the former director, the late Mr. Lun Chi Yim. Mr. Lun Chi Yim passed away in Hong Kong on 30 October 2014. Mr. Lun Yiu Kay Edwin and the estate of the late Mr. Lun Chi Yim were taken to be interested in 1,358,055,354 shares held by Winland Wealth (BVI) Limited. Letters of Administration dated 12 August 2015 was granted by the Probate Registry in Hong Kong in respect of the late Mr. Lun Chi Yim's estate in Hong Kong. Mr. Lun Chi Yim's interests in Winland Stock (BVI) Limited was transferred to Mr. Lun Yiu Kay Edwin in March 2019. Winland Stock (BVI) Limited as at 31 March 2019 was wholly owned by Mr. Lun Yiu Kay Edwin.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

At no time during the year was the Company, any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this report, the following Directors were considered to have interests in the following businesses ("Competing Business") which compete or are likely to compete, either directly or indirectly, with the businesses of the Group as defined in the Listing Rules as set out below:

| Name of Director | Name of entity of the Competing Business | Description of the Competing Business | Nature of interest of the Director in the entity |
|---|---|---|---|
| Lun Yiu Kay Edwin | Winland Hotel Management Limited (Note) | Hotel management | As director |
| | Winland Finance Limited | Money lending | As director |

Note:

Winland Hotel Management Limited has no hotel management business at present.

The Director interested in the above businesses will, as and when required under the Company's Bye-laws, abstain from voting on any resolution of the Board in respect of any arrangement or proposal in which he or any of his associates has a material interest.

The Directors are of the view that the Group is capable of carrying on its business independently from the Competing Business. When making decisions on the business of the Group, the relevant directors, in the performance of their duties as directors of the Company, have acted and will continue to act in the best interest of the Group.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2019, the following corporations and persons, other than the Directors whose interests are disclosed above, who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

| Name | Long/short position | No. of shares of HK$0.02 each held | Capacity and nature of interest | Approximate shareholding percentage (%) |
|---|---|---|---|---|
| Winland Wealth (BVI) Limited (Note i) | Long | 1,358,055,354 (Note i) | Beneficial owner | 69.06 |
| Winland Stock (BVI) Limited (Note ii) | Long | 1,358,055,354 (Note ii) | Interest of controlled corporation | 69.06 |

Notes:

i. Mr. Lun Yiu Kay Edwin was deemed to be interested by virtue of the SFO in the 1,358,055,354 shares of the Company held by Winland Wealth (BVI) Limited which was wholly owned by Winland Stock (BVI) Limited.

ii. Winland Stock (BVI) Limited has declared an interest in 1,358,055,354 shares by virtue of its shareholding in its wholly-owned subsidiary, Winland Wealth (BVI) Limited.

## 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.

## REVIEW BY AUDIT COMMITTEE

At the date of this report, the Audit Committee of the Company comprises three Independent Non-Executive Directors namely, Dr. Tse Kwing Chuen, Mr. Ng Hung Sui Kenneth and Mr. Lau Shu Kan. The Audit Committee has reviewed with the Group's auditors, BDO Limited, the audited consolidated financial statements for the year ended 31 March 2019 and has also discussed auditing, internal control and financial reporting matters of the Group.

# DIRECTORS' REPORT

## 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 date of this report, the Company has maintained the prescribed amount of public float as required under the Listing Rules.

## AUDITOR

The consolidated financial statements have been audited by BDO Limited who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to contributing to the sustainability of the environment and is committed to becoming an environmentally-friendly corporation. Details of our environmental, social and governance policies and performance during the year ended 31 March 2019 shall be disclosed in a standalone "Environmental, Social and Governance Report" to be published within three months after the publication of this Annual Report on the websites of the Company and the Stock Exchange.

## EVENT AFTER THE END OF THE REPORTING PERIOD

Except as disclosed elsewhere in this report, there was no significant event taken place subsequent to 31 March 2019 and up to the date of this report.

By Order of the Board
**MEXAN LIMITED**

**Lun Yiu Kay Edwin**
*Chairman*

Hong Kong, 25 June 2019

# INDEPENDENT AUDITOR'S REPORT

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**TO THE SHAREHOLDERS OF MEXAN LIMITED**
**茂盛控股有限公司**
*(Incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Mexan Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 36 to 114, which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 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 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.

## IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

***(Refer to note 14 to the consolidated financial statements and the Group's accounting policies set out in note 5(b)(iii))***

As at 31 March 2019, the Group has property, plant and equipment with the carrying amount of HK$611 million, which comprise a hotel property with the carrying amount of HK$442 million. Such hotel property is stated at cost less accumulated depreciation and impairment. The performance of the Group's hotel operation has been impacted by the uncertainties of the tourism market, such as slowdown of growth on PRC tourist arrive and possible recession of global economy resulting in a potential downward pressure of charging rate of hotel room. Management is required to assess whether there exist events or changes in circumstances which indicate that the hotel property has suffered an impairment loss and if so, to estimate its recoverable amount. Management performed impairment assessment to determine the recoverable amount of the hotel property, which was determined based on fair value less costs of disposal. Independent external valuations were obtained for the hotel property to support management's estimates. The fair value less costs of disposal is arrived at based on discounted cash flow methodology from potential purchaser perspective which represents estimates of the future income potential of the hotel property, and with reference to the direct or market comparison methodology by comparing to the recent sales price of comparable hotel properties. The management concluded that the recoverable amount of the hotel property is higher than its carrying value such that no impairment provision was required.

Determining the recoverable amount of the hotel property required significant management judgement, including implementing the key assumptions and estimates with respect to the underlying cash flows in the valuation model, selecting comparable properties and making adjustments for the differences among the comparable properties and the hotel property, such as location, grade and condition of the property.

**Our response:**

Our audit procedures in relation to assess the potential impairment of the hotel property included:

- We evaluated the independent external valuer's competence;
- We assessed the valuation methodologies used and the appropriateness of key assumptions based on our knowledge of the industry;
- We checked, on a sample basis, the accuracy and relevance of the input data used;
- We benchmarked the key parameters used in the valuation against market data and comparables; and
- We checked the mathematical accuracy of the calculation of the valuations.

## OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

## DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

We communicate with 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 directors, 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.

**BDO Limited**
Certified Public Accountants

**Choi Man On**
Practising Certificate Number P02410

Hong Kong, 25 June 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

| | Notes | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|---|
| Revenue | 7 | **72,195** | 62,164 |
| Direct costs | | **(25,456)** | (25,281) |
| Gross profit | | **46,739** | 36,883 |
| Other revenue | 7 | **576** | 79 |
| Administrative and other operating expenses | | **(26,738)** | (23,629) |
| Depreciation | | **(19,907)** | (18,178) |
| Write back of impairment loss on trade receivables | 9 | **4,550** | 6,130 |
| Finance costs | 8 | **(748)** | (572) |
| Profit before income tax | 9 | **4,472** | 713 |
| Income tax expense | 10 | **(3,367)** | (977) |
| Profit/(Loss) and total comprehensive income for the year | | **1,105** | (264) |
| Profit/(Loss) and total comprehensive income attributable to: | | | |
| Owners of the Company | | **1,267** | (107) |
| Non-controlling interests | 26 | **(162)** | (157) |
| | | **1,105** | (264) |
| Earnings/(Loss) per share attributable to owners of the Company – basic and diluted (HK cents) | 12 | **0.08** | (0.01) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

| | Notes | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **610,509** | 461,097 |
| Intangible assets | 15 | **–** | – |
| Investment property | 16 | **8,527** | 8,829 |
| | | **619,036** | 469,926 |
| **Current assets** | | | |
| Inventories | 17 | **130** | 151 |
| Trade and other receivables | 18 | **4,421** | 6,019 |
| Amounts due from related parties | 23(b) | **38** | 68 |
| Tax recoverable | | **1** | – |
| Cash and bank balances | | **30,239** | 22,945 |
| | | **34,829** | 29,183 |
| **Current liabilities** | | | |
| Other payables, deposits received and accrued charges | | **20,615** | 20,363 |
| Amount due to a non-controlling shareholder of a subsidiary | 23(b) | **6,414** | 6,414 |
| Bank loan | 19 | **30,920** | 40,284 |
| Tax payable | | **1,067** | 14 |
| | | **59,016** | 67,075 |
| **Net current liabilities** | | **(24,187)** | (37,892) |
| **Total assets less current liabilities** | | **594,849** | 432,034 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 22 | **12,771** | 11,449 |
| **Net assets** | | **582,078** | 420,585 |
| **EQUITY** | | | |
| Share capital | 20 | **39,328** | 26,218 |
| Reserves | | **545,083** | 396,538 |
| **Equity attributable to owners of the Company** | | **584,411** | 422,756 |
| **Non-controlling interests** | 26 | (2,333) | (2,171) |
| **Total equity** | | **582,078** | 420,585 |

On behalf of the Board

**Lun Yiu Kay Edwin**
*Director*

**Ng Tze Ho Joseph**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

| | Share capital HK$'000 | Share premium HK$'000 | Capital redemption reserve HK$'000 | Contributed surplus HK$'000 | Retained profits HK$'000 | Attributable to owners of the Company HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 April 2017 | 26,218 | 57,556 | 129 | 104,874 | 234,086 | 422,863 | (2,014) | 420,849 |
| Loss and total comprehensive income for the year | – | – | – | – | (107) | (107) | (157) | (264) |
| At 31 March 2018 and 1 April 2018 | 26,218 | 57,556 | 129 | 104,874 | 233,979 | 422,756 | (2,171) | 420,585 |
| Issuance of shares | 13,110 | 147,278 | – | – | – | 160,388 | – | 160,388 |
| Profit and total comprehensive income for the year | – | – | – | – | 1,267 | 1,267 | (162) | 1,105 |
| At 31 March 2019 | 39,328 | 204,834 | 129 | 104,874 | 235,246 | 584,411 | (2,333) | 582,078 |

Nature and purpose of share capital and reserves are disclosed in Note 20 and 21 of the notes to the consolidated financial statements respectively.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | **4,472** | 713 |
| Interest income | 7 | **(74)** | (3) |
| Interest expense | 8 | **721** | 556 |
| Depreciation of property, plant and equipment | 9 | **19,605** | 17,876 |
| Loss on disposal of property, plant and equipment | 9 | **4** | – |
| Write back of impairment loss on trade receivables | 9 | **(4,550)** | (6,130) |
| Depreciation of investment property | 9 | **302** | 302 |
| Operating profit before working capital changes | | **20,480** | 13,314 |
| Decrease/(Increase) in inventories | | **21** | (84) |
| Decrease in trade and other receivables | | **6,173** | 8,351 |
| Decrease/(Increase) in amounts due from related parties | | **30** | (5) |
| Decrease in other payables, deposits received and accrued charges | | **(468)** | (6,065) |
| Net cash generated from operations | | **26,236** | 15,511 |
| Interest received | | **74** | 3 |
| Interest paid | | **(721)** | (556) |
| Income tax (paid)/refund | | **(1,272)** | 6,624 |
| **Net cash generated from operating activities** | | **24,317** | 21,582 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | **(382)** | (1,184) |
| Acquisition of property, plant and equipment through acquisition of a subsidiary | 27 | **(167,665)** | – |
| **Net cash used in investing activities** | | **(168,047)** | (1,184) |
| **Cash flows from financing activities** | | | |
| Repayment of amount due to a director | | – | (8,000) |
| Proceeds from issuance of shares | 20 | **160,388** | – |
| Repayment of bank loan | 29 | **(9,364)** | (9,359) |
| **Net cash generated from/ (used in) financing activities** | | **151,024** | (17,359) |
| **Increase in cash and cash equivalents** | | **7,294** | 3,039 |
| **Cash and cash equivalents at beginning of year** | | **22,945** | 19,906 |
| **Cash and cash equivalents at end of year** | | **30,239** | 22,945 |
| **Analysis of the balance of cash and cash equivalents** | | | |
| **Cash and bank balance** | | **30,239** | 22,945 |

## 1. GENERAL INFORMATION

Mexan Limited (the "Company") was incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of registered office and principal place of operation of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. Details of the principal activities of its subsidiaries are set out in Note 25. The Company and its subsidiaries are collectively referred to as the "Group". There were no significant changes in the Group's business during the year.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018

| | |
|---|---|
| Annual Improvements to HKFRS 2014-2016 Cycle | Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards |
| Annual Improvements to HKFRSs 2014-2016 Cycle | Amendments to HKAS 28, Investments in Associates and Joint Ventures |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| Amendments to HKFRS 15 | Revenue from Contracts with Customers (Clarifications to HKFRS 15) |
| Amendments to HKAS 40 | Transfers of Investment Property |
| HK(IFRIC)–Int 22 | Foreign Currency Transactions and Advance Consideration |

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

**Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards**

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

**Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures**

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

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

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

**HKFRS 9 – Financial Instruments**

*(i) Classification and measurement of financial instruments*

HKFRS 9 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: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

**HKFRS 9 – Financial Instruments – continued**

*(i) Classification and measurement of financial instruments – continued*

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

– It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

– The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

**HKFRS 9 – Financial Instruments – continued**

*(i) Classification and measurement of financial instruments – continued*

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

– It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and

– The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

**HKFRS 9 – Financial Instruments – continued**

*(i) Classification and measurement of financial instruments – continued*

The following accounting policies would be applied to the Group's financial assets as follows:

| | |
|---|---|
| FVTPL | FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss. |
| Amortised costs | Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss. |
| FVOCI (debt investments) | Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss. |
| FVOCI (equity investments) | Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. |

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

**HKFRS 9 – Financial Instruments – continued**

*(i) Classification and measurement of financial instruments – continued*

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 April 2018:

| Financial assets | Original classification under HKAS 39 | New classification under HKFRS 9 | Carrying amount as at 1 April 2018 under HKAS 39 | Carrying amount as at 1 April 2018 under HKFRS 9 |
|---|---|---|---|---|
| | | | HK$'000 | HK$'000 |
| Trade receivables | Loans and receivables | Amortised cost | 5,103 | 5,103 |
| Deposits and other receivables | Loans and receivables | Amortised cost | 296 | 296 |
| Amounts due from related parties | Loans and receivables | Amortised cost | 68 | 68 |
| Cash and bank balances | Loans and receivables | Amortised cost | 22,945 | 22,945 |

*(ii) Impairment of financial assets*

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognise ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

**HKFRS 9 – Financial Instruments – continued**

*(ii) Impairment of financial assets – continued*

Measurement of ECLs

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. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The loss allowances for trade receivables are measured using HKFRS 9 simplified approach and calculated based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12 months ECLs. The 12 months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

**HKFRS 9 – Financial Instruments – continued**

*(ii) Impairment of financial assets – continued*

Measurement of ECLs – continued

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowance for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

I. Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and by the invoice date. The expected credit loss rate is determined by the historical settlement pattern of trade receivables, which is the proportion of trade receivables yet to be settled after 90 days to the whole balance of trade receivables in each aging category. The publicly available information of the expected future market development of hotel industry has been considered in the application of the expected loss rate. The loss allowance as at 1 April 2018 was determined as follows for trade receivables:

| 1 April 2018 | Within 30 days | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|
| Expected loss rate (%) | 0.00% | 0.00% | 0.00% | 90.21% | |
| Gross carrying amount (HK$'000) | 3,900 | 3 | – | 12,262 | 16,165 |
| Expected credit losses (HK$'000) | – | – | – | 11,062 | 11,062 |

There is no change of the loan allowance for trade receivables upon the transition to HKFRS 9 as of 1 April 2018.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

**HKFRS 9 – Financial Instruments – continued**

*(ii) Impairment of financial assets – continued*

Presentation of ECLs – continued

II. Impairment of deposits and other receivables

Other financial assets at amortised cost of the Group mainly represents deposits and other receivables. The Group has applied the ECL model and the impact is considered insignificant to the Group. No ECL is recognised upon the transition to HKFRS 9 as of 1 April 2018 and for the year ended 31 March 2019.

*(iii) Hedge accounting*

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

*(iv) Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 March 2018, but are recognised in the statement of financial position on 1 April 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 April 2018. Accordingly, the information presented for 2018 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

**HKFRS 9 – Financial Instruments – continued**

*(iv) Transition – continued*

The following assessment has been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

– The determination of the business model within which a financial asset is held;

– The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and

– The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

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

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group considered that the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 April 2018) is insignificant. As a result, the financial information presented for the year ended 31 March 2018 has not been restated.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

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

The adoption of HKFRS 15 has no material impact on the Group's consolidated statement of financial position as at 31 March 2019 and consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2019.

The new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's revenues are explained by the following major sources:

– Hotel room leasing income

– Hotel room sales to walk-in customers

– Food and beverage income

– Miscellaneous sales

Revenue from hotel room leasing income continues to be accounted for in accordance with HKAS 17 "Leases".

Revenue from hotel room sales to walk-in customers is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation, as the customers simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

Revenue from food and beverage service and miscellaneous sales is recognised at a point in time when the goods are transferred or the services are provided to the customers, being at the point that the customers have received the services or obtained control of the goods.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

**Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)**

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first year.

**Amendments to HKAS 40, Investment Property – Transfers of Investment Property**

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (a) Adoption of new/revised HKFRSs – effective on 1 April 2018 – continued

**HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration**

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

### (b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective:

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (b) New/revised HKFRSs that have been issued but are not yet effective – continued

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

1 Effective for annual periods beginning on or after 1 January 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 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (b) New/revised HKFRSs that have been issued but are not yet effective – continued

**HKFRS 16 – Leases**

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at 31 March 2019, the Group does not have any non-cancellable operating lease commitments. For future arrangements that will meet the definition of a lease under HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (b) New/revised HKFRSs that have been issued but are not yet effective – continued

**HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments**

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

**Amendments to HKFRS 9 – Prepayment Features with Negative Compensation**

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

**Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures**

The amendment clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (b) New/revised HKFRSs that have been issued but are not yet effective – continued

**Amendments to HKAS 1 (Revised) and HKAS 8 – Definition of Material**

The amendments 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.

**Amendments to HKFRS 3 – Definition of a Business**

The amendments 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.

**Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations**

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

### (b) New/revised HKFRSs that have been issued but are not yet effective – continued

**Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 11, Joint Arrangements**

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

**Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes**

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

**Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs**

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

**HKFRS 17 – Insurance Contracts**

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(b) **New/revised HKFRSs that have been issued but are not yet effective – continued**

**Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Except as mentioned above, the Group is not yet in a position to state whether other new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) **Statement of compliance**

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

(b) **Basis of measurement**

The consolidated financial statements are prepared under historical cost convention. The measurement bases are fully described in the accounting policies below.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of revised/amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 2.

3. BASIS OF PREPARATION – CONTINUED

(b) **Basis of measurement – continued**

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

The consolidated financial statements have been prepared on a going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business, notwithstanding the fact that the Group had a net current liabilities of HK$24,187,000 (2018: HK$37,892,000) as at 31 March 2019.

In the opinion of the directors, the Group is able to maintain itself as a going concern in the coming year by taking into consideration that:

(i) The cash flow projections can be achieved the Group would have sufficient working capital to finance its operation and to meet its financial obligations when they fall due within the next twelve months from the end of the reporting period;

(ii) The net assets of the Group approximately HK$582,078,000 (2018: HK$420,585,000), the Group should be able to secure additional loan facilities, if necessary;

(iii) Bank loan with carrying amount of approximately HK$21,364,000 (2018: HK$30,769,000) as at 31 March 2019 that is repayable more than one year after the end of the reporting period pursuant to the repayment schedule included in the loan agreement, with repayment on demand clause, has been classified as current liability as at 31 March 2019 in accordance with Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause. Taking into account the Group's financial position and the securities underlying the loan, the directors believe that the bank will not exercise its discretionary rights to demand immediate repayment. The directors believe that the bank loan will be repaid in accordance with the scheduled repayment dates set out in the loan agreement; and

## 3. BASIS OF PREPARATION – CONTINUED

### (b) Basis of measurement – continued

(iv) The controlling shareholder, who is also a director of the Company, has provided undertaking not to demand payment of director's discretionary bonus totalling HK$11,000,000 (2018: HK$11,000,000) as at 31 March 2019 owing to him by the Group until such time when payment will not affect the Group's abilities to repay other debts in the normal course of business.

Based on the above, the directors are satisfied that the Group will have sufficient cash resources to satisfy their future working capital and other financing requirements and it is appropriate to prepare these consolidated financial statements on a going concern basis.

### (c) Functional and presentation currency

The consolidated financial statements are presented in Hong Kong dollar ("HK$") which is also the functional currency of the Company.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### (a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (b) Acquisition of subsidiary not constituting a business

When the Group acquires a subsidiary where the underlying assets are not integrated in forming a business, the transaction is accounted for as a purchase of net assets. The cost of the acquisition is allocated to the identifiable assets and liabilities assumed by allocating the purchase price first to property, plant and equipment which is subsequently measured at cost and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

### (c) Subsidiary

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

### (d) Property, plant and equipment

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

Cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (d) Property, plant and equipment – continued

Property, plant and equipment are depreciated so as to write off their cost net of estimated residual value over their estimated useful lives on straight-line method. The estimated useful lives, estimated residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal annual rates of depreciation are as follows:

| | |
|---|---|
| Hotel property | 2.5% |
| Office property | 2% |
| Furniture, fixtures and equipment | 10% – 20% |

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

### (e) Investment property

Investment property is a property held either to earn rentals or for capital appreciation or for both or held for undetermined future use, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Depreciation is charged so as to write off the cost of investment property net of estimated residual value over the estimated useful live which is 40 years using straight-line method. The useful live, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

### (f) Intangible assets

Intangible assets represent the cost of acquisition of a license to install neon light signage for displaying the name of property and is amortised on straight-line method over its estimated useful life which is 12 years.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(g) **Impairment of assets (other than financial assets)**

At the end of each reporting period, the Group reviews the carrying amounts of its non-current assets and the Company's investment in subsidiaries to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have reduced. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

(h) **Inventories**

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

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (i) Financial Instruments (accounting policies applied from 1 April 2018)

#### (i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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 market place.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

*Debt instruments*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies all debt instruments at amortised cost.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (i) Financial Instruments (accounting policies applied from 1 April 2018) – continued

#### (ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets measured at amortised cost, the ECLs are based on the 12 months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (i) Financial Instruments (accounting policies applied from 1 April 2018) – continued

#### (ii) Impairment loss on financial assets – continued

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than one year past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

#### (iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost including other payables, deposits received and accrued charges, amount due to a non-controlling shareholder of a subsidiary and bank loan are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (i) Financial Instruments (accounting policies applied from 1 April 2018) – continued

#### (iii) Financial liabilities – continued

*Borrowings*

Borrowings are recognised initially at fair value, net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### (iv) Effective interest method

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

#### (v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### (vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (j) Financial instruments (accounting policies applied until 31 March 2018)

#### (i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. At the end of the reporting period, the Group's financial assets included trade and other receivables, amounts due from related parties and cash and bank balances were classified as loans and receivables.

*Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise principally through the provision of goods and services to customers (trade receivables), and also incorporate other types of contractual monetary asset. They are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, they are carried at amortised cost using effective interest method, less any identified impairment losses.

#### (ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include but not limited to:

– significant financial difficulty of the debtor;

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

– granting concession to a debtor because of debtor's financial difficulty; and

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(j) **Financial instruments (accounting policies applied until 31 March 2018) – continued**

(ii) **Impairment loss on financial assets – continued**

Impairment loss on loans and receivables is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance for the relevant financial assets.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) **Financial liabilities**

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. At the end of the reporting period, the Group's financial liabilities included other payables, deposits received and accrued charges, amount due to a non-controlling shareholder of a subsidiary and bank loan were classified as financial liabilities at amortised cost.

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred and subsequently measured at amortised cost, using effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (j) Financial instruments (accounting policies applied until 31 March 2018) – continued

#### (iv) Effective interest method

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

#### (v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### (vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

#### (vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (k) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

### (n) Revenue recognition (accounting policies applied from 1 April 2018)

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, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

– provides all of the benefits received and consumed simultaneously by the customer;

– creates or enhances an asset that the customer controls as the Group performs; or

– does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (n) Revenue recognition (accounting policies applied from 1 April 2018) – continued

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

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 amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment 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.

(i) Revenue from hotel room leasing income continues to be accounted for in accordance with HKAS 17 "Leases".

(ii) Revenue from hotel room sales to walk-in customers is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation, as the customers simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

(iii) Revenue from food and beverage service and miscellaneous sales is recognised at a point in time when the goods are transferred or the services are provided to the customers, being at the point that the customers have received the services or obtained control of the goods.

(iv) Interest income is recognised on time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (o) Revenue recognition (accounting policies applied until 31 March 2018)

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

Revenue from room rental, food and beverage sales and other ancillary services in the hotel are recognised when relevant services are rendered.

Interest income is recognised on time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (p) Employee benefits

#### (i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

#### (ii) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (p) Employee benefits – continued

#### (iii) Retirement scheme obligations

The Group participates in a master trust scheme provided by an independent Mandatory Provident Fund ("MPF") service provider to comply with the requirements under the MPF Schemes Ordinance. Contributions paid and payable by the Group to the scheme are charged to profit or loss as incurred.

The MPF Scheme is a master trust scheme established under trust arrangement and governed by the laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. The Group and the employees contribute to the MPF Scheme (the "MPF contributions") in accordance with the MPF Schemes Ordinance. The MPF contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

### (q) Related parties

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (q) Related parties – continued

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of 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 key management personnel of the entity (or of a parent of the entity).

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

## 4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

### (q) Related parties – continued

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

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

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

(iii) dependents of that person or that person's spouse or domestic partner.

### (r) Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

### (s) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's service lines. For the years ended 31 March 2019 and 2018, the Group has one single business segment, namely hotel operation.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs.

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

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### (a) Critical judgements in applying accounting policies

#### (i) Classification of the leasehold land

The Group determines if the leasehold land of the Group qualifies as a finance lease based on the management judgement on whether or not substantially all risks and rewards incidental to ownership of leased asset have been transferred to the lessee.

Based on information that existed at the inception of the leases, management considers the leasehold land of the Group fulfilled the requirement of a finance lease classification which all risks and rewards incidental to ownership of the leasehold land have been transferred to the Group.

### (b) Key sources of estimation uncertainty

#### (i) Estimation of useful lives and residual value of property, plant and equipment

The Group's management determines the estimated useful lives and estimated residual value of its property, plant and equipment. The estimate is based on the historical experience of the actual useful lives and residual value of these property, plant and equipment of similar nature and functions.

Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

### (b) Key sources of estimation uncertainty – continued

#### (ii) Impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers, the aging analysis and past settlement of the receivables, prevailing market conditions and adjustment for forward-looking factors specific to the debtors. The management reassess the provision for impairment of trade and other receivables at each reporting date.

#### (iii) Impairment assessment of property, plant and equipment

The property, plant and equipment of the Group mainly included hotel property and office property. At each reporting date or whenever a change in circumstances occurs, both internal and external sources of information are considered to assess whether there is an indication that assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated using fair value less costs of disposal and/or value in use calculations as appropriate. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the property, plant and equipment to their recoverable amount. Such impairment losses are recognised in the statement of profit or loss. In the current year, hotel property and office property are subject to impairment assessment and the recoverable amounts of the hotel property and office property have been determined based on fair value less costs of disposal of hotel property and office property. Fair value less costs of disposal is based on management estimates having regard to estimated resale values for hotel property, while the fair value less costs of disposal of office property is based on the market value of the premise. Fair value less costs of disposal is a level 3 fair value measurement.

#### (iv) Going concern

As explained in Note 3(b), the directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the liquidity of the Group can be maintained in the coming year taking into consideration as detailed in Note 3(b). The directors of the Company also believe that the Group will have working capital to meet its financial obligations when they fall due within the next twelve months from the end of the reporting period.

## 6. SEGMENT INFORMATION

### (a) Operating segment information

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. The Group has only one reportable operating segment which is the hotel operation. The Group's assets and capital expenditure are principally attributable to this business component.

### (b) Geographical segment information

During the years ended 31 March 2019 and 2018, the Group's operations and non-current assets are situated in Hong Kong in which all of its revenue was derived.

### (c) Information about major customers

Revenue attributable from two customers (2018: a customer) with whom transactions have exceeded 10% of the Group's revenue during the year as follows:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Customer A | **37,267** | 48,956 |
| Customer B | **12,906** | – |
| | **50,173** | 48,956 |

## 7. REVENUE AND OTHER REVENUE

The Group's revenue represents the service provided, net of discounts. Revenue represents the hotel room leasing income, hotel room sales to walk-in customers, food and beverage income and miscellaneous sales, net of discounts.

In the following table, revenue is disaggregated by primary geographical market, major service provided and timing of revenue recognition.

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Revenue | | |
| Hotel operations in Hong Kong | | |
| – Hotel room leasing income | **50,173** | 48,956 |
| – Hotel room sales to walk-in customers | **17,961** | 9,290 |
| – Food and beverage income | **3,747** | 3,515 |
| – Miscellaneous sales | **314** | 403 |
| | **72,195** | 62,164 |
| Time of revenue recognition | | |
| – Over the lease term | **50,173** | 48,956 |
| – At a point in time | **4,061** | 3,918 |
| – Over time | **17,961** | 9,290 |
| | **72,195** | 62,164 |
| Other revenue | | |
| Bank interest income | **74** | 3 |
| Rental income | **482** | – |
| Sundry income | **20** | 76 |
| | **576** | 79 |
| | **72,771** | 62,243 |

## 8. FINANCE COSTS

Finance costs comprise the following:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Interest on bank loan (Note 19) | **721** | 556 |
| Bank charges | **27** | 16 |
| | **748** | 572 |

Note: The analysis show finance costs of bank loan, which contains a repayment on demand clause in accordance with the agreed schedule dates set out in the loan agreement.

## 9. PROFIT BEFORE INCOME TAX

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Profit before income tax is arrived at after charging/(crediting) the following: | | |
| Cost of services provided | **25,456** | 25,281 |
| Auditor's remuneration | **670** | 610 |
| Depreciation of property, plant and equipment | **19,605** | 17,876 |
| Depreciation of investment property | **302** | 302 |
| Loss on disposal of property, plant and equipment | **4** | – |
| Write back of impairment loss on trade receivables | **(4,550)** | (6,130) |
| Staff costs (including directors' emoluments as disclosed in Note 13) | | |
| – Salaries and allowances | **30,041** | 27,782 |
| – Retirement benefit cost | **1,109** | 1,024 |

## 10. INCOME TAX EXPENSE

(a) On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. The two-tiered profits tax rate applies to years of assessment commencing on or after 1 April 2018.

Under the two-tiered profits tax rates regime, the first HK$2 million of assessable profits of qualifying corporation will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. For the year ended 31 March 2019, Hong Kong profits tax of the qualifying corporation in the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other corporations in the Group which are not qualified for the two-tiered profits tax rates regime will continue to be taxed at the rate of 16.5% (2018: 16.5%). The directors of the Company considered the impact of two-tiered profits tax rates regime to the applicable tax rate is insignificant, and the applicable tax rate to the Group is maintained at 16.5% (2018: 16.5%).

Income tax expense in the consolidated statement of profit or loss and other comprehensive income represents:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Current tax – Hong Kong Profits Tax | | |
| Provision for the year | | |
| – At 16.5% | **2,001** | 1,242 |
| – At 8.25% | **165** | – |
| Under/(Over) provision in prior years | **80** | (8) |
| | **2,246** | 1,234 |
| Deferred taxation (Note 22) | | |
| Origination and reversal of temporary differences, net | **1,121** | 889 |
| Effect on opening deferred tax balances resulting from change in applicable tax rate | – | (1,146) |
| | **1,121** | (257) |
| Income tax expense | **3,367** | 977 |

## 10. INCOME TAX EXPENSE – CONTINUED

(b) Income tax expense for the year can be reconciled to the Group's profit before income tax as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Profit before income tax | **4,472** | 713 |
| Tax at applicable tax rate of 16.5% (2018: 16.5%) | **738** | 118 |
| Tax effect of expenses not deductible for tax purposes | **106** | 115 |
| Tax effect of temporary differences not recognised | **1,700** | 1,387 |
| Tax effect of income not taxable for tax purposes | **(2)** | (1) |
| Under/(Over) provision in prior years | **80** | (8) |
| Tax effect of unused tax losses not recognised | **417** | 466 |
| Difference between average tax rates for deferred tax measurement purposes and current tax rate | **348** | 83 |
| Effect on opening deferred tax balances resulting from a decrease in applicable tax rate | **–** | (1,146) |
| Others | **(20)** | (37) |
| Income tax expense | **3,367** | 977 |

Unrecognised temporary differences, represented by unutilised tax losses as at 31 March 2019 amounted to HK$94,495,000 (2018: HK$91,689,000), which are subject to the agreement of the Hong Kong Inland Revenue Department. This balance may be carried forward indefinitely.

No deferred tax asset for such losses has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised due to the unpredictability of future profits streams of the Company and its subsidiaries.

## 11. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2018: Nil).

## 12. EARNINGS/(LOSS) PER SHARE

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

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit/(Loss) for the year attributable to owners of the Company | **1,267** | (107) |
| Number of shares | | |
| Weighted average number of ordinary shares ('000) for the purpose of basic earnings/(loss) per share | **1,679,062** | 1,310,925 |

No dilutive earnings/(loss) per share is presented as there was no potential ordinary shares in issue during the years ended 31 March 2019 and 2018.

## 13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The emoluments paid or payable to each of the directors, who are also considered as key management personnel of the Company, during the year are as follows:

| Name of director | Fees<br>HK$'000 | Salaries, allowances and benefits in kind<br>HK$'000 | Retirement benefits scheme contribution<br>HK$'000 | Discretionary bonus<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|
| For the year ended 31 March 2019 | | | | | |
| Executive directors | | | | | |
| Lun Yiu Kay Edwin | 600 | – | 2 | – | 602 |
| Ng Tze Ho Joseph | 80 | – | 3 | 50 | 133 |
| | 680 | – | 5 | 50 | 735 |
| Independent non-executive directors | | | | | |
| Tse Kwing Chuen | 180 | – | – | 50 | 230 |
| Ng Hung Sui Kenneth | 180 | – | – | 50 | 230 |
| Lau Shu Kan | 180 | – | – | 50 | 230 |
| | 540 | – | – | 150 | 690 |
| Total | 1,220 | – | 5 | 200 | 1,425 |

## 13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – CONTINUED

(a) The emoluments paid or payable to each of the directors, who are also considered as key management personnel of the Company during the year are as follows: – continued

| Name of director | Fees | Salaries, allowances and benefits in kind | Retirement benefits scheme contribution | Discretionary bonus | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| For the year ended 31 March 2018 | | | | | |
| Executive directors | | | | | |
| Lun Yiu Kay Edwin | 600 | 10 | 3 | – | 613 |
| Ng Tze Ho Joseph | 80 | – | 3 | 50 | 133 |
| | 680 | 10 | 6 | 50 | 746 |
| Independent non-executive directors | | | | | |
| Tse Kwing Chuen | 180 | – | – | 50 | 230 |
| Ng Hung Sui Kenneth | 180 | – | – | 50 | 230 |
| Lau Shu Kan | 180 | – | – | 50 | 230 |
| | 540 | – | – | 150 | 690 |
| Total | 1,220 | 10 | 6 | 200 | 1,436 |

## 13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – CONTINUED

### (b) Five highest paid individuals

The five highest paid individuals of the Group included one (2018: one) director whose emolument is included in the disclosures above. The emoluments of the remaining four (2018: four) individuals were as follows:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other benefits | **2,302** | 2,113 |
| MPF contributions | **70** | 70 |
| | **2,372** | 2,183 |

The emoluments of the remaining four (2018: four) individuals fell within the following bands:

| | **No. of individuals** | |
|---|---|---|
| | **2019** | 2018 |
| Nil to HK$1,000,000 | **4** | 4 |

(c) No emoluments were paid or payable to any directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2018: Nil). None of the directors or any of the highest paid individuals waived or agreed to waive any emoluments during the year (2018: nil).

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Hotel property HK$'000 | Office property HK$'000 | Furniture, fixtures and equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Cost | | | | |
| At 1 April 2017 | 686,275 | – | 5,808 | 692,083 |
| Additions | – | – | 1,393 | 1,393 |
| At 31 March 2018 and 1 April 2018 | 686,275 | – | 7,201 | 693,476 |
| Additions | – | – | 382 | 382 |
| Additions through acquisition of a subsidiary (note 27) | – | 168,639 | – | 168,639 |
| Disposals | – | – | (15) | (15) |
| At 31 March 2019 | 686,275 | 168,639 | 7,568 | 862,482 |
| Accumulated depreciation and impairment | | | | |
| At 1 April 2017 | 210,173 | – | 4,330 | 214,503 |
| Charged for the year | 17,157 | – | 719 | 17,876 |
| At 31 March 2018 and 1 April 2018 | 227,330 | – | 5,049 | 232,379 |
| Charged for the year | 17,157 | 1,686 | 762 | 19,605 |
| Written back on disposals | – | – | (11) | (11) |
| At 31 March 2019 | 244,487 | 1,686 | 5,800 | 251,973 |
| Net carrying value | | | | |
| At 31 March 2019 | 441,788 | 166,953 | 1,768 | 610,509 |
| At 31 March 2018 | 458,945 | – | 2,152 | 461,097 |

At 31 March 2019, the Group's hotel property was located in Hong Kong and was pledged to a bank for granting loans to the Group amounting to HK$30,920,000 (2018: HK$40,284,000) (Note 19).

## 15. INTANGIBLE ASSETS

| | **Licence for neon light signage** HK$'000 |
|---|---|
| Cost | |
| At 1 April 2017, 31 March 2018, 1 April 2018 and 31 March 2019 | 14,000 |
| Accumulated amortisation | |
| At 1 April 2017, 31 March 2018, 1 April 2018 and 31 March 2019 | 14,000 |
| Net carrying value | |
| At 31 March 2019 and 31 March 2018 | – |

Amortisation charged on the licence during the year is included in depreciation and amortisation in the consolidated statement of profit or loss and other comprehensive income.

## 16. INVESTMENT PROPERTY

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| At cost | | |
| Cost | | |
| At beginning and end of year | **12,000** | 12,000 |
| Accumulated depreciation | | |
| At beginning of year | **3,171** | 2,869 |
| Charged for the year | **302** | 302 |
| At end of year | **3,473** | 3,171 |
| Net carrying value | | |
| At end of year | **8,527** | 8,829 |

## 16. INVESTMENT PROPERTY – CONTINUED

The balance represents a piece of agricultural land held by the Group under medium term leases in Hong Kong. The Group has not yet determined the future use of the land and currently holds the property for capital appreciation. At the end of reporting period, the directors consider no impairment of the investment property is necessary.

In the opinion of the directors, the fair value of the investment property cannot be determined reliably because the comparable market transactions are infrequent and alternative reliable estimates of fair value are not available. Accordingly, no information in respect of fair value of this investment property is disclosed.

## 17. INVENTORIES

These represent food and beverage, admission tickets for resale and other consumables.

## 18. TRADE AND OTHER RECEIVABLES

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Trade receivables | **9,850** | 16,165 |
| Less: Provision for impairment loss | **(6,512)** | (11,062) |
| | **3,338** | 5,103 |
| Deposits, prepayments and other receivables | **1,083** | 916 |
| | **4,421** | 6,019 |

## 18. TRADE AND OTHER RECEIVABLES – CONTINUED

The Group allows an average credit period of one week (2018: one week) to its trade customers. All trade receivables are expected to be recovered within one year. The following is an ageing analysis of trade receivables, based on invoice date and net of allowance, at the end of the reporting period:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 30 days | **2,588** | 3,900 |
| 31 – 60 days | – | 3 |
| 61 – 90 days | – | – |
| Over 90 days | **750** | 1,200 |
| | **3,338** | 5,103 |

At 31 March 2018, included in the allowance for doubtful debts of HK$6,130,000 are individually impaired trade receivables. The individually impaired receivables related to invoices that were outstanding for more than one year and the management assessed in the current year that only a portion of the trade receivables are expected to be recovered. Normally, other than those receivables are secured by deposits, the Group does not hold any collateral over these receivables. The movement in the allowance for doubtful debts during the year is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| At 1 April | **11,062** | 17,192 |
| Write back of impairment loss previously recognised (Note 9) | **(4,550)** | (6,130) |
| At 31 March | **6,512** | 11,062 |

## 18. TRADE AND OTHER RECEIVABLES – CONTINUED

### Disclosure under HKFRS 9

An impairment analysis was performed at 31 March 2019 using a provision matrix to measure expected credit losses. The provision rates are based on invoice date for grouping of various customer segments with similar loss patterns. The calculation reflects 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 of economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix based on the aging analysis by invoice date:

| 31 March 2019 | Within 30 days | 31-60 days | 61-90 days | Over 90 days | Total |
|---|---|---|---|---|---|
| Expected loss rate(%) | 0.00% | 0.00% | 0.00% | 89.67% | |
| Gross carrying amount (HK$'000) | 2,588 | – | – | 7,262 | 9,850 |
| Expected credit losses (HK$'000) | – | – | – | 6,512 | 6,512 |

### Disclosure under HKAS 39

Aging analysis of trade receivables, net of allowances, which are past due but not impaired is as follows:

| | 2018 HK$'000 |
|---|---|
| Neither past due nor impaired | 2,007 |
| Within 30 days | 1,896 |
| 31 – 60 days | – |
| 61 – 90 days | – |
| Over 90 days | 1,200 |
| Amount past due but not impaired | 3,096 |
| | 5,103 |

## 18. TRADE AND OTHER RECEIVABLES – CONTINUED

### Disclosure under HKAS 39 – continued

Before accepting any new customer (other than walk-in customers), the Group assesses the potential customer's quality and defines credit limit by customer.

At 31 March 2018, trade receivables of HK$2,007,000 are neither past due nor impaired. The Group considers the credit quality of the trade receivables within the credit limit set by the Group using the internal assessment taking into account of the repayment history and financial difficulties (if any) of the trade debtors and did not identify significant credit risk on these trade receivables. Included in the Group's trade receivables balance of HK$3,096,000 at 31 March 2018 were past due at 31 March 2018 against which the Group has not provided for impairment loss. The management believes that no impairment allowance is necessary in respect of these balances having considered the outstanding balances could be set off against the deposits.

## 19. BANK LOAN

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Secured bank instalment loan | **30,920** | 40,284 |

(a) The bank loan is denominated in HK$, carried at a variable interest rate with reference to HIBOR. At 31 March 2019, effective interest rate of the bank instalment loan is 1.99% (2018: 1.24%) per annum.

(b) The bank loan is secured by the first legal charge of the hotel property of the Group (Note 14), and the corporate guarantee from the Company.

## 19. BANK LOAN – CONTINUED

(c) Based on the scheduled repayment date set out in the loan agreement, the amounts repayable in respect of the instalment loan are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| On demand or within one year | **9,556** | 9,515 |
| More than one year, but not exceeding two years | **9,747** | 9,631 |
| More than two year, but not exceeding five years | **11,617** | 21,138 |
| | **21,364** | 30,769 |
| | **30,920** | 40,284 |
| Carrying amount of bank loan for repayment after one year which contain a repayment on demand clause (shown under current liabilities) | **21,364** | 30,769 |

## 20. SHARE CAPITAL

| | Number of shares | Amount HK$'000 |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.02 each | | |
| At 1 April 2017, 31 March 2018, 1 April 2018 and 31 March 2019 | 3,000,000,000 | 60,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.02 each | | |
| At 1 April 2017, 31 March 2018 and 1 April 2018 | 1,310,925,244 | 26,218 |
| Issuance of new shares (note) | 655,462,622 | 13,110 |
| At 31 March 2019 | 1,966,387,866 | 39,328 |

All the shares in issue rank pari passu in all respects including all rights as to dividends, voting and capital.

Note: On 7 September 2018, the Company issued 655,462,622 ordinary shares on the basis of one ordinary share for every two ordinary shares held on 31 July 2018 at the offer price of HK$0.25 each (the "Open Offer"). The Company raised approximately HK$163,866,000 before any related issuance costs arising from the Open Offer, resulting in an increase in the issued share capital of the Company by HK$13,110,000 and the share premium of the Company by HK$147,278,000 after netting off with the related share issue expense of HK$3,478,000.

## 21. RESERVES

### (i) Share premium

The balance represents the premium arising from the issue of shares at a price in excess of their par value per share.

### (ii) Contributed surplus

As advised by the Company's Bermuda counsel on 5 September 2008, the credit arising on the cancellation of the share capital under the Capital Reorganisation may be used in such manner as including contributing the credit arising to the Company's contributed surplus account, which is a distributable reserve of the Company, after the approval of the shareholders at the special general meeting.

### (iii) Reserves of the Company

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Contribution Surplus HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2017 | 57,556 | 129 | 104,874 | 40,084 | 202,643 |
| Loss and total comprehensive income for the year | – | – | – | (2,827) | (2,827) |
| At 31 March 2018 and 1 April 2018 | 57,556 | 129 | 104,874 | 37,257 | 199,816 |
| Issuance of new shares | 147,278 | – | – | – | 147,278 |
| Loss and total comprehensive income for the year | – | – | – | (1,360) | (1,360) |
| At 31 March 2019 | 204,834 | 129 | 104,874 | 35,897 | 345,734 |

## 22. DEFERRED TAX LIABILITIES

Details of the deferred tax liabilities recognised and movement during the current and prior years is as follows:

| | Accelerated depreciation HK$'000 |
|---|---|
| At 1 April 2017 | 11,706 |
| Charged to profit or loss (Note 10(a)) | (257) |
| At 31 March 2018 and 1 April 2018 | 11,449 |
| Charged to profit or loss (Note 10(a)) | 1,121 |
| Addition through acquisition of a subsidiary (note 27) | 201 |
| At 31 March 2019 | 12,771 |

## 23. RELATED PARTY TRANSACTIONS

As at 31 March 2019, the directors consider the ultimate holding company of the Company to be Winland Stock (BVI) Limited which was incorporated in the British Virgin Islands.

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

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

| Related party relationship | Type of transaction | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Company controlled by the director | Sales of food and beverage | – | 30 |

(b) Amounts due from related parties and amount due to a non-controlling shareholder of a subsidiary are all unsecured, interest-free and repayable on demand.

## 23. RELATED PARTY TRANSACTIONS – CONTINUED

### (c) Compensation of key management personnel

The emoluments of key management personnel (comprising of directors only) during the year were as follows:

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **1,420** | 1,430 |
| Contributions to retirement benefits schemes | **6** | 6 |
| | **1,426** | 1,436 |

The emoluments paid or payable to key management personnel (comprising directors only) were within the following bands:

| | **No. of individuals** **2019** | 2018 |
|---|---|---|
| Nil to HK$1,000,000 | **5** | 5 |

## 24. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **1** | 1 |
| Interests in subsidiaries | 25 | **383,452** | 225,621 |
| | | **383,453** | 225,622 |
| **Current assets** | | | |
| Deposits and prepayments | | **78** | 8 |
| Amounts due from related companies | | **38** | 38 |
| Cash and bank balances | | **3,396** | 1,740 |
| | | **3,512** | 1,786 |
| **Current liabilities** | | | |
| Other payables and accrued charges | | **548** | 500 |
| Amount due to a subsidiary | | **1,355** | 874 |
| | | **1,903** | 1,374 |
| **Net current assets** | | **1,609** | 412 |
| **Net assets** | | **385,062** | 226,034 |
| **EQUITY** | | | |
| Share capital | 20 | **39,328** | 26,218 |
| Reserves | 21(iii) | **345,734** | 199,816 |
| **Total equity** | | **385,062** | 226,034 |

On behalf of the Board

| | |
|---|---|
| **Lun Yiu Kay Edwin**<br>*Director* | **Ng Tze Ho Joseph**<br>*Director* |

## 25. INTERESTS IN SUBSIDIARIES

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **500** | 500 |
| Amounts due from subsidiaries (Note (a)) | **383,133** | 225,302 |
| | **383,633** | 225,802 |
| Less: Provision for impairment loss | **(181)** | (181) |
| | **383,452** | 225,621 |

(a) Amounts due from subsidiaries are unsecured, non-interest bearing and in substance represent the Company's interest in the subsidiaries in the form of quasi-equity loans.

(b) Amount due to a subsidiary is unsecured, non-interest bearing and repayable on demand.

Particulars of the principal subsidiaries as at 31 March 2019 are set out below:

| Name of subsidiary | Place of incorporation and operation | Particulars of capital | Percentage held by the Company directly | Percentage held by the Company indirectly | Principal activities |
|---|---|---|---|---|---|
| City Promenade Limited | Hong Kong | Paid-up capital of HK$2 | – | 100% | Hotel operation |
| Perfect Plan Development Limited | Hong Kong | Paid-up capital of HK$100 | – | 51% | Property holding |
| Goodnews Investments Limited | British Virgin Islands ("BVI") | 1 ordinary share of US$1 each | 100% | – | Investment holding |
| Castle Charm Limited | Hong Kong | Paid-up capital of HK$2 | – | 100% | Property holding |

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

## 26. NON-CONTROLLING INTERESTS

Perfect Plan Development Limited ("Perfect Plan"), a 51% owned subsidiary of the Company, has material non-controlling interests.

Summarised financial information in relation to non-controlling interests of Perfect Plan, before intra-group eliminations, is presented below:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| For the year ended 31 March | | |
| Revenue | – | – |
| Loss for the year | 330 | 321 |
| Total comprehensive income for the year | 330 | 321 |
| Loss for the year allocated to non-controlling interests | 162 | 157 |
| Net cash flows (used in)/generated from operating activities | (1) | 40 |
| Net (decrease)/increase in cash and cash equivalents | (1) | 40 |
| As at 31 March | | |
| Current assets | 62 | 63 |
| Non-current assets | 8,528 | 8,830 |
| Current liabilities | (13,351) | (13,324) |
| Net liabilities | (4,761) | (4,431) |
| Accumulated non-controlling interests | (2,333) | (2,171) |

## 27. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

### Acquisition of Castle Charm Limited ("Castle Charm")

On 27 September 2018, the Group completed acquiring 100% equity interest of Castle Charm for a cash consideration of HK$167,665,000 (including the acquisition related costs of HK$3,639,000 incurred during acquisition). The acquisition was made for the purpose of using the property as the Group's office.

The fair values of the identifiable assets and liabilities acquired in the transaction are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment (Note 14) | 168,639 |
| Prepayment, deposit and other receivables | 25 |
| Accrual and other payables | (720) |
| Tax payable | (78) |
| Deferred tax liabilities | (201) |
| Net assets | 167,665 |
| Total consideration satisfied by: | |
| Cash | 167,665 |
| Analysis of net cash outflows arising on acquisition of assets through acquisition of Castle Charm: | |
| Consideration paid by cash | 167,665 |

## 28. CONTINGENT LIABILITIES

At the end of the reporting period, the Company provided financial guarantee to a bank for the banking facilities of an aggregate amount of approximately HK$530,920,000 (2018: HK$40,284,000) granted to its subsidiaries. The amount utilised by the subsidiaries amounted to approximately HK$30,920,000 (2018: HK$40,284,000) as at 31 March 2019. The directors of the Company are of the view that such obligation will not cause an outflow of resources embodying economic benefits.

The Company has not recognised any deferred income in respect of the guarantees as the fair value is insignificant and its transaction price was nil. The Company had not recognised any provision in the Company's financial statements as at 31 March 2019 as the directors considered that the probability for the holder of the guarantees to call upon the Company as a result of default in repayment is remote.

## 29. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | **Bank loan**<br>(note 19)<br>HK$'000 |
|---|---|
| At 1 April 2018 | 40,284 |
| Changes from financing cash flows: | |
| Repayments of bank loan | (9,364) |
| At 31 March 2019 | 30,920 |

## 30. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes bank loan as disclosed in Note 19 and amount due to a director, less cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in Notes 20 and 21 respectively.

The Group's management reviews the capital structure periodically. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts. No changes were made to the objectives or policies for both years.

The gearing ratio at the end of the reporting period was as follows:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Debts | **30,920** | 40,284 |
| Cash and cash equivalents | **(30,239)** | (22,945) |
| | **681** | 17,339 |
| Equity | **582,078** | 420,585 |
| Debt to equity ratio | **0.12%** | 4.12% |

## 31. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk. These risks are limited by the Group's financial management policies and practices described below. Generally, the Group introduces conservative strategies on its risk management. The Group has not used any derivatives and other instruments for hedging purposes nor does it hold or issue derivative financial instruments for trading purposes.

## 31. FINANCIAL RISK MANAGEMENT – CONTINUED

### (a) Credit risk

The Group's principal financial assets are cash and bank balances and trade receivables.

The Group's credit risk is primarily attributable to its receivables arising from the default of the debtors. The amounts presented in the consolidated statement of financial position are net of provisions for doubtful receivables. Provision for impairment is made where there are expected credit losses from assessment by past events, current conditions and forecasts future economic conditions.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's credit history and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables is set out in note 18.

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority.

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

## 31. FINANCIAL RISK MANAGEMENT – CONTINUED

### (b) Liquidity risk – continued

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 |
|---|---|---|---|
| 2019 | | | |
| Other payables, deposits received and accrued charges | 20,615 | 20,615 | 20,615 |
| Amount due to a non-controlling shareholder of a subsidiary | 6,414 | 6,414 | 6,414 |
| Bank loan | 30,920 | 30,920 | 30,920 |
| | 57,949 | 57,949 | 57,949 |
| 2018 | | | |
| Other payables, deposits received and accrued charges | 20,363 | 20,363 | 20,363 |
| Amount due to a non-controlling shareholder of a subsidiary | 6,414 | 6,414 | 6,414 |
| Bank loan | 40,284 | 40,284 | 40,284 |
| | 67,061 | 67,061 | 67,061 |

Included in the interest-bearing bank loan is instalment loan which the related agreement contain repayment on demand clause giving the bank unconditional right to call in the loan at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding the above clause, the directors consider that the loan will be repaid in accordance with the scheduled repayment dates as set out in the loan agreement. This evaluation was made considering: the financial position of the Group, the Group's compliance with the loan covenant, the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time.

## 31. FINANCIAL RISK MANAGEMENT – CONTINUED

### (b) Liquidity risk – continued

In accordance with the terms of the loans, the contracted undiscounted payments are as follows:

| | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 |
|---|---|---|---|---|---|
| 31 March 2019 | 30,920 | 31,926 | 10,082 | 10,082 | 11,762 |
| 31 March 2018 | 40,284 | 41,340 | 9,955 | 9,955 | 21,430 |

### (c) Interest rate risk

The Group's exposure to interest rate risks relates primarily to the Group's bank loan with a floating interest rate. Interest rate and terms of repayment of the Group's borrowing are disclosed in Note 19. The Group's policy is to obtain the most favourable interest rate available for its borrowings.

**Sensitivity analysis**

At 31 March 2019, it is estimated that a general increase/decrease of 50 basis points in interest rate, with all other variables held constant, would decrease/increase the Group's profit for the year and retained profits by approximately HK$129,000 (2018: HK$168,000).

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for loan outstanding in existence at that date. The 50 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting date. The analysis is performed on the same basis for 2018.

## 31. FINANCIAL RISK MANAGEMENT – CONTINUED

### (d) Currency risk

Each member of the group company mainly operated in their local jurisdiction with most of the transactions settled in their functional currency of the operation and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

### (e) Fair values estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2019 and 2018.

## 32. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 March 2019 and 2018 may be categorised as follows:

| | **2019**<br>**HK$'000** |
|---|---|
| Financial assets | |
| Amortised cost | |
| Trade and other receivables, net | **3,665** |
| Amounts due from related parties | **38** |
| Cash and bank balances | **30,239** |
| | **33,942** |

| | 2018<br>HK$'000 |
|---|---|
| Financial assets | |
| Loans and receivables | |
| Trade and other receivables, net | 5,399 |
| Amounts due from related parties | 68 |
| Cash and bank balances | 22,945 |
| | 28,412 |

## 32. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY – CONTINUED

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Financial liabilities at amortised costs | | |
| Other payables, deposits received and accrued charges | **20,615** | 20,363 |
| Amount due to a non-controlling shareholder of a subsidiary | **6,414** | 6,414 |
| Bank loan | **30,920** | 40,284 |
| | **57,949** | 67,061 |

## 33. MATERIAL INTEREST OF DIRECTORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Saved as disclosed in note 23 "Related Party Transactions" of this report, no transaction, arrangement or contract of significance to the Company's business to which a director of the Company or his/her connected entity had a material interest, whether directly or indirectly were entered into or subsisting during the financial year (2018: Nil).

## 34. LITIGATIONS

In 2008, Winland Mortgage Limited ("Winland Mortgage"), a wholly-owned subsidiary of the Company, made a loan to an independent third party borrower (the "Borrower") on security of a property (the "Security Property") and subsequently the Borrower defaulted to repay the loan. On 10 July 2009, the Borrower entered into a provisional sale and purchase agreement with an independent third party purchaser (the "Purchaser") with the terms of leasing back of the Security Property to the related company of the Borrower. The rental deposit and first month rental in advance in total of HK$4,550,000 (the "Sum") were deducted from the balance of sale proceeds which formed part of redemption money for the mortgage of the Security Property. The sale and purchase of the Security Property was completed on 17 December 2009 but no lease was entered and the Sum should be returned to Winland Mortgage. However, the Purchaser refused to return the Sum.

In July 2015, Winland Mortgage commenced the legal action (HCA no. 1509 of 2015) against the Purchaser for recovery of the Sum. The witness statements were exchanged between the parties in September 2018, and the proceedings are currently entering the discovery and listing stage. The hearing for case management summons would be heard in August 2019. There may have several hearings before setting down the case to trial. Up to the date of approval of these financial statements, in the opinion of the Group's legal advisor, it is unable to anticipate the likely outcome.

The directors are of the opinion that the case is still under preliminary stage and it is not possible to predict the outcome.

On 16 December 2015, the Purchaser applied a legal action (HCA no. 2994 of 2015) against Winland Mortgage by issuing the writ of summon to claim for the damages of the misrepresentation made by Winland Mortgage to the Purchaser which induced the Purchaser from entering into the provisional agreement and also the assignment dated 17 December 2009 entered by Winland Mortgage and the Purchaser. This legal case was withdrawn by the Purchaser on 13 March 2019.

## 35. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on 25 June 2019.

# FINANCIAL SUMMARY

| | 2019<br>HK$'000 | 2018<br>HK$'000 | 2017<br>HK$'000 | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|---|---|
| Results | | | | | |
| Year ended 31 March | | | | | |
| Revenue | **72,195** | 62,164 | 84,885 | 134,212 | 137,830 |
| Profit/(Loss) attributable to equity holders of the Company | **1,267** | (107) | (516) | 35,759 | 36,047 |
| Profit/(Loss) and total comprehensive income attributable to owners of the Company | **1,105** | (264) | (672) | 35,603 | 35,891 |
| Assets and liabilities | | | | | |
| As at 31 March | | | | | |
| Total assets | **653,865** | 499,109 | 522,831 | 531,103 | 559,983 |
| Total liabilities | **(71,787)** | (78,524) | (101,982) | (109,582) | (174,065) |
| Non-controlling interests | **2,333** | 2,171 | 2,014 | 1,858 | 1,702 |
| Equity attributable to equity holders of the Company | **584,411** | 422,756 | 422,863 | 423,379 | 387,620 |

# PARTICULARS OF PRINCIPAL PROPERTIES

Particulars of the Group's principal properties as at 31 March 2019 are as follows:

## HOTEL PROPERTY

| Address | Type | Tenure | Group's interest |
|---|---|---|---|
| Hotel 2<br>Rambler Crest<br>No. 1 Tsing Yi Road<br>Tsing Yi<br>New Territories<br>Hong Kong | Commercial | Medium lease | 100% |

## LAND

| Address | Site Area (Sq. ft) | Lease Expiry | Group's interest |
|---|---|---|---|
| D.D. 243 in Sai Kung<br>New Territoires<br>Hong Kong (certain lots) | 165,748.30 | 2047 | 51% |

## OFFICE PROPERTY

| Address | Type | Tenure | Group's interest |
|---|---|---|---|
| Office 4701<br>on 47th Floor<br>Far East<br>Finance Centre<br>No. 16 Harcourt Road<br>Hong Kong | Commercial | Medium lease | 100% |

MEXAN LIMITED
茂盛控股有限公司