

KNT

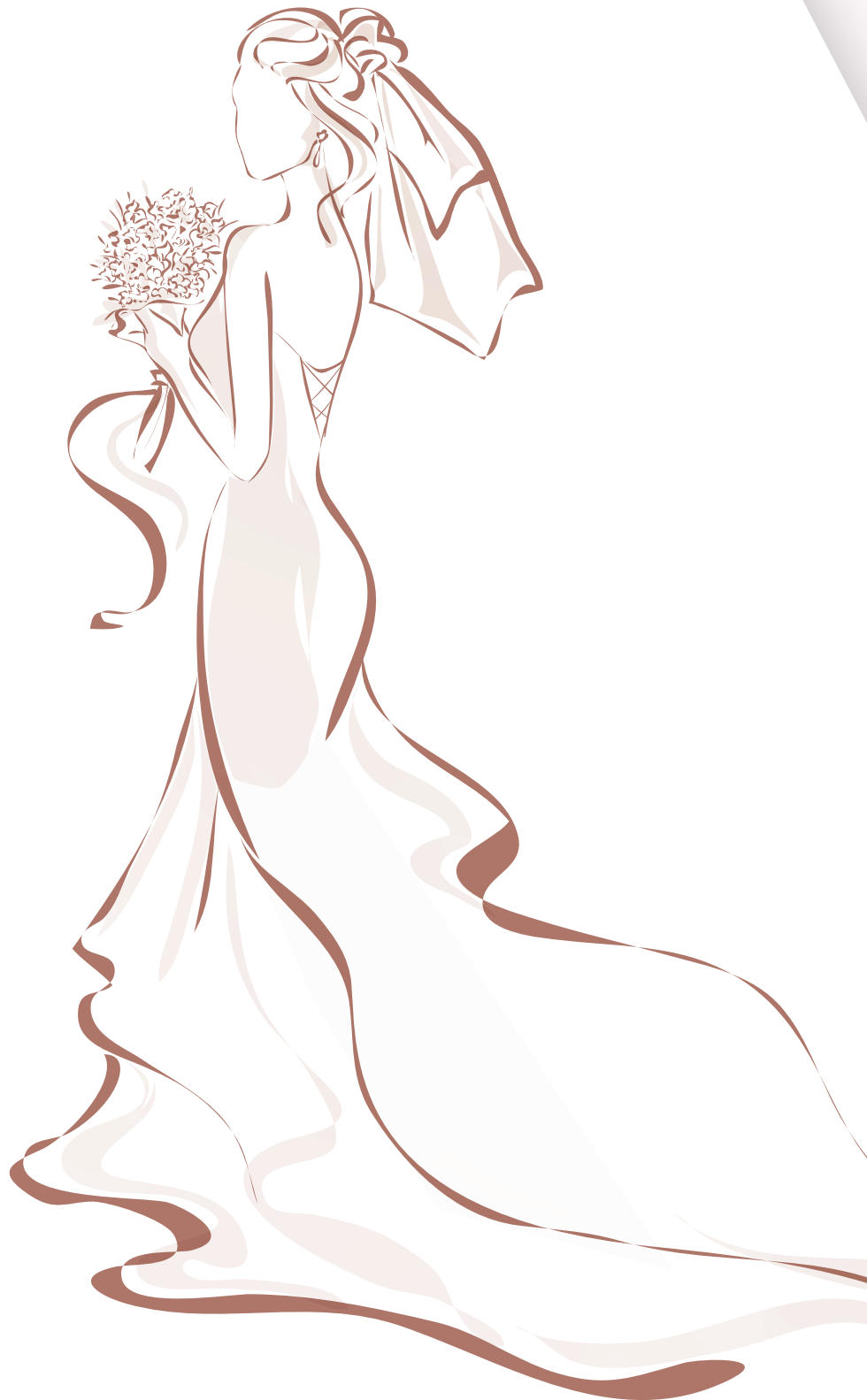
KNT HOLDINGS LIMITED

嘉藝控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1025

ANNUAL REPORT
2020



* For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Chong Sik (*Chairman and Chief Executive Officer*)
Chong Pun
Lam Chi Yuen

Non-executive Director

Ting Chi Wai Roy (resigned on 1 November 2019)

Independent Non-executive Directors

Leung Martin Oh Man
Lau Koong Yep
Yuen King Sum
Lau Kwok Fan

AUDIT COMMITTEE

Leung Martin Oh Man (*Chairman*)
Lau Koong Yep
Yuen King Sum
Lau Kwok Fan

REMUNERATION COMMITTEE

Lau Koong Yep (*Chairman*)
Leung Martin Oh Man
Yuen King Sum
Lau Kwok Fan

NOMINATION COMMITTEE

Chong Sik (*Chairman*)
Leung Martin Oh Man
Lau Koong Yep
Yuen King Sum
Lau Kwok Fan

COMPANY SECRETARY

Chan Nga Chun

AUTHORISED REPRESENTATIVES

Chong Sik
Chan Nga Chun

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

COMPLIANCE ADVISER

Innovax Capital Limited

LEGAL ADVISER AS TO HONG KONG LAW

Robertsons

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

30th Floor
EW International Tower
No. 120 Texaco Road
Tsuen Wan
New Territories
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54 Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
DBS Bank (Hong Kong) Limited
China CITIC Bank International Limited

STOCK CODE

01025

COMPANY WEBSITE

www.kntholdings.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of KNT Holdings Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2020.

2020 was a volatile and challenging year to the Group. The global economy has been adversely affected by the protracted trade war between the United States of America ("US") and China. The downturn in the global market was further aggravated by the outbreak of novel coronavirus disease ("COVID-19") since early 2020 which brought unprecedented challenges and uncertainties. The business of the Group was inevitable being affected.

The Group recorded revenue of approximately HK\$168.5 million for the year ended 31 March 2020, representing a decrease of approximately 25.3% as compared to that of approximately HK\$225.6 million for the year ended 31 March 2019. For the year ended 31 March 2020, the Group sold approximately 887.1 thousand units of products, comprising approximately 274.0 thousand units of bridesmaid dresses, 2.4 thousand units of bridal gowns and 610.7 thousand units of special occasion dresses. Revenue from the United States accounted for approximately 93.6% and 87.6% of total revenue of the Group for the years ended 31 March 2019 and 2020 respectively. The gross profit margin decreased from 28.9% for the year ended 31 March 2019 to 7.6% for the year ended 31 March 2020. The Group recorded a loss of approximately HK\$47.0 million for the year ended 31 March 2020 and a profit of approximately HK\$12.2 million for the year ended 31 March 2019.

During the year ended 31 March 2020, the Group experienced challenging operating environment in view of prolonged trade disputes between the US and China, tariff imposed, political tensions and continuing uncertainties in global economy. Since the Group's revenue was mostly derived from customers based in the United States, these factors in aggregate led to a certain extent of impact on overall business performance of the Group. As a result, the revenue and gross profit margin of the Group decreased for the year ended 31 March 2020 compared to that for the year ended 31 March 2019.

In addition, due to the outbreak of the COVID-19 since beginning of 2020, it has brought significant disruption to the global economy and caused more adverse impact to the business environment of the Group. The Group also made impairment losses of an aggregate amount of approximately HK\$13.4 million in respect of trade receivables, property, plant and equipment and right-of-use assets which contributed to the increase in loss for the year ended 31 March 2020.

CHAIRMAN'S STATEMENT *(CONTINUED)*

In light of the prolonged trade disputes between the US and China and the resulting unprecedented negative business outlook from COVID-19 crisis, the Group expects that the business environment and outlook for the coming financial year would remain highly challenging and uncertain. The Group will continue to review its existing business from time to time and take appropriate measures to tackle any possible impacts. In view of the unprecedented business environment, the management is actively exploring new business opportunities with a view to diversifying the income stream of the Group and mitigating risks. The Group is also taking cost-control measures since April 2020 so as to cope with the lingering business downturn. With the Group's proven track record, experienced management team and reputation in the market, the Group is well-positioned and well-equipped to sustain its development and grasp the opportunities to enhance the long-term potential growth in future for safeguard the interest of the shareholders.

APPRECIATION

On behalf of the Board, I wish to take this opportunity to extend my sincere appreciation to the Group's management and staff for their commitment and dedication throughout the year. I would also like to express my deep gratitude to all our business partners, customers, suppliers and the shareholders of the Company for their continuous support. The Group shall continue to seize opportunities and strive our best to develop and grow to maximize values for our shareholders.

KNT Holdings Limited

Chong Sik

Chairman and Executive Director

Hong Kong, 26 June 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a one-stop solutions provider of bridesmaid dresses, bridal gowns and special occasion dresses. The Group principally sells its products to brand apparel companies based in the United States. Over the years, the Group has built reputation and gained customers' recognition from its dedication to provide its customers with one-stop solutions and consistently high quality products, which has increased its customers' reliance on it and in turn enabled it to maintain its market position as one of the leading bridesmaid dresses manufacturers in the PRC. The Group is the sole supplier of certain five largest customers for bridesmaid dresses whom had maintained long years of relationship with the Group. In addition to manufacturing products for its customers, the Group strives to become an integral part of its customers' business operations by offering a wide range of value-added services ranging from fashion trend analysis, product design and development, raw material procurement, design and development, production, quality assurance to inventory management.

The Group recorded revenue of approximately HK\$168.5 million for the year ended 31 March 2020, representing a decrease of approximately 25.3% as compared to that of approximately HK\$225.6 million for the year ended 31 March 2019. Revenue from the United States accounted for approximately 93.6% and 87.6% of the total revenue of the Group for the years ended 31 March 2019 and 2020 respectively. The gross profit margin decreased from 28.9% for the year ended 31 March 2019 to 7.6% for the year ended 31 March 2020. Profit for the year amounted to approximately HK\$12.2 million for the year ended 31 March 2019 and loss for the year amounted to approximately HK\$47.0 million for the year ended 31 March 2020.

During the year ended 31 March 2020, the Group experienced challenging operating environment in view of prolonged trade disputes between the United States and China, tariff imposed, political tensions and continuing uncertainties in global economy. Since the Group's revenue was mostly derived from customers based in the United States, these factors in aggregate led to a certain extent of impact on overall business performance of the Group. As a result, the revenue and gross profit margin of the Group decreased for the year ended 31 March 2020 compared to the year ended 31 March 2019.

In addition, due to the outbreak of the novel coronavirus disease (COVID-19) since beginning of 2020, it has brought significant disruption to the global economy and caused more adverse impact to the business environment of the Group. The Group also made impairment losses of an aggregate amount of approximately HK\$13.4 million in respect of trade receivables, property, plant and equipment and right-of-use assets which contributed to the increase in loss for the year ended 31 March 2020.

PROSPECT

In light of the prolonged trade disputes between the US and China and the resulting unprecedented negative business outlook from COVID-19 crisis, the Group expects that the business environment and outlook for the coming financial year would remain highly challenging and uncertain. The Group will continue to review its existing business from time to time and take appropriate measures to tackle any possible impacts. In view of the unprecedented business environment, the management is actively exploring new business opportunities with a view to diversifying the income stream of the Group and mitigating risks. The Group is also taking cost-control measures since April 2020 so as to cope with the lingering business downturn. With the Group's proven track record, experienced management team and reputation in the market, the Group is well-positioned and well-equipped to sustain its development and grasp the opportunities to enhance the long-term potential growth in future for safeguard the interest of the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Revenue

Revenue represents revenue from the sale of bridesmaid dresses, bridal gowns, special occasion dresses and fabrics and accessories.

Revenue decreased by approximately HK\$57.1 million or approximately 25.3% from approximately HK\$225.6 million for the year ended 31 March 2019 to approximately HK\$168.5 million for the year ended 31 March 2020. The overall decrease in revenue was primarily attributable to the decrease in revenue generated from the sale of bridesmaid dresses of approximately HK\$34.9 million and sale of special occasion dresses of approximately HK\$15.7 million.

The decrease in revenue generated from the sale of bridesmaid dresses from approximately HK\$114.7 million for the year ended 31 March 2019 to approximately HK\$79.8 million for the year ended 31 March 2020 was primarily a result of the aggregate effect of the decrease in sales quantity from 363.1 thousand units for the year ended 31 March 2019 to 274.0 thousand units for the year ended 31 March 2020 and the decrease in average selling prices of bridesmaid dresses from HK\$316 for the year ended 31 March 2019 to HK\$291 for the year ended 31 March 2020.

The decrease in revenue generated from the sale of special occasion dresses from approximately HK\$99.8 million for the year ended 31 March 2019 to approximately HK\$84.1 million for the year ended 31 March 2020 was primarily a result of the aggregate effect of the decrease in sales quantity from 652.2 thousand units for the year ended 31 March 2019 to 610.7 thousand units for the year ended 31 March 2020 and the decrease in average selling prices of special occasion dresses from HK\$153 for the year ended 31 March 2019 to HK\$138 for the year ended 31 March 2020.

The decrease in sales quantity of special occasion dresses and bridesmaid dresses were attributable to fewer orders from customers with the escalation of trade tensions between China and the United States. The decrease in average selling price of special occasion dresses and bridesmaid dresses were attributable to the adoption of a competitive pricing strategy against the major customers by the Group so as to maintain its market share in the industry in such challenging operating environment.

Cost of sales

Cost of sales primarily consists of raw material costs, subcontracting charges, labour costs, overhead costs and others.

Cost of sales decreased by approximately HK\$4.6 million or approximately 2.9% from approximately HK\$160.3 million for the year ended 31 March 2019 to approximately HK\$155.7 million for the year ended 31 March 2020.

Gross profit and gross profit margin

Gross profit decreased by approximately HK\$52.5 million or approximately 80.4% from approximately HK\$65.3 million for the year ended 31 March 2019 to approximately HK\$12.8 million for the year ended 31 March 2020. Gross profit margin decreased from 28.9% for the year ended 31 March 2019 to 7.6% for the year ended 31 March 2020. The decrease was mainly attributable to (i) the decrease in revenue as a result of decrease in both sales quantity and average selling prices; and (ii) the higher sales proportion to customers with lower gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Other income

Other income increased by approximately HK\$0.9 million from approximately HK\$0.2 million for the year ended 31 March 2019 to approximately HK\$1.1 million for the year ended 31 March 2020. The increase was mainly attributable to the increase in bank interest income from fixed deposits.

Other gains and losses

Other gains and losses increased by approximately HK\$398,000 or approximately 103.9% from losses of approximately HK\$383,000 for the year ended 31 March 2019 to gains of approximately HK\$15,000 for the year ended 31 March 2020. The increase was mainly attributable to exchange gain from transactions denominated in Renminbi which depreciated during the year ended 31 March 2020.

Administrative expenses

Administrative expenses increased by approximately HK\$22.7 million or approximately 99.6% from approximately HK\$22.8 million for the year ended 31 March 2019 to approximately HK\$45.5 million for the year ended 31 March 2020. The increase was mainly attributable to (i) the increase in staff costs due to annual salary increment, increase in bonus upon listing of shares in 2019 and internal reallocation of staff for performing research and business development work; (ii) the increase in professional fees related to post listing; and (iii) the increase in travelling expenses due to increase in overseas business trips for business opportunities.

Finance costs

Finance costs remained stable at approximately HK\$2.1 million for the year ended 31 March 2020 as compared to that for the year ended 31 March 2019.

Income tax credit (expense)

Income tax expense decreased significantly for the year ended 31 March 2020, which was mainly attributable to the loss for the year ended 31 March 2020.

(Loss) profit for the year

The Group recorded a loss of approximately HK\$47.0 million for the year ended 31 March 2020 and a profit of approximately HK\$12.2 million for the year ended 31 March 2019. Such change from profit to loss was primarily attributable to (i) the decrease in revenue and gross profit; (ii) increase in total staff costs; (iii) impairment loss on trade receivables; (iv) impairment loss recognised in respect of property, plant and equipment; and (v) impairment loss recognised in respect of right-of-use assets.

Dividends

During the year ended 31 March 2020, the Company declared and paid dividends of HK3.8 cents per share, in aggregate of HK\$19,760,000 to ordinary shareholders of the Company. Pursuant to the approval by the ordinary shareholders of the Company at the annual general meeting held on 23 August 2019, the dividends were paid out of the share premium account of the Company.

The Board does not recommend the payment of a final dividend for the year ended 31 March 2020.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Capital structure

The capital structure of the Company comprises of issued share capital and reserves. As at the date of this report, the issued share capital of the Company was HK\$5.2 million and the number of issued ordinary shares was 520,000,000 of HK\$0.01 each.

Liquidity and financial resources

The Group generally finances its operation by internal cash generated from operations and bank borrowings. As at 31 March 2020, the Group had cash and cash equivalents of approximately HK\$32.7 million (31 March 2019: approximately HK\$97.2 million) and had net current assets of approximately HK\$50.9 million (31 March 2019: approximately HK\$120.3 million).

The current ratio of the Group was approximately 1.7 times as at 31 March 2020, compared to that of approximately 3.8 times as at 31 March 2019. The current ratio decreased was mainly attributable to the decrease in cash and cash equivalents and increase in bank borrowings.

The gearing ratio of the Group, which is calculated by dividing the total bank borrowings by the total equity and then multiplied by 100%, was 82.8% as at 31 March 2020 (31 March 2019: 20.0%). The gearing ratio increased was mainly attributable to the increase in bank borrowings as at 31 March 2020 compared to that of 31 March 2019 and loss for the year which led to decrease in total equity.

Pledge of assets

As at 31 March 2020, the Group pledged leasehold land and buildings with carrying value of approximately HK\$4.3 million (31 March 2019: approximately HK\$4.5 million) and bank deposit of HK\$9.5 million (31 March 2019: nil) to secure certain banking facilities granted to the Group.

Foreign exchange risk

Certain transactions of the Group are denominated in foreign currencies which are different from United States Dollar, the functional currency of the Group, and therefore the Group is exposed to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Material acquisitions and disposals of subsidiaries and associated companies

During the year ended 31 March 2020, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies.

Significant investments held

As at 31 March 2020, the Group had no significant investments held (31 March 2019: nil).

Future plans for material investments or capital assets

Save as disclosed in the prospectus of the Company dated 15 February 2019 (the "Prospectus") and in this annual report, the Group did not have other plans for material investments or capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Events after the reporting period

Completion of acquisition of properties

On 15 April 2020, the Group completed the acquisition of properties and paid the remaining consideration of HK\$18,000,000. Accordingly, HK\$3,500,000 of deposits and prepayment for acquisition of the properties were transferred to property, plant and equipment.

Bankruptcy protection filing of a major customer

On 4 May 2020, one of the Group's major customers announced that its parent company filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Eastern District of Virginia in the United States of America. As at 31 March 2020, the net carrying amount of trade receivables due from this customer were approximately HK\$15,426,000.

The directors of the Company is in the process of seeking legal advice for recovering the amount due from this customer and will closely monitor the development. Further expected credit loss allowances, if any, may be provided in the Group's future consolidated financial statements.

Employees and remuneration policy

As at 31 March 2020, the Group had 377 employees (31 March 2019: 419 employees). The total staff costs, including directors' emoluments, of the Group for the year ended 31 March 2020 were approximately HK\$48.1 million (2019: approximately HK\$45.9 million).

Remuneration is determined with reference to market norms and the performance, qualification and experience of individual employee. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustment commensurate with the pay level in the industry. The remuneration package generally includes basic salaries, discretionary bonuses and contributions to retirement benefits scheme. The Group provides training for its employees so that new employees can master the basic skills required to perform their functions and existing employees can upgrade or improve their production skills.

Capital commitment

As at 31 March 2020, the Group had capital commitment in respect of property, plant and equipment contracted but not provided for amounted to approximately HK\$19,020,000 (31 March 2019: nil).

Contingent liabilities

As at 31 March 2020, the Group did not have any material contingent liabilities (31 March 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

Use of net proceeds from the Listing

The net proceeds from the Listing, after deducting underwriting fees and commissions and other expenses relating to the Listing, were approximately HK\$56.9 million.

As at 31 March 2020, the Group has utilised approximately HK\$11.5 million, representing approximately 20.2%, of the net proceeds from the Listing.

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumptions of future market conditions made by the Group at the time of preparing the Prospectus. The Group will continuously evaluate the business objectives and will change or modify the plans against the changing market conditions for meeting the business growth and long term interest of the Group.

As disclosed in the announcement of the Company dated 13 February 2020, the Board resolved to change the use of the unutilised net proceeds. Set out below is the revised allocation of the unutilised net proceeds.

Intended use of net proceeds	Approximate percentage of net proceeds %	Actual amount of net proceeds HK\$ million	Actual amount utilised as at 31 March 2020 HK\$ million	Unutilised amount as at 31 March 2020 HK\$ million
Acquire certain properties and facilities in Hong Kong as logistics center to compliment and coordinate the Group's existing business and production as well as that in Vietnam	38.9	22.1	3.5	18.6
Increase production capacity by investing or setting up production facilities in Vietnam	37.1	21.1	–	21.1
Set up a sales office in the U.S.	10.0	5.7	–	5.7
Repayment of bank borrowings	10.0	5.7	5.7	–
Working capital and general corporate purposes	4.0	2.3	2.3	–
	100.0	56.9	11.5	45.4

As at 31 March 2020, the unutilised net proceeds were placed in licensed banks in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As disclosed in the announcement of the Company dated 4 June 2020 (the "Announcement"), the Board resolved to further change the use of the unutilised net proceeds. Set out below is the revised allocation of the unutilised net proceeds.

Intended use of net proceeds	Approximate percentage of net proceeds as stated in the announcement dated 13 February 2020	Revised approximate percentage of net proceeds	Unutilised amount of net proceeds up to the date of the Announcement before re-allocation	Revised allocation of unutilised net proceeds after re-allocation	Unutilised amount as at the date of this report	Expected timeline for the intended use
	%	%	HK\$ million	HK\$ million	HK\$ million	
Acquire certain properties and facilities in Hong Kong as logistics center to compliment and coordinate the Group's existing business and production as well as that in Vietnam	38.9	38.9	0.6	0.6	0.6	End of 2020
Increase production capacity by investing or setting up production facilities in Vietnam	37.1	19.5	21.1	11.1	11.1	End of 2021
Set up a sales office in the U.S.	10.0	6.5	5.7	3.7	3.7	End of 2021
Repayment of bank borrowings	10.0	10.0	–	–	–	–
Working capital and general corporate purposes	4.0	25.1	–	12.0	8.0	End of 2020
	100.0	100.0	27.4	27.4	23.4	

For details of the change in use of proceeds, please refer to the Announcement.

Due to the on-going trade war between the U.S. and China which is likely to continue and remain uncertain; and the outbreak of the COVID-19 since early 2020, the global economy and the business of the Group have been adversely affected. As the Group delivers a substantial amount of products to its customers in the U.S. and Europe, the demand for the Group's products had been adversely affected and the set up of a sales office in the U.S. which originally expected to be completed by the first half of the year ended 31 March 2020, was deferred to the end of 2021 accordingly.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chong Sik (莊碩先生) (“Mr. S Chong”), aged 52, is one of the co-founders of the Group and incorporated KNT Limited (“KNT”) in February 1993. Mr. S Chong is currently the chairman, chief executive officer and executive Director. He is also a director of KNT Group Limited (“KNTGL”), KNT International Holdings Limited (“KNT Int’l”) and KNT. He was appointed as a Director on 5 July 2016 and re-designated as an executive Director on 23 April 2018. He is the younger brother of Mr. Chong Pun (“Mr. P Chong”). He is primarily responsible for the Group’s overall strategic planning, corporate management and business development.

Mr. S Chong was awarded the Professional Diploma in Diagnostic Radiography from the Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1991. He commenced his start-up business in 1993 by incorporating KNT together with Mr. P Chong and since then has accumulated over 20 years of experience in bridal wear and special occasion dresses business.

In January 2003, Mr. S Chong further established Dong Guan HYG Garment Limited Company* (東莞泓藝製衣有限公司) (“HYG”) together with Mr. P Chong to meet the business expansion needs and develop a design and manufacturing capacity with a view to provide one-stop solutions to our customers.

Mr. S Chong is currently a supervisor of Lions College, a member of Chinese People’s Political Consultative Conference (“CPPCC”) Yunfu Committee, a member of standing committee of CPPCC Yunfu Committee, a president of The Friendship Liaison Association of the CPPCC Hong Kong Members of Yunfu City Limited and a council member of Yunfu Public Diplomacy Association.

Mr. Chong Pun (莊斌先生), aged 55, is an executive Director and one of the co-founders of the Group. He was appointed as a Director on 9 August 2016 and re-designated as an executive Director on 23 April 2018. Mr. P Chong is the elder brother of Mr. S Chong. He is also a director of KNTGL, KNT Int’l and KNT and the legal representative of HYG. He is responsible for the overall management of the Group’s operations, general administration and compliance matters in China.

Mr. P Chong received secondary school education in China and graduated in 1978. During the period from 1983 to 1992, he worked as a factory manager in Florist Trading Company (H.K.) Limited, of which the principal business is manufacturing of festival decorative products. He set up KNT together with Mr. S Chong in February 1993 and has been a director of KNT since April 1993. In January 2003, Mr. P Chong, together with Mr. S Chong, established HYG to meet the business expansion needs and since then has been the legal representative of HYG. He possesses over 20 years of experience in the bridal wear and special occasion dresses business.

Mr. Lam Chi Yuen (林志遠先生), aged 46, is an executive Director and the chief operating officer of the Group. He was appointed as an executive Director on 23 April 2018. He is responsible for overseeing the daily operation of the Group, including but not limited to procurement, production, shipping and marketing.

Mr. Lam was awarded a Bachelor of Arts degree with second class honours in Clothing Studies from the Hong Kong Polytechnic University in November 1996. He joined the Group in July 1996 as junior merchandiser. He was promoted as senior merchandiser in April 2003 and was further promoted as merchandising manager in July 2007. He was subsequently promoted as the chief operating officer in April 2017. Mr. Lam possesses over 20 years of experience in the bridal wear and special occasion dresses business.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(CONTINUED)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Martin Oh Man (梁傲文先生), aged 39, was appointed as an independent non-executive Director on 31 January 2019. Mr. Leung graduated from the University of Toronto with a Bachelor of Commerce degree in November 2002. He was admitted as a certified public accountant of the Hong Kong Institute of Certified Public Accountants (“HKICPA”) in July 2006 and a member of the Hong Kong Institute of Surveyors in January 2014. He is currently registered as a certified public accountant (practising) of HKICPA.

Mr. Leung has over 15 years of experience in the field of financing, financial management, accounting, auditing and valuation. He worked with Deloitte Touche Tohmatsu from March 2003 to March 2011, where he was principally responsible for audit related matters and was also engaged with accounting and taxation related matters. He is currently serving as the general manager of TL Property Consultants International Limited responsible for making and execution of the company’s strategy and management of human resources and daily operation.

Mr. Leung has been serving as an independent non-executive director of Global Strategic Group Limited (a company listed on the GEM of the Stock Exchange, stock code: 8007) since October 2014. He also is serving various social responsibilities, including member of the CPPCC of Xuhui District of Shanghai, fellow member of the professionals committee of Shanghai Chinese Overseas Friendship Association, founding member of the Hong Kong Professionals and Senior Executives Association and director of the International Nature Loving Association Limited.

Mr. Lau Koong Yep (劉冠業先生) aged 43, was appointed as an independent non-executive Director on 31 January 2019. Mr. Lau was awarded a Bachelor of Business Administration degree in Quantitative Analysis for Business Student (minoring Finance) from the City University of Hong Kong in July 1999. He was in the direct selling and social commerce industry for over 16 years. Mr. Lau currently works with Lotus Wellness Limited* (荷康人體博物館管理服務(馬鞍山)有限公司) and serves as the chief executive officer. He worked with Jason Pharmaceuticals Inc., a wholly owned subsidiary of Medifast, Inc. (a company listed in the New York Stock Exchange with stock code: MED) from October 2018 to June 2020 with his last position as the market vice president of business development for Asia Pacific. He worked with WeMedia Shopping Network Technology Co. Limited (“WeMedia”) from February 2017 to October 2017 with his last position as the chief operating officer. Before Mr. Lau joined WeMedia, he worked with NU SKIN Enterprises Hong Kong, LLC from June 2012 to December 2016 with his last position as a vice president, executive partners Greater China. He also worked with USANA Hong Kong Limited from 2011 to 2012, Market Hong Kong Limited from 2007 to 2010 and Herbalife International of Hong Kong Limited from 2001 to 2004.

Mr. Lau is also dedicated to various social responsibilities. He is currently a member of the National Committee of the CPPCC of Guilin and a director of the Hong Kong Shanxi Chamber of Commerce.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(CONTINUED)*

Mr. Yuen King Sum (袁景森先生), aged 56, was appointed as an independent non-executive Director on 31 January 2019. Mr. Yuen graduated from Hang Seng School of Commerce (now known as The Hang Seng University of Hong Kong) with a Diploma in Business Studies in July 1984. He was admitted as a Fellow of Life Management Institute in 1987.

Mr. Yuen has over 30 years of experience in the operation, marketing and management of insurance companies. He worked with Hong Kong Family Insurance Co., Ltd as an administrative assistant from August 1984 to July 1987, and subsequently worked with the American International Underwriters, Limited (now known as AIG Insurance Hong Kong Limited) from November 1987 to March 2010 as an insurance agent. Since July 2010, Mr. Yuen has been working with Finexis Advisory (HK) Limited and is presently holding the position as chief agency officer.

Mr. Yuen has been serving as an adjunct lecturer of Executive Development Centre of The Hang Sang University of Hong Kong since September 2017.

Mr. Lau Kwok Fan (劉國勳先生), aged 39, was appointed as an independent non-executive Director on 31 January 2019. Mr. Lau was awarded a Bachelor of Arts degree in Public Administration and Management from De Montfort University in June 2006 and a Master of Arts degree in Sociology from the Chinese University of Hong Kong in December 2010.

Mr. Lau is currently a member of the Legislative Council of Hong Kong. In February 2018 he was appointed by the Chief Executive of Hong Kong as a member of the Betting and Lotteries Commission. From November 2016 to October 2019 and from June 2020, he was elected by the members of the Legislative Council to serve as a member of the university council of the Chinese University of Hong Kong. Mr. Lau is also a member of the Beijing Committee of the CPPCC and a member of the Jiangmen Committee of the CPPCC.

SENIOR MANAGEMENT

Ms. Chan Nga Chun (陳雅珍女士), aged 41, is the chief financial officer and company secretary. Ms. Chan joined the Group in June 2017 as the chief financial officer and was further appointed as the Company's company secretary on 23 April 2018, and is responsible for the overall accounting, financial management and reporting, and company secretarial matters of the Group.

Ms. Chan obtained a bachelor's degree in accountancy from The Hong Kong Polytechnic University in November 2001. She is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Ms. Chan has about 15 years of experience in accounting and auditing. Ms. Chan worked at various accounting firms in the audit department during August 2001 to December 2004. From January 2005 to August 2008, Ms. Chan worked at Deloitte Touche Tohmatsu and her last position was a senior in the audit department. From January 2009 to May 2013 and January 2014 to December 2016, Ms. Chan worked at SHINEWING (HK) CPA Limited and her last position was a senior audit manager.

The English translation of terms or names in Chinese which are marked with "" is for identification purposes only. In the events of any inconsistency, the Chinese terms or names shall prevail.*

CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Directors”) of the Company (the “Board”) is pleased to report to the shareholders on the corporate governance of the Company for the year ended 31 March 2020 (the “Reporting Period”).

CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to maintaining good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) as the basis of the Company’s corporate governance practices.

The Board is of the view that throughout the Reporting Period, the Company has complied with the code provisions as set out in the CG Code, except for code provision A.2.1 (the details of which are set forth below).

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has devised its own Code of Ethics and Securities Transactions (the “Code of Ethics”) regarding dealings in the Company’s securities by directors and the relevant employees who are likely to be in possession of inside information of the Company on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Code of Ethics throughout the Reporting Period.

No incident of non-compliance of the Code of Ethics by the employees was noted by the Company.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

The Board of the Company currently comprises the following Directors:

Executive Directors

Mr. Chong Sik (*Chairman, Chief Executive Officer*)

Mr. Chong Pun

Mr. Lam Chi Yuen

Independent Non-executive Directors

Mr. Leung Martin Oh Man

Mr. Lau Koong Yep

Mr. Yuen King Sum

Mr. Lau Kwok Fan

The biographical information (including age, positions held with the Company, experience, length of service, etc.) of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 12 to 14 of the Annual Report for the year ended 31 March 2020.

The relationships between the Directors are disclosed in the respective Director's biography under the section "Biographical Details of Directors and Senior Management" on page 12 to 14.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors. Notice of at least 14 days was given to all Directors for all regular Board meetings and a formal agenda was address to the Directors together with the notice.

Board minutes are kept by the company secretary of the Company (the "Company Secretary") and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

The attendance records of each Director at the Board meetings and the general meeting of the Company held during the Reporting Period is set out below:

Name of Directors	Attendance/ Number of Meetings	
	Board Meetings	Annual General Meeting
Executive Directors		
Mr. Chong Sik (<i>Chairman, Chief Executive Officer</i>)	8/8	1/1
Mr. Chong Pun	8/8	1/1
Mr. Lam Chi Yuen	8/8	1/1
Non-executive Director		
Mr. Ting Chi Wai Roy ⁽¹⁾	1/2	1/1
Independent Non-executive Directors		
Mr. Leung Martin Oh Man	7/8	1/1
Mr. Lau Koong Yep	8/8	0/1
Mr. Yuen King Sum	8/8	1/1
Mr. Lau Kwok Fan	7/8	1/1

Note:

⁽¹⁾ Mr. Ting Chi Wai Roy resigned as the non-executive Director of the Company with effect from 1 November 2019 due to his other business and personal commitments.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The Chairman and Chief Executive Officer of the Company are held by Mr. Chong Sik who is one of the co-founders of the Group and has extensive experience in the industry.

The Board believes that Mr. Chong Sik can provide the Company with strong and consistent leadership that allows for effective and efficient planning and implementation of business decisions and strategies.

The Board is of the view that given that Mr. Chong Sik had been responsible for leading the strategic planning and business development of the Group, the arrangement would allow for effective and efficient planning and implementation of business decisions and strategies under the strong and consistent leadership, and should be overall beneficial to the management and development of the Group's business.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

Independent Non-executive Directors

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

Appointment and Re-election of Directors

The Independent Non-executive Directors of the Company are appointed for a specific term of three years, subject to renewal after the expiry of the current term.

All the Directors of the Company are subject to retirement by rotation and re-election at the annual general meetings. Under the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Company's Articles of Association also provides that all Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment. The retiring Directors shall be eligible for re-election.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate.

The training records of the Directors for the year ended 31 March 2020 are summarized as follows:

Name of Directors	Attending Internally-facilitated Briefings or Training, Attending seminars, Reading materials
Executive Directors	
Mr. Chong Sik (<i>Chairman, Chief Executive Officer</i>)	✓
Mr. Chong Pun	✓
Mr. Lam Chi Yuen	✓
Non-executive Director	
Mr. Ting Chi Wai Roy ⁽¹⁾	✓
Independent Non-executive Directors	
Mr. Leung Martin Oh Man	✓
Mr. Lau Koong Yep	✓
Mr. Yuen King Sum	✓
Mr. Lau Kwok Fan	✓

Note:

⁽¹⁾ Mr. Ting Chi Wai Roy resigned as the non-executive Director of the Company with effect from 1 November 2019 due to his other business and personal commitments.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The Audit Committee consists of four Independent Non-executive Directors, namely Mr. Leung Martin Oh Man, Mr. Lau Koong Yep, Mr. Yuen King Sum and Mr. Lau Kwok Fan. Mr. Leung Martin Oh Man is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's financial reporting system and internal control procedures; and in reviewing the design and operational adequacy and effectiveness of the Company's risk management and internal control systems and the monitoring results. The Audit Committee shall have the following responsibilities and powers:

1. Relationship with the Company's auditor;
2. Review of the Company's financial information; and
3. Oversight of the Company's financial reporting system, risk management and internal control systems.

The Audit Committee held three meetings to review, in respect of the year ended 31 March 2020, the interim financial results and reports and significant issues on the financial reporting, the effectiveness of the risk management and internal control systems and re-appointment of auditors of the Company.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The attendance record of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance/ Number of Meetings
Mr. Leung Martin Oh Man (<i>Chairman</i>)	3/3
Mr. Lau Koong Yep	3/3
Mr. Yuen King Sum	3/3
Mr. Lau Kwok Fan	3/3

Remuneration Committee

The Remuneration Committee consists of four Independent Non-executive Directors, namely Mr. Lau Koong Yep, Mr. Yuen King Sum, Mr. Leung Martin Oh Man and Mr. Lau Kwok Fan. Mr. Lau Koong Yep is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The duties and power of the Remuneration Committee include:

1. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
2. to make recommendations to the Board on the remuneration packages of all individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on the remuneration of Non-executive Directors of the Company. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, and employment conditions elsewhere in the Group and desirability of performance-based remuneration;
3. to review and approve the management's performance-based remuneration proposals with reference to the Board's corporate goals and objectives from time to time;
4. to review and approve compensation payable to Executive Directors and senior management of the Company for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
5. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with the relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
6. to ensure that no Director of the Company or any of his/her associates is involved in deciding his/her own remuneration;

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

7. to advise shareholders on how to vote with respect to any service contracts of Directors that require shareholders' approval under the Listing Rules; and
8. to accommodate a model where the Remuneration Committee performs an advisory role to the Board, with the Board retaining the final authority to approve Executive Directors' and senior management's remuneration.

The Remuneration Committee held two meetings for the year ended 31 March 2020 to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Directors and senior management and other related matters.

The attendance record of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance/ Number of Meetings
Mr. Lau Koong Yep (<i>Chairman</i>)	2/2
Mr. Yuen King Sum	2/2
Mr. Leung Martin Oh Man	2/2
Mr. Lau Kwok Fan	2/2

The remuneration of the Directors and the senior management by band for the year ended 31 March 2020 is set out below:

Annual Income	Number of Persons
Nil to HK\$1,000,000	6
HK\$1,500,001 to HK\$2,000,000	3
HK\$2,500,001 to HK\$3,000,000	1

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

Nomination Committee

The Nomination Committee consists of one Executive Director, namely Mr. Chong Sik and four Independent Non-executive Directors, namely Mr. Lau Koong Yep, Mr. Lau Kwok Fan, Mr. Leung Martin Oh Man and Mr. Yuen King Sum. Mr. Chong Sik is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The duties and power of the Nomination Committee include:

1. to review the structure, size and diversity (including without limitation, gender, age, culture and educational background, skills, knowledge and professional experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships in identifying suitable candidates, the Nomination Committee shall consider candidates on merits and objective criteria, with due regard to the Diversity Policy (as defined below);
3. to assess the independence of INEDs;
4. to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors of the Company, in particular the chairman of the Board and the Chief Executive Officer of the Company; and
5. to develop and review the policy of the Board on diversity (the "Board Diversity Policy") and to make disclosure on the Board Diversity Policy in Company's annual report.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee meeting held one meeting for the year ended 31 March 2020 to assess the independence of the Independent Non-executive Directors, to consider and recommend to the Board on the re-election of directors and to review the structure, size and composition of the Board. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

Name of Members of the Nomination Committee	Attendance/ Number of Meetings
Mr. Chong Sik (<i>Chairman</i>)	1/1
Mr. Lau Koong Yep	1/1
Mr. Lau Kwok Fan	1/1
Mr. Leung Martin Oh Man	1/1
Mr. Yuen King Sum	1/1

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board to enhance corporate governance and the Board effectiveness.

Pursuant to the Board Diversity Policy, selection of candidates will be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, language, cultural and educational background, ethnicity, professional experience, skills, knowledge, industry experience and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will report annually on the Board's composition under diversified perspectives, any measurable objects that it has set for implementing the Board Diversity Policy and progress on achieving those objectives, and monitor the implementation of the Board Diversity Policy. To ensure the effectiveness of the Board Diversity Policy, the Nomination Committee will review the Board Diversity Policy and the measurable objectives from time to time and at least annually to ensure its continued effectiveness. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

At present, the Nomination Committee considered that the Board is sufficiently diverse.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a director nomination policy (the “Director Nomination Policy”) which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company’s business and corporate strategy;
- Any measurable objectives adopted for achieving diversity on the Board;
- Requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- Such other perspectives that are appropriate to the Company’s business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code. During the year, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Code of Ethics, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has established a risk management framework, which consists of the Board, the Audit Committee and the Risk Management Taskforce. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted Risk Management Policy in providing direction in identifying, evaluating and managing significant risks. At least on an annual basis, the Risk Management Taskforce identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

In addition, the Group has engaged an independent professional firm to assist the Board and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remediation actions are taken.

Risk management report and internal control report are submitted to the Audit Committee and the Board at least once a year. The Board had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the financial, operational and compliance controls for the year ended 31 March 2020. The Board considers the Group's risk management and internal control systems are effective. The annual review also covered the financial reporting and internal audit function.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

CORPORATE GOVERNANCE REPORT (CONTINUED)

PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group complies with requirements of Securities & Futures Ordinance (“SFO”) and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the Safe Harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

DIRECTORS’ RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2020.

The Directors 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.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor’s Report on pages 60 to 65.

AUDITOR’S REMUNERATION

An analysis of the remuneration paid to the external auditor of the Company, Deloitte Touche Tohmatsu, in respect of audit services for the year ended 31 March 2020 is set out below:

Service Category	Fees Paid/ Payable HK\$’000
Audit services	1,080
Non-audit services (professional fees for tax, internal control, risk management and environmental, social and governance)	301
	<hr/>
	1,381

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor’s Report on pages 60 to 65.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

COMPANY SECRETARY

The Company Secretary is Ms. Chan Nga Chun, who fulfils the qualification requirements laid down in the Listing Rules. Biographical details of Ms. Chan Nga Chun are set out in the section headed “Biographical Details of Directors and Senior Management” of this annual report. During the year ended 31 March 2020, Ms. Chan Nga Chun has taken not less than 15 hours of relevant professional training.

SHAREHOLDERS’ RIGHTS

The Company engages with shareholders through various communication channels.

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to Articles 58 of the Company’s Articles of Association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

There is no provision allowing shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association of the Company. Members who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: 30th Floor, EW International Tower, No. 120 Texaco Road, Tsuen Wan, New Territories, Hong Kong
(For the attention of the Company Secretary)

Email: info@kntholdings.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law. Shareholders may call the Company at 3655-9688 for any assistance.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company is endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet shareholders and answer their enquiries.

During the year under review, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Policies relating to Shareholders and Dividend Policy

The Company has in place a Shareholders' Communication Policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The Company has adopted a dividend policy (the "Dividend Policy") on payment of dividends. The Company do not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is the second Environmental, Social and Governance (“ESG”) report (the “Report”) published by KNT Holdings Limited (HKEx stock code: 1025, together with its subsidiaries as “KNT”, the “Group” or “We”). This Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (“HKEx ESG Reporting Guide”) contained in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

This Report aims to communicate with all stakeholders of the Group on our sustainable development visions and missions, policies and performance, as well as commitments and goals in relation to the Group’s environmental and social aspects. The Group strives to continuously improve our reporting methodology, the accuracy of data disclosure and the transparency of our ESG performances in the future published reports.

Unless otherwise specified, this Report covers the Group’s sales and manufacturing of high quality bridesmaid dresses, bridal gowns and special occasion dresses to brand apparel companies based mainly in the U.S. from April 1, 2019 to March 31, 2020 (the “Reporting Period”) in Hong Kong and Dongguan, China.

We welcome and value any feedback on this Report as we see them as driver to improvement. Please contact us at ir@kntholdings.com for comments or suggestions.

For further information on the Group’s financial performances and corporate governance, please refer to the Group’s Annual Report.

OUR ESG COMMITMENT

The Group not only commits to maintaining compliance with all relevant laws and regulations, but has also been continuously advocating the integration of sustainability into business practices and engaging our stakeholders to operate responsibly in regards of the environmental, social and economic perspectives.

In addition, cooperation and support from all of our employees are essential to fulfil our ESG commitment. They play a key role in ensuring the Group’s sustainability initiatives are thoroughly implemented through the daily operations among all business practices. Therefore, the Group will continue to enhance our employees’ awareness on environmental and social issues, from production activities to daily office operations.

We aim to fulfil our environmental and social responsibilities through creating a strong and sustainable community that provides each individual with the opportunity to work hard, live well and connect with each other.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

ESG GOVERNANCE

The Group has established the ESG committee during the Reporting Period, which included the participation of the Board, senior management, managers and employees. Their dedicated roles and responsibilities are listed as below:

ESG Committee structure	Roles and responsibilities
Chairman, Executive Directors and Chief Operating Officer	<ul style="list-style-type: none">• Evaluate and determine ESG-related risks and opportunities• Ensure that appropriate and effective ESG risk management and internal control systems are in place• Review the Group's ESG performance periodically• ESG report approval
Chief Financial Officer	<ul style="list-style-type: none">• Develop sustainable development strategies across the Group's operations• Promote approved sustainable measures in accordance with the strategic direction set by the Board• Organize department discussions, analysis on issues relating to ESG• Organize green activities for employees as sustainable and CSR education• ESG report review and approval
Managers, the Administrative Department	<ul style="list-style-type: none">• Responsible for implementation and operation of sustainable policies• Monitor energy and resources consumption• Monitor occupational health and safety management• Community outreach work• Department-based ESG data collection

The ESG Committee conducts an official meeting annually to ensure the ESG measures are implemented properly and within a dedicated timeline. If necessary, the ESG Committee will engage external sustainability experts to provide professional opinions to further enhance the Group's ESG performance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

STAKEHOLDER ENGAGEMENT

The Group values the interests of our stakeholders to develop the most suitable strategies that balance the benefits of the Group as well as the expectations of our stakeholders. To maintain efficient and regular communication with our stakeholders, particularly the ones that are directly involved in our daily operations, the Group has established multiple channels to share the latest information of the Group, understand their priorities and expectations, and to receive feedbacks in a timely manner.

In the future, the Group will continue to actively engage our stakeholders through maintaining and improving effective methods of communication.

Stakeholder	Methods of communication
Shareholders and Investors	<ul style="list-style-type: none">• Annual and interim reports• Annual meetings• Press releases and announcements
Employees	<ul style="list-style-type: none">• Company events• Meetings and conferences• Performance appraisals
Suppliers	<ul style="list-style-type: none">• Personal contacts• Quality reviews
Contractors	<ul style="list-style-type: none">• Personal contacts• Quality reviews• Safety training
Community	<ul style="list-style-type: none">• Charity events• Sponsorships• Volunteer activities
Customers	<ul style="list-style-type: none">• Compliance check• Personal contacts• Website and social media
Media	<ul style="list-style-type: none">• Annual meetings• Interviews• Press releases
Government	<ul style="list-style-type: none">• Public consultations

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

MATERIALITY ASSESSMENT

To assist the Board in understanding and identifying the internal and external sustainability issues the Group could be facing during the Reporting Period, a materiality assessment has been conducted to assess the Group's sustainability risks, challenges and opportunities through different perspectives from our stakeholders. Our goal is to achieve a balance between opinions in regards to ESG matters that could impose significant impacts on our business and stakeholders.

During this Reporting Period, we have engaged internal stakeholders through questionnaires to assess the importance of various sustainability topics in order for the Board and senior management to establish the most suitable sustainability strategies.

Results as below:

Material aspects

Social

Highly important

- Product responsibility
- Customer data protection
- Staff recruitment and dismissal
- Employee remuneration, welfare and benefits
- Diversity and equal opportunities
- Communication with employees
- Child and forced labour prevention
- Occupational health and safety
- Employee training and development
- Anti-corruption
- Supply chain management
- Customer service quality

Important

- Community investment

Environment

- Energy and water consumption and efficiency
- Packaging material usage
- Wastewater discharge

- Climate change and greenhouse gas emissions
- Air emissions
- Hazardous and non-hazardous waste

PRODUCT RESPONSIBILITY

Over the years, the Group have built excellent reputation and gained customers' recognition from our dedication to provide our customers with one-stop solutions and consistently high quality products. Our commitment to customer service quality enabled us to maintain our market position as one of the leading manufacturers in the People's Republic of China (the "PRC"). The Group adhere to various international standards and local government regulations in all of our operations, production and quality management activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

Quality assurance

Product and service quality are of utmost importance to the Group. The Group emphasizes the importance of the quality control of our sourcing practices, production line, post-sales services, and defines our high standard on product quality and customer satisfaction.

The Group conducts quality inspection of raw materials delivered by our suppliers to ensure that their quality meets our standards. We also have stringent criteria in monitoring the production process and carry out quality inspection of our finished products to identify any defects and to ensure all products comply with local government regulations as well as our customers' expectations. We have also developed a standard complaint handling policy, and are committed to resolving the issues raised by customers timely.

The Group has also complied with product quality and service related laws and international standards, including but not limited to the Product Quality Law, Tort Law, and the Law of the PRC on the Protection of Consumer Rights and Interests, as well as the General Principles of the Civil Law of the PRC. Fraud, misleading, cheating, or any acts that destroy customer confidence or infringe customer rights are strictly prohibited. During the Reporting Period, there has not been any recall on any of our products, and no non-compliance cases of product quality and intellectual property right related laws and regulations were noted.

The Group will continue to provide professional and top-notch services to our customers and to strive to be the best within the industry. We will also continue to invest in innovation to meet our customers' ever-changing expectations, in order to maintain a strong and long-lasting relationship with our customers.

Customer data protection

The Group understands the importance of maintaining confidentiality of personal data, and we are committed to protecting our stakeholders' information with care. To ensure that customer privacy is well protected, the Group only collects personal data that we believe to be relevant and required to conduct our business operations. Such collected personal data would only be used for the same purpose for which data is collected or for a directly related purpose only if consent is obtained.

All employees are trained to comply with the internal guidelines on the collection, processing, retention and disposal of personal data, and are obliged to follow our code of conduct to protect confidential information. No one is allowed to transfer or disclose any personal data to any entity that is not a member of the Group without consent unless it is required by law or it was previously notified. Except dedicated personnel, other employees do not have access to information that is irrelevant to their job responsibilities.

During the Reporting Period, the Group has complied with laws and regulations related to data privacy including the Personal Data (Privacy) Ordinance in Hong Kong and was not aware of any non-compliance cases related to the breaches of personal privacy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

EMPLOYMENT

Without the dedication and support from our management and staff, the Group would not be able to continue our growth and development. We are committed to providing a healthy and safe working environment for our employees for wellbeing of our employees, and help uplift our productivity.

To realise the potential of our employees, we are dedicated to creating a pleasant, safe, motivated and respectful workplace environment, and to support their continuous growth and development. We believe that developing and maximizing our employees' potential is the key to sustain our successive business growth, and simultaneously enhance the job satisfaction of our employees. We will continue to invest and provide opportunities for our employees to learn and develop through a series of training and focus on broadening their knowledge, skills and organizational capabilities.

In addition to career growth, the Group has developed strict policies to make sure all employees are treated fairly. Through continuous education, we aim to educate all of our employees to embrace diversity among themselves, and to create an inclusive and supportive working environment for all.

During the Reporting Period, the Group has complied with all relevant labour laws and regulations as set out by local labour departments, including but not limited to the Employment Ordinance, Employees' Compensation Ordinance and Minimum Wage Ordinance of Hong Kong, as well as the Labour Law, the Labour Contract Law, the Trade Union Law, the Social Insurance Law, and the Law of the PRC on the Protection of Rights and Interests of Women, no cases of violation were identified.

Recruitment and dismissal

The Group has developed a set of internal Human Resources policy to govern the recruitment, dismissal, promotion, discipline, working hours, leaves and other benefits of our employees, in accordance with the relevant laws and regulations.

Meanwhile, our Group respects cultural and individual diversity. We believe that no one should be treated less favourably on his/her personal characteristics such as gender, pregnancy, marital status, disability, family status, and race. We open equal employment and career development opportunities to all qualified employees and strictly prohibit any form of discrimination in workplace. During the recruitment process, we strive to ensure that every qualified candidate is provided with objective, fair and transparent assessments and that the job position is awarded to the candidate with the most suitable qualification. Furthermore, employees are encouraged to report any discrimination case to management with private channels if they find anyone being treated unfairly or unfavourably.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

As at 31 March 2020, the total headcount of the Group was 377. The details of our workforce as at the end of the Reporting Period are as below:

	Hong Kong		Mainland China	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Gender				
Male	7	8	148	172
Female	12	14	210	225
Employment level				
Management	8	10	3	3
Administrative	11	12	130	160
Production	0	0	225	234
Age				
25 or below	0	1	30	43
26-29	1	1	35	43
30-39	3	4	100	107
40-49	8	8	125	146
50 and above	7	8	68	58
Total	19	22	358	397

Remuneration, welfare and benefits

The Group values the rights of employees and hopes to improve work satisfaction in all employment levels. We have established an employee handbook to document all human resources related policies, including compensation and welfare, dismissal procedures, working hours and rest periods. To improve the living standard of our employees, we also offer numerous basic benefits including mandatory provident fund, medical insurance, as well as long service awards, and special allowances.

To retain our valued talents, the Group has provided a competitive remuneration package that is no lower than local minimum wage. All employees are also entitled to medical insurance, allowances and compensations. We also continue to work towards strengthening employee welfare such as annual performance review to properly determine their compensation packages and benefits with reference to the market standard. A wide range of benefits including comprehensive medical insurance, and mandatory provident fund are also provided to employees. We also place heavy emphasis on training and development opportunities as well as social activities to all our employees in order to promote work-life balance amongst employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

LABOUR STANDARDS

Respecting human rights is considered one of the most important foundation of a successful business. The Group values human rights protection and believes that no one should be forced to work by any means, such as physical abuse, detention, trafficking and any other unethical means. Hence, the Group strictly adheres to local labour policies and ensures that no child labour or forced labour is identified within our operations.

All employees are required to provide valid identification documents upon accepting the recruitment offer. Our management ensures that they sign their employment contracts voluntarily. Background checks are also performed on every candidate by our Human Resources Department during the recruitment process to ensure no child and forced labour are hired. If any child or forced labour is suspected, the case must be reported to management for immediate action.

During the Reporting Period, the Group has complied with all relevant labour laws and regulations as set out by local labour departments, including but not limited to the Employment Ordinance and Protection of Children and Juveniles Ordinance of Hong Kong, the Labour Law, the Law on the Protection of Minors, the Law on the Protection of Disabled Persons, the provisions of special labour protection of female employees and underage labourers under the Labour Law, and the Provisions on the Prohibition of Using Child Labour of the PRC. No cases of child or forced labour were identified within the Group.

OCCUPATIONAL HEALTH AND SAFETY

The Group places occupational health and safety (“OHS”) as a high priority and an important part of our business. Hence, we are committed to providing a healthy and safe working environment for our employees, as well as all other persons likely to be affected by our operations and activities. We believe that a safe working environment helps improve work performance and brings benefits to our employees.

The Group strictly complies with all relevant occupational health and safety laws and regulations, including but not limited to the Occupational Safety and Health Ordinance of Hong Kong, the Production Safety Law, the Regulation on Work-Related Injury Insurances, the Social Insurance Law, and the Law of the PRC on the Prevention and Treatment of Occupational Diseases. In addition, the Group has also established a series of measures to maintain a safe workplace for all of our employees and to minimize any adverse impact on occupational health and safety from our business operations.

During the Reporting Period, there were no cases of major work-related injury or fatality case identified, and the Group has complied with all health and safety related laws and regulations, and no cases of violation were identified.

Safety measures

The Group requires that all personnel within the production and warehouse facilities take full precaution with appropriate safety requirement and standards that were previously communicated to all employees. Our goal is to control, eliminate OHS hazards, prevent occupational diseases, and to protect our employees.

For instance, production line workers are required to wear disposable face masks every shift when performing their work duties to protect them from inhaling air particles such as dust when handling fabrics. For production workers that handle laser technology, the Group has arranged to assess the potential effect of laser on their eyes and skin during the Reporting Period to ensure their health is not affected by their job duties.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

If any significant occupational disease or work-related injury is identified, the Group assists the employee to obtain proper medical treatment, perform thorough investigation, and establish appropriate measures to avoid similar incident from happening. Our management is also responsible to report to local authority as required. In addition, investigations are to be conducted on all OHS accidents.

During the Reporting Period, there were no fatality or injury cases within the operations of the Group. Since the Group has started publishing the annual ESG reports, a zero fatality rate has been maintained.

During the Reporting Period, the Group has engaged a qualified service provider to conduct an assessment on hazardous elements within our production facility in Mainland China that could lead to occupational diseases, so as to ensure the health and safety of employees. The scope of assessment included detectable air particles, noise and radiation emitted through machinery along the production line. The assessment results concluded that all of the tested elements were within acceptable standards.

In addition, as the COVID-19 has affected both Mainland China and Hong Kong during the Reporting Period, the Group implemented various measures to ensure that all of our employees were well protected at workplace. For our factory in Dongguan, we sanitized the entire facility before reopening. All production workers were given a log sheet to record their temperatures daily. Before entering the factory, all workers would need to spray their shoes with disinfectants, be recorded with their body temperatures and wash their hands. They were also provided with one face mask per person per day. Cardboard was also used as a partition between each seat in the factory canteen to minimize interactions among workers. For our office in Hong Kong, all employees were required to spray their shoes before entering the office. We also set up a sanitizer dispenser at the reception area and gave out face masks in bulk to our employees. All employees within our factory and office areas were required to wear face mask at all times to reduce the risk of spreading any virus.

The Group will continue to regularly maintain our protection equipment and facilities to improve the health and safety of the working environment especially for our production line workers to identify and prevent any potential occupational health and safety hazards. For instance, the Group will continue to maintain effective ventilation, to educate employees the correct way to use personal protective equipment, and to regularly update safety precaution signage for hazardous chemicals and issue reminder to wear appropriate personal protective equipment. All employees are encouraged to report any suspected workplace hazards to their supervisors or management directly for appropriate actions to be applied more timely.

Safety training

As one of our management approaches to promoting OHS awareness is through education for employees, the Group aims to increase the total number of OHS training sessions and training hours for production workers through establishing a yearly training plan. The types of training include relevant health and safety regulation compliance, first aid training, handling of chemicals, as well as the operation of fire safety equipment within factory and dormitory areas. During the Reporting Period, a factory wide fire drill was arranged and conducted for workers to learn how to operate fire safety equipment as well as to enhance their awareness on fire safety. This fire drill was not announced prior to assess the ability of workers on handling emergency situations. The Group will continue to enhance safety education and raise awareness among workers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

In addition, specific safety training sessions that target new workers and special equipment operators were also conducted. For instance, new workers were required to attend a session on fire safety prevention, compliance and risk control prior to their first day of work, with a departmental safety training once they started, and followed by a more detailed training tailored to their everyday tasks. As for special equipment operators, the Group would arrange an external training necessary for them to renew their licenses.

TRAINING AND DEVELOPMENT

In addition to health and safety related trainings, the Group also values career, ethics and integrity training for our employees. It is our responsibility to ensure all our employees have been communicated with the Group's internal strategies and policies.

A series of training programme including in-house training, regular sharing sessions and on-the-job coaching are provided to our employees on a regular basis to ensure they are equipped with the necessary skills to perform their tasks with optimum efficiency. During the Reporting Period, a series of training sessions about our production process was provided to enhance the operational skills and efficiency of our production line workers. For machines that require specific skillsets, the Group sends the responsible employees to attend professional external trainings to properly operate our machines, and to also avoid any unnecessary work injuries that would put our employees at risk.

We believe that adequate trainings could enhance our employees' competency in performing their jobs. The Group will continue to encourage and support all of our employees in personal and professional training to not only benefit the business operations of the Group, but also their personal and career growth.

SUPPLY CHAIN MANAGEMENT

Adhering to industry standards, we strive for an open and fair sourcing practice that includes environmental, social and economic aspects in order to maintain a sustainable supply chain. The Group also requires the procurement team to take cost competitiveness in mind, and also the sustainable and ethical practices of our supplier candidates to make sure that their operations are consistent with our principles and values. The Group has adopted an effective and efficient supply chain management policy. Suppliers are monitored closely in order for our Group to operate in a fair, equitable, transparent and competitive manner.

To ensure the quality of our sourced materials, the Group has established a series of pre-engagement evaluation to assess the various aspects of suppliers, including the quality of raw materials, the efficiency of logistics, their compliance on legal and regulatory requirement, the health and safety of their workers, and labour standards. Therefore, our supplier management team is responsible to communicate our values and requirement on sustainable and ethical operations with our suppliers. If any non-compliance is identified in our suppliers, we will immediately remove them from our supplier list.

The Group devotes to maintaining excellent relationships with our suppliers through constant communications, transparent transactions and compliance. To satisfy our business needs and contribute to our competitive advantage through our green procurement processes, we seek to continuously improve our product quality with responsible purchasing and the using of environmentally preferable materials and products that possess less adverse impact on our environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

ANTI-CORRUPTION

Integrity, honesty and fairness have always been part of the main components of our business management and the Group takes all measures necessary to avoid the breach of any code of conduct, as well as local laws and regulations. The Group enforces strict ethics and integrity policies not only on our employees, but also on all of our communications and transactions with our business partners.

The Group has a zero tolerance policy against all bribery, extortion, fraud, and money laundering. We have established a Staff Code of Conduct and we require our employees to strictly follow the guidelines.

In addition, we have established a whistle-blowing channel as a private communication channel for our employees to report suspicious fraudulent actions to the Group's management directly. Ongoing review of the effectiveness of the internal control systems is also conducted on a regular basis to prevent any occurrence of corruption activities. If any suspected case is reported or identified, the Group will conduct further investigation and if necessary, disciplinary and legal actions will be taken.

The Group has complied with all relevant laws and regulations, including but not limited to the Prevention of Bribery Ordinance of Hong Kong, the Criminal Law, the Criminal Procedure Law, the Interim Provisions on Banning Commercial Bribery, and the Anti-Money Laundering Law of the PRC. During the Reporting Period, there were no case of non-compliance noted by the Group on integrity-related laws and regulations.

ENVIRONMENT

As a clothing manufacturing company, the Group understands that our operations could bring adverse environmental impacts to our surrounding communities. Hence, we are always seeking ways to balance business growth and reduce environmental impacts. We understand that environmental issues could also lead to significant risks to our business, hence, we strive to minimize adverse impacts on the environment and maximize resources efficiency in our operations. We encourage our employees to participate in environmental protection and energy conservation through promoting concepts of green office throughout operations and establishing initiatives.

Given our business nature of manufacturing and sales, air emission control, waste management as well as energy management are the core parts of our environmental strategies. We strive to comply with all relevant environmental laws and regulations including but are not limited to the Environmental Protection Law, the Atmospheric Pollution Prevention and Control Law, the Water Pollution Prevention and Control Law, the Integrated Emission Standard of Air Pollutants, the Directory of National Hazardous Wastes, the Measures for the Disclosure of Environmental Information by Enterprises and Public Institutions, and the Environmental Impact Assessment Law of the PRC. During the Reporting Period, there were no case of non-compliance noted by the Group on environment-related laws and regulations.

The Group will continue to refine our environmental policies and establish appropriate prevention as well as mitigation strategies to help mitigate the changing climate.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Emissions

Due to our business nature as a manufacturer, the Group has produced the following direct air emissions¹ by our factory-owned vehicles during the Reporting Period. The increase in air emissions compared to the year ended 31 March 2019 is due to the purchase of two new vehicles in Hong Kong during the year ended 31 March 2020, hence it increased the total fuel consumption and air emissions.

	Year ended 31 March 2020	Year ended 31 March 2019
Nitrogen oxides (NO _x) in kg	23.1	14.0
Sulphur oxides (SO _x) in kg	0.1	0.1
Particulate Matter (PM) in kg	2.2	1.3

Moreover, our major greenhouse gas emissions sources are from the use of energy, namely, electricity at our production plant and offices. During the Reporting Period, the Group has produced the below greenhouse gas (“GHG”) emissions² in tonnes of carbon dioxide equivalent (“tCO₂e”) and emission intensity. Although the total carbon emissions was reduced during the Reporting Period compared with the year ended 31 March 2019, the intensity per million HKD revenue was increased due to the decrease in total revenue.

	Year ended 31 March 2020	Year ended 31 March 2019 ³
Scope 1 emission in tCO ₂ e	80.1	71.2
Scope 2 emission in tCO ₂ e	634.3	707.7
Total emission (scope 1 and 2) in tCO ₂ e	714.4	778.9
Intensity (tCO ₂ e per million HKD revenue)	4.2	3.4

During the Reporting Period, the Group has engaged an external professional institution to conduct an assessment based on the environmental impacts our operations might have imposed, such as noise, dust, laser and other potential chemical hazard in order to secure a safe and harmless working environment for our production line workers. All of our emission levels were within a safe range to the environment as well as human health based on the results of the assessment, however, as a responsible employer and producer, the Group will continue to closely monitor our emission levels from our factory operations to ensure the least possible adverse impacts onto the surrounding environment and our workers, and will continue to reduce our carbon footprints.

¹ Calculation of air emissions including NO_x, SO_x and PM is based on the Reporting Guidance on Environmental KPIs published by Hong Kong Stock Exchange.

² Calculation and emission factors of total GHG emission are based on the Reporting Guidance on Environmental KPIs published by Hong Kong Stock Exchange, CLP Sustainability Report 2018, Water Supplies Department Annual Report 2018/19, Drainage Service Department Sustainability Report 2018-19, 2017 Baseline Emission Factors for Regional Power Grids, and 工業其他行業企業溫室氣體排放核算方法與報告指南(試行) by the National Development and Reform Commission of the PRC.

³ Starting from this Reporting Period, we disclose our scope 1 & 2 GHG emissions respectively as these represent our major sources of carbon footprint. The corresponding data for the year ended 31 March 2019 is also provided.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

Hazardous and non-hazardous waste

The Group upholds the principles of waste management and is committed to the proper handling and disposal of all wastes generated. All waste handling practices shall comply with the relevant laws and shall have no harmful effect on the environment and human health.

The Group did not generate significant amount of hazardous waste during the Reporting Period. We will continue to monitor all wastes generated from our operations and their handling. If any hazardous waste is identified, the Group will engage licensed third party contractors to responsibly handle and process any hazardous waste generated.

For non-hazardous wastes, the Group monitors and reviews our waste production on a regular basis, such as collecting different types of waste materials for recycling, including papers and ink cartridges. We also focus on the awareness of our employees by promoting electronic communication channels for both internal and external uses in order to replace paper needed for printing, as well as encouraging the use of duplex printing for internal documents. During the Reporting Period, the Group has generated the following non-hazardous wastes including office wastes, production waste, paper waste and discarded fabrics:

	Year ended 31 March 2020	Year ended 31 March 2019
Total non-hazardous wastes in tonnes	6.7	6.0

During the Reporting Period, the Group has refined its waste data collection process and identified more types of wastes for recycling including toner, cardboard boxes, plastic bottles, computer parts, printers, and paper etc, amounting 0.9 tonnes in total. The Group will continue to refine our waste management policy and to increase the proportion of waste to be recycled and reduce the amount of waste to be sent to landfill.

Energy and water consumption

It is one of the sustainability goals for the Group to conserve natural resources for environmental and operating efficiency purposes. We have established a set of energy conservation manuals and have also implemented a number of mitigating actions to control the use of resources in our operations.

The majority of resources consumed by the Group was electricity and water during the manufacturing process. To further reduce the use of resources, the Group has increased the use of LED lights, as well as energy efficient air-conditioning systems. Employees are also encouraged to always turn off lights and other electrical appliances when not in use while supervisors and managers are responsible to ensure all electronic appliances have been turned off at the end of each workday. The Group also actively promotes awareness on water usage and conservation through internal communication regularly.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

During the Reporting Period, the Group purchased and consumed the following resources:

	Year ended 31 March 2020	Year ended 31 March 2019
Electricity in MWh	1,175	1,309
Intensity per million HKD revenue	6.97	5.8
Diesel in Litres	28,270.0	26,933.0
Intensity per million HKD revenue	167.8	119.4
Petrol in Litres	1,954.0	0.0
Intensity per million HKD revenue	11.6	N/A
Water in cubic meters	27,822.0	26,277.0
Intensity per million HKD revenue	165.1	116.5

During the Reporting Period, an impact assessment was conducted by an external consultant on the discharged domestic waste water from our factory in Dongguan. Within our manufacturing processes, no dyeing process is necessary in our production line, hence no major water pollution was noted. The assessment results were also noted to be all within acceptable range of the local government standard. The Group will continue to strive for a more satisfactory result not only to fulfil the requirement of local government, but also our surrounding community.

On the other hand, our production process includes the packaging of finished products before transporting to our customers. Hence, various types of material were used in the process, namely, card boxes and plastic bags. We will continue to seek ways to reduce the amount of packaging used without affecting the quality of product protection during transportation.

	Year ended 31 March 2020	Year ended 31 March 2019
Card boxes in tonnes	131.1	115.1
Plastic bags in tonnes	6.0	5.5

The environment and natural resources

The Group will continue to manage and mitigate any identified environmental risks that are related to our operations, and to proactively implement preventive measures for effective risk control. Negative impacts to the environment and natural resources are always taken into account when making investment decisions and future development plan. We also work closely with our business partners as well as our own employees to enhance our environmental performance so we could develop better communications with our stakeholders.

On the other hand, due to our business nature as a clothing manufacturer located in China, we cannot omit the fact that our machines generate noises that might disturb our surrounding community. Therefore, the noise level of our operations was also assessed by a third party contractor during the Reporting Period. Noise assessments were conducted on the four sides of our factory compound at various production line positions during day time as well as at night. As our factory does not operate overnight, the noise levels recorded at night were therefore significantly lower than the ones of day time. Nonetheless, the assessment results were also satisfactory and the Group will also continue to strive maintain our high environmental standard and continue to minimize our impact on the environment and nuisance to the neighbourhood.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

COMMUNITY INVESTMENT

As a socially responsible corporate citizen, the Group strives to continuously contribute back to the communities we operate in. While achieving business growth, we continue to support initiatives that create positive impacts and we aim to create social values to the local communities by exerting our influence. With an aim to stay connected with our local community, strengthen our relationship with community members, and contribute to the local economy, the Group always proactively participates in community events. Our community engagements include participation in volunteering and fundraising activities including donations, sponsorships, charitable contributions and voluntary commitments that underpin our community investment attributes to the industry, society and environment as a whole. Our employees are encouraged to contribute their time, skills and experience towards the further development of the local community.

In the selection of charities the Group supports, we first evaluate the vision and background of the targeted charity organization. In order to prevent misuse of our donation, charities with unclear financial position, and conflict of interest with the Group will not be considered. During the Reporting Period, the Group has supported organizations with various causes, some examples have been listed below:

- Lions Club of Central
- Lions Education Foundation
- Incorporated Management Committee of Lions College
- Community Business Limited

In addition, the Group understands the impact of COVID-19 has brought to the world and that face masks and other cleaning supplies have been in high demand worldwide. Hence, in response to the request from the local government in Dongguan where our factory is located, we have donated face masks to the local community to help ease the urgency.

The Group will continue to support community causes through our diverse developed network, fulfil our social responsibility, in order to give back to our community and work towards a more sustainable future with our stakeholders.

REPORT OF THE DIRECTORS

The board (the “Board”) of directors (the “Directors”) of KNT Holdings Limited (the “Company”) is pleased to present this report together with the audited consolidated financial statements of the Group for the year ended 31 March 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of the subsidiaries are manufacturing and trading garments.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the future business development of the Group are set out in the sections headed “Chairman’s Statement” and “Management Discussion and Analysis” on pages 3 to 4 and pages 5 to 11 of this annual report respectively. Description of the principal risks and uncertainties facing the Group and key financial performance indicators are set out in section headed “Management Discussion and Analysis” on pages 5 to 11 of this annual report.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining good relationship with its customers and suppliers to fulfill its immediate and long-term goals. During the year ended 31 March 2020, there was no material and significant dispute between the Group and its customers and suppliers.

RESULTS

The results of the Group for the year ended 31 March 2020 are set out in the consolidated statement of profit or loss on page 66 of this annual report.

DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 March 2020.

Annual general meeting

The annual general meeting of the Company will be held on Friday, 21 August 2020 (the “AGM”). The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

Closure of register of members for entitlement to attend and vote at AGM

For the purpose of determining shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 18 August 2020 to Friday, 21 August 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 17 August 2020.

REPORT OF THE DIRECTORS *(CONTINUED)*

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 132.

PROPERTY, PLANT AND EQUIPMENT

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

BANK BORROWINGS

Details of bank borrowings of the Group as at 31 March 2020 are set out in note 26 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 March 2020 are set out in note 28 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year ended 31 March 2020 are set out in the consolidated statement of changes in equity and in note 37 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2020, the reserves of the Company available for distribution to its Shareholders amounted to approximately HK\$37.1 million (2019: HK\$61.4 million) as calculated in accordance with the provisions of the Companies Law of the Cayman Islands.

REPORT OF THE DIRECTORS *(CONTINUED)*

CHARITABLE DONATIONS

During the year ended 31 March 2020, the Group made charitable donations totalling approximately HK\$87,000.

PRE-EMPTIVE RIGHTS

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

RELIEF OF TAXATION

The Company is not aware of any relief from taxation available to the shareholders by reason of their holding of the shares.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing Shares, or that require the Company to enter into any agreements that will or may result in the Company issuing Shares, were entered into by the Company during the year or subsisted at the end of the year.

DIRECTORS

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

Executive Directors

Mr. Chong Sik (*Chairman and Chief Executive Officer*)
Mr. Chong Pun
Mr. Lam Chi Yuen

Non-executive Director

Mr. Ting Chi Wai Roy (resigned on 1 November 2019)

Independent Non-executive Directors

Mr. Leung Martin Oh Man
Mr. Lau Koong Yep
Mr. Yuen King Sum
Mr. Lau Kwok Fan

REPORT OF THE DIRECTORS *(CONTINUED)*

DIRECTORS *(CONTINUED)*

Pursuant to article 84(1) of the Articles of Association of the Company, at each annual general meeting, one third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. According to article 84(2) of the Articles of Association of the Company, the Directors to retire by rotation shall include (so far as necessary to ascertain the number of Directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those of the other Directors subject to retirement by rotation who have been the longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. At the AGM, Mr. Leung Martin Oh Man, Mr. Lau Koong Yep and Mr. Yuen King Sum will retire from office as Directors by rotation and, being eligible, will offer themselves for re-election.

CONFIRMATION OF INDEPENDENCE

The Company has received an annual confirmation of independence from each of the independent non-executive Directors, pursuant to the Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out on pages 12 to 14 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years, and renewable automatically until terminated by either party thereto giving to the other party not less than three months' prior notice in writing.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing on the date of listing, which will continue subject to re-election at the Company's general meeting, and such letter of appointment could be terminated by giving not less than three months' prior notice in writing.

Save as disclosed above, none of the Directors, including those to be re-elected at the forthcoming AGM, has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for otherwise disclosed, there was no other transactions, arrangements or contracts of significance in relation to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save for otherwise disclosed, there was no other transactions, arrangements or contracts of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholders or any of its subsidiaries during the year.

MANAGEMENT CONTRACTS

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

CONTINUING CONNECTED TRANSACTIONS

The Company has entered into the following continuing connected transactions during the year ended 31 March 2020. Details of these transactions are set out in note 29 to the consolidated financial statements and below:

Fully-exempt Continuing Connected Transactions

Leases of premises from controlling shareholders

On 21 December 2017, HYG as tenant entered into tenancy agreements with Mr. S Chong and Mr. P Chong as landlords (collectively the "Leases"), pursuant to which Mr. S Chong and Mr. P Chong agreed to lease and HYG agreed to take the factory and staff dormitory situated at No.2 Industrial Area, Jiu Men Zhai, Humen Town, Dongguan City, Guangdong Province, the PRC* (中國廣東省東莞市虎門鎮九門寨第二工業區) (the "Leased Site") for a term of three years commencing from 1 April 2018 and expiring on 31 March 2021 at the monthly rent of RMB97,600 for the first year, RMB117,120 for the second year and RMB126,880 for the third year for the lease of the factory and RMB41,108.76 for the first year, RMB48,939 for the second year and RMB52,854.12 for the third year for the lease of the staff dormitory.

The rents paid/payable under the Leases and the rents paid by HYG for the abovementioned leases of premises from Mr. S Chong and Mr. P Chong for the year ended 31 March 2020 were negotiated on an arm's length basis and determined with reference to the market rent of the premises in similar location as at the commencement date of such leases. The Directors (including the independent non-executive Directors) are also of the view that the Leases are fair and reasonable, on normal commercial terms and in the interests of the Group and Shareholders as a whole.

Each of Mr. S Chong and Mr. P Chong is the executive Director and Controlling Shareholder and is a connected person of the Company. Accordingly, the transactions contemplated under the Leases will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the total amount of rents payable by HYG under the Leases for the year ended 31 March 2020 was less than HK\$3 million and each of the applicable percentage ratios mentioned in Rule 14.07 of the Listing Rules (other than the profits ratio) for the Leases will be less than 5%, the Leases are fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(1) of the Listing Rules.

REPORT OF THE DIRECTORS (CONTINUED)

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Non-exempt Continuing Connected Transactions

Sale of bridal gowns, bridesmaid dresses and special occasion dresses to Veromia Limited

During the year ended 31 March 2020, the Group sold bridal gowns, bridesmaid dresses and special occasion dresses to Veromia Limited (“Veromia”). On 31 January 2019, KNT and Veromia entered into a sales framework agreement (the “Sales Framework Agreement”), pursuant to which the Group agreed to sell and Veromia agreed to purchase bridal gowns, bridesmaid dresses and special occasion dresses from the Group for the period commencing from the Listing Date and expiring on 31 March 2021 (the “Veromia Sales Transactions”).

For the year ended 31 March 2020, the sales to Veromia amounted to approximately HK\$5.6 million.

The price charged by KNT for the sale of bridal gowns, bridesmaid dresses and special occasion dresses to Veromia was determined on an arm’s length basis between KNT and Veromia having regards to the quality, quantity and delivery timeline of the bridal gowns, bridesmaid dresses and special occasion dresses supplied. The gross profit margins of the sales to Veromia for the year ended 31 March 2020 were comparable to the gross profit margins of the Group’s overall sales for the year.

The annual caps of sales (the “Sales Annual Caps”) under the Sales Framework Agreement for each of the three years ending 31 March 2019, 31 March 2020 and 31 March 2021 are HK\$6.0 million, HK\$6.0 million and HK\$6.0 million, respectively. The Directors (including the independent non-executive Directors) confirmed that the Sales Annual Caps were determined on normal commercial terms after taking into account (i) the terms of the Sales Framework Agreement; (ii) the relevant historical transaction amounts; and (iii) the future business needs and expected growth of Veromia ascertained through discussion with the management of Veromia, and were therefore fair and reasonable and in the interest of the Company and the Shareholders as a whole. Veromia is a limited company incorporated in the United Kingdom and wholly-owned by Mr. S Chong. As Mr. S Chong is the executive Director and a Controlling Shareholder, Veromia is an associate of his and is therefore a connected person of the Company. Accordingly, the transactions contemplated under the Sales Framework Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Since all the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules are less than 25% and each of the Sales Annual Caps is less than HK\$10.0 million, the transactions contemplated under the Sales Framework Agreement are subject to the reporting, annual review and announcement but are exempted from circular (including independent financial advice) and independent shareholders’ approval requirements under Rule 14A.76(2) of the Listing Rules.

REPORT OF THE DIRECTORS *(CONTINUED)*

CONTINUING CONNECTED TRANSACTIONS *(CONTINUED)*

Application for waiver of the non-exempt continuing connected transactions

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in connection with the Veromia Sales Transactions, provided that the annual transaction amounts in respect of the Veromia Sales Transactions do not exceed the Sales Annual Caps.

The Group had complied with the relevant requirements under Chapter 14A of the Listing Rules, including the Sales Annual Caps, and will comply with the relevant rules of Chapter 14A of the Listing Rules if the waiver from the Stock Exchange expires or any of the Sales Annual Caps are exceeded, or when the Sales Framework Agreement is renewed or when there is a material change to the terms of the Sales Framework Agreement.

Confirmation of Independent Non-executive Directors

The Audit Committee, comprising four independent non-executive Directors, has reviewed the above non-exempt continuing connected transactions and confirmed that these transactions have been entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation from Auditor of the Company

The Board of Directors has received an unqualified letter issued by the auditor of the Company in accordance with Hong Kong Standards on Assurance Engagement 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants containing its findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules.

A copy of the letter has been provided by the Company to the Stock Exchange.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 March 2020, none of the Directors and their respective associates had any interests in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2020, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to Model Code, were as follows:

Long position in the Shares

Name of Directors	Capacity/ Nature of Interest	Number of Shares Held	Percentage of Shares in Issue (Note 1)
Mr. Chong Sik	Interest in controlled corporation (Note 2)	235,950,000	45.375%
Mr. Chong Pun	Interest in controlled corporation (Note 3)	154,050,000	29.625%

Notes:

1. The percentage is calculated based on the total number of 520,000,000 shares in issue as at 31 March 2020.
2. These shares were held by Strategic Elite Limited ("Strategic Elite"), a company in which beneficially and wholly-owned by Mr. Chong Sik. Mr. Chong Sik was deemed to be interested in all the shares held by Strategic Elite by virtue of the SFO.
3. These shares were held by Total Clarity Investments Limited ("Total Clarity"), a company in which beneficially and wholly-owned by Mr. Chong Pun. Mr. Chong Pun was deemed to be interested in all the shares held by Total Clarity by virtue of the SFO.

Save for those disclosed above, as at 31 March 2020, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS (CONTINUED)

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2020, so far as known to the Directors or the chief executive of the Company, the following corporations or individuals (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 5% or more of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company or which were recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO or had otherwise notified to the Company and the Stock Exchange:

Long Position in the Shares

Name of Substantial Shareholders	Capacity/Nature of Interest	Number of Shares Held	Percentage of Shares in Issue (Note 1)
Strategic Elite	Beneficial owner	235,950,000	45.375%
Ms. Lok Pui Yee, Fanny	Interest of spouse (Note 2)	235,950,000	45.375%
Total Clarity	Beneficial owner	154,050,000	29.625%
Ms. Tsang Kit Fong	Interest of spouse (Note 3)	154,050,000	29.625%

Notes:

1. The percentage is calculated based on the total number of 520,000,000 shares in issue as at 31 March 2020.
2. Ms. Lok Pui Yee, Fanny is the spouse of Mr. Chong Sik and is deemed to be interested in all the shares indirectly held or interested in by Mr. Chong Sik through Strategic Elite pursuant to the SFO.
3. Ms. Tsang Kit Fong is the spouse of Mr. Chong Pun and is deemed to be interested in all the shares indirectly held or interested in by Mr. Chong Pun through Total Clarity pursuant to the SFO.

Save as disclosed above, as at 31 March 2020, the Directors are not aware of any other corporation or individual (other than the Directors or chief executive of the Company) who had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS *(CONTINUED)*

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") pursuant to a written resolution of the shareholders passed on 31 January 2019. A summary of the principal terms of the Share Option Scheme is set out as follows:

(1) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Board to grant options to eligible persons (as defined below) as incentives or rewards for their contribution or potential contribution to the Group and to recruit and retain high caliber eligible persons and attract human resources that are valuable to the Group.

(2) Participants of the Share Option Scheme

The participants of the Share Option Scheme shall be:

- (i) any employee or proposed employee (whether full time or part time, including any director) of any member of the Group or invested entity; and
- (ii) any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholders or other participants who contributes to the development and growth of the Group or any invested entity.

(3) Total number of shares available for issue under the Share Option Scheme together with the percentage of the issued shares that it represents as at the date of this annual report

- (i) The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 30% of the total number of shares in issue from time to time.
- (ii) The total number of shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 52,000,000 shares (representing 10% of the issued shares as at the date of this annual report), being 10% of the total number of shares in issue on the Listing Date (the "Scheme Limit") unless approved by the shareholders pursuant to paragraph (iv) below. Options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company shall not be counted for the purpose of calculating the Scheme Limit.
- (iii) The Company may seek separate approval of the shareholders in general meeting for refreshing the Scheme Limit provided that such limit as refreshed shall not exceed 10% of the total number of shares (assuming no options are granted under the Share Option Scheme) in issue as at the date of the approval of the shareholders on the refreshment of the Scheme Limit. Options previously granted under the Share Option Scheme or any other share option schemes of the Company (including options outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option scheme of the Company or exercised) will not be counted for the purpose of calculating the limit as refreshed.

For the purpose of seeking the approval of shareholders, a circular containing the information as required under the Listing Rules shall be sent by the Company to the shareholders.

REPORT OF THE DIRECTORS (CONTINUED)

SHARE OPTION SCHEME (CONTINUED)

(3) Total number of shares available for issue under the Share Option Scheme together with the percentage of the issued shares that it represents as at the date of this annual report (continued)

- (iv) The Company may seek separate approval of the shareholders in general meeting for granting options beyond the Scheme Limit provided that the Options in excess of the Scheme Limit are granted only to Eligible Persons specifically identified by the Company before such approval is sought and that the proposed grantee(s) and his close associates (or his associates if the proposed grantee is a connected person) shall abstain from voting in the general meeting. For the purpose of seeking the approval of the shareholders, the Company shall send a circular to the shareholders containing a generic description of the specified proposed grantees of such options, the number and terms of the options to be granted, the purpose of granting such options to the proposed grantees with an explanation as to how the terms of options serve such purpose and any other information as required under the Listing Rules.
- (v) The shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company at any time shall not exceed 30% of the shares in issue from time to time. No options under any schemes may be granted if this will result in the 30% limit being exceeded.

(4) Maximum entitlement of each participant

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Scheme and any other share option schemes of the Company to each participant of the Share Option Scheme in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of shares in issue.

(5) Period within which the shares must be taken up under an option

The period within which the options must be exercised will be specified by the Company at the time of grant. This period shall not be longer than 10 years from the relevant date of grant.

(6) Minimum period for which an option must be held before it can be exercised

There is no minimum period in which an option must be held before the exercise of any option save as otherwise imposed by the Board in the relevant offer of options.

(7) Payment on acceptance of option offer

A consideration of HK\$1 is payable on acceptance of the offer of grant of an option where the grantee should accept or decline the offer of grant of an option within the date as specified in the offer letter issued by the Company, being a date not later than 21 days inclusive of, and from the date upon which it is made.

(8) Basis of determining the subscription price

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as determined by the Board, and shall be at least the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant.

REPORT OF THE DIRECTORS *(CONTINUED)*

SHARE OPTION SCHEME *(CONTINUED)*

(9) Remaining life of the Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on 31 January 2019.

During the year ended 31 March 2020, no options had been granted, exercised or cancelled or lapsed under the Share Option Scheme. There were no outstanding options under the Share Option Scheme as at 31 March 2020.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, subject to the applicable laws, every Director shall be entitled to be indemnified out of the assets of the Company against all losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or otherwise in relation thereto. The Company has arranged for appropriate insurance for the Directors and officers of the Group in respect of legal actions against them arising from corporate activities of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the best knowledge of the Directors, during the year ended 31 March 2020 and up to the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

NON-COMPETITION UNDERTAKING

In accordance with the non-competition undertakings set out in the deed of non-competition dated 31 January 2019 (the "Deed of Non-competition") executed by the controlling shareholders of the Company (the "Controlling Shareholders") in favour of the Company (for itself and as trustee for its subsidiaries), save and except the exceptional circumstances, the Controlling Shareholders have undertaken to the Company that they shall not carry on any business which is in competition with the business of the Group in Hong Kong, Macau and any other country or jurisdiction, the principal terms of which are set out in the section headed "Relationship with Controlling Shareholders" of the prospectus of the Company.

The Company has received an annual declaration from each of the Controlling Shareholders confirming that they complied with the undertakings during the year ended 31 March 2020. The Controlling Shareholders also confirmed in the said annual declaration that none of them had any interest in a business, other than business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group during the year ended 31 March 2020.

REPORT OF THE DIRECTORS *(CONTINUED)*

NON-COMPETITION UNDERTAKING *(CONTINUED)*

The following corporate governance measures have been adopted to monitor the compliance of the Deed of Non-competition during the year ended 31 March 2020:

- (i) The Controlling Shareholders had procured the independent non-executive Directors to review, on an annual basis, the compliance with the non-competition undertakings by the Controlling Shareholders under the Deed of Non-competition.
- (ii) The Controlling Shareholders had promptly provided all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition.
- (iii) The Controlling Shareholders had provided to the Company a written confirmation relating to the compliance of the Deed of Non-competition and declared that they had complied with the Deed of Non-competition during the year ended 31 March 2020.
- (iv) The independent non-executive Directors, having reviewed the relevant information and the written confirmation provided by the Controlling Shareholders, decided that the undertakings in respect of the Deed of Non-competition had been duly enforced and complied with by the Controlling Shareholders during the year ended 31 March 2020.

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

- (1) On 28 April 2020, KNT, a wholly-owned subsidiary of the Company, as borrower, accepted a revised facility letter (the "Facility Letter A") issued by a bank (the "Bank A") offering for the grant of trade finance and a revolving loan facility of an aggregate amount HK\$28,000,000 and a 16-month term loan of approximately HK\$1,300,000 (the "Facility A"), which is subject to review by the Bank A from time to time.

Pursuant to the Facility Letter A, amongst other things, the Company had undertaken to the Bank A that the Controlling Shareholders shall at any time, directly or indirectly, maintain not less than 50% of the issued share capital of the Company and remain as the executive directors of the Company and shall notify the Bank A for the change of their directorship or if the aggregate beneficial interest of the Controlling Shareholders is dropped to less than 50%.

As at the date of this report, the aggregate beneficial interest of the Controlling Shareholders in the Company is 75%.

- (2) On 27 May 2020, KNT, a wholly-owned subsidiary of the Company, as borrower, accepted a facility letter (the "Facility Letter B") issued by a bank (the "Bank B") offering for the grant of a 36 months non-revolving term loan facility of HK\$4,000,000 (the "Facility B").

Pursuant to the Facility Letter B, amongst other things, the Controlling Shareholders, shall provide irrevocable and unconditional personal guarantee to the Facility B and that the Controlling Shareholders, shall at any time during the term of the Facility B, directly or indirectly, maintain at least 70% of the issued share capital of the Company.

As at the date of this report, the aggregate beneficial interest of the Controlling Shareholders in the Company is 75%.

REPORT OF THE DIRECTORS *(CONTINUED)*

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 March 2020, the Group's largest customer accounted for approximately 44.8% of the Group's total revenue for the year and the Group's five largest customers accounted for approximately 88.9% of the Group's total revenue for the year.

During the year ended 31 March 2020, the Group's largest supplier accounted for approximately 12.9% of the Group's total purchases for the year and the Group's five largest suppliers accounted for approximately 37.3% of the Group's total purchases for the year.

At no time during the year did a Director, a close associate of a Director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) have any interest in any of the Group's five largest customers or suppliers.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is determined by the management of the Group with reference to their qualifications, experience and performances of the employees. The emoluments of the Directors and senior management of the Company are recommended by the Remuneration Committee and approved by the Board having regard to the Company's operating results, individual performance and comparable market statistics.

RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group as at 31 March 2020 are set out in note 31 to the consolidated financial statements.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 March 2020, there were no non-compliance with laws and regulations that would have a significant impact on the Group in relation to issues such as environmental protection, employment and labour practices, operating practices and the community.

CORPORATE GOVERNANCE

Details of the principal corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" on pages 15 to 29 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As a responsible corporate, the Group strives to minimise adverse impacts on the environment and maximise resources efficiency in the operations. We encourage the employees to participate environmental protection and energy conservation in daily operations. The Group will review its environmental practices from time to time and will consider implementing further practicable measures and practices to enhance environmental sustainability.

REPORT OF THE DIRECTORS *(CONTINUED)*

AUDITOR

The consolidated financial statements for the year ended 31 March 2020 were audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution for re-appointment of Deloitte Touche Tohmatsu as the auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Chong Sik

Chairman

Hong Kong, 26 June 2020

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE MEMBERS OF KNT HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of KNT Holdings Limited ("Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 66 to 131, which comprise the consolidated statement of financial position as at 31 March 2020, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter

Impairment assessment on property, plant and equipment (other than leasehold land and buildings) and right-of-use assets

We identified the impairment assessment on property, plant and equipment (other than leasehold land and buildings) and right-of-use assets as a key audit matter due to its significance to the consolidated financial statements as a whole and significant judgments exercised by management of the Group in determining the recoverable amount.

As disclosed in note 14 to the consolidated financial statements, the management of the Group concluded there was impairment indication as at 31 March 2020 and conducted a review of the recoverable amounts of the property, plant and equipment (other than leasehold land and buildings) and right-of-use assets. Management's impairment review on property, plant and equipment (other than leasehold land and buildings) and right-of-use assets requires the estimation of future cash flows and a suitable discount rate in order to determine the estimated recoverable amount.

Based on the result of the assessment, management of the Group determined that the recoverable amounts of the property, plant and equipment (other than leasehold land and buildings) and right-of-use assets were less than their respective carrying amounts. As a result, an impairment loss in respect of property, plant and equipment and right-of-use assets of HK\$4,022,000 and HK\$2,332,000, respectively, were recognised in profit or loss during the year ended 31 March 2020.

Further details of the impairment assessment are set out in notes 4 and 14 to the consolidated financial statements.

How our audit addressed the key audit matter

Our procedures in relation to impairment assessment of property, plant and equipment (other than leasehold land and buildings) and right-of-use assets included:

- Obtaining an understanding of the key controls over the assessment of impairment of property, plant and equipment (other than leasehold land and buildings) and right-of-use assets;
- Evaluating the management's assessment of impairment indicator of property, plant and equipment (other than leasehold land and buildings) and right-of-use assets based on the financial information of the Group;
- Evaluating the appropriateness of the valuation model used by the management of the Group to determine the recoverable amount; and
- Assessing the reasonableness of the estimation of future profit and cash flows of the Group, and evaluating the appropriateness of management's underlying assumptions, including budgeted revenue, gross profit margin and growth rates, with reference to the historical performance of the Group, sales orders on hand and market trend.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of trade receivables

We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgment and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period.

As disclosed in note 4 to the consolidated financial statements, the management of the Group assesses lifetime ECL on trade receivables on an individual basis under ECL model. The credit loss rates are estimated based on Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and forward-looking information that is reasonable and supportable available without undue costs or effort.

The Group recognised lifetime ECL on trade receivables of approximately HK\$7,050,000 during the year ended 31 March 2020.

Further details of the ECL assessment are set out in notes 4 and 33 to the consolidated financial statements.

Our procedures in relation to the impairment assessment of trade receivables included:

- Understanding key controls on how the management estimates the ECL allowance for trade receivables;
- Understanding and assessing the appropriateness of management's methodology for identifying internal credit rating of trade receivables which reflect the credit risk characteristics;
- Challenging management's basis and judgment in determining ECL allowance on trade receivables as at 31 March 2020, including their identification of credit-impaired trade receivables and the basis of estimated loss rates applied; and
- Evaluating the reasonableness of the ECL allowance as at 31 March 2020, with reference to internal credit rating assigned based on historical observed default rate of the debtors and forward-looking information.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

OTHER INFORMATION

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

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

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

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 HKSAAs 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.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in the independent auditor's report is Chu, Johnny Chun Yin.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 June 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
Revenue	5	168,509	225,580
Cost of sales		(155,725)	(160,312)
Gross profit		12,784	65,268
Other income	6	1,144	173
Other gains and losses	7	15	(383)
Administrative expenses		(45,480)	(22,785)
Impairment loss on trade receivables		(7,050)	–
Impairment loss recognised in respect of property, plant and equipment	14	(4,022)	–
Impairment loss recognised in respect of right-of-use assets	15	(2,332)	–
Listing expense		–	(20,684)
Finance costs	8	(2,124)	(2,079)
(Loss) profit before taxation		(47,065)	19,510
Income tax credit (expense)	9	20	(7,346)
(Loss) profit for the year	10	(47,045)	12,164
(Loss) earnings per share	13		
Basic (HK cents)		(9.0)	2.9
Diluted (HK cents)		N/A	2.9

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

	2020 HK\$'000	2019 HK\$'000
(Loss) profit for the year	(47,045)	12,164
Other comprehensive expense for the year		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operation	(2,005)	(2,100)
Total comprehensive (expense) income for the year	(49,050)	10,064

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment	14	4,305	8,239
Right-of-use assets	15	945	–
Intangible asset	16	130	156
Deposits and prepayment	19	4,245	–
		9,625	8,395
Current assets			
Inventories	17	38,726	43,850
Trade receivables	18	20,809	19,300
Prepayment, deposits and other receivables	19	1,856	1,259
Amount due from a related company	20	1,802	911
Income tax recoverable		460	–
Pledged bank deposit	21	9,500	–
Bank balances and cash	21	48,669	97,235
		121,822	162,555
Current liabilities			
Trade payables	22	9,295	2,852
Other payables and accruals	23	5,864	8,693
Contract liabilities	24	4,002	3,153
Income tax payable		–	1,872
Lease liabilities	25	2,520	–
Bank borrowings	26	49,235	25,672
		70,916	42,242
Net current assets		50,906	120,313
Total assets less current liabilities		60,531	128,708

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

At 31 March 2020

	NOTES	2020 HK\$'000	2019 HK\$'000
Non-current liabilities			
Lease liabilities	25	755	–
Deferred tax liabilities	27	295	417
		1,050	417
Net assets		59,481	128,291
Capital and reserves			
Share capital	28	5,200	5,200
Reserves		54,281	123,091
Total equity		59,481	128,291

The consolidated financial statements on pages 66 to 131 were approved and authorised for issue by the Board of Directors on 26 June 2020 and are signed on its behalf by:

CHONG PUN
DIRECTOR

CHONG SIK
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (Note (a))	Translation reserve HK\$'000	Shareholders distribution reserve HK\$'000 (Note (c))	Statutory reserve HK\$'000 (Note (b))	Retained profits (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2018	-	-	19,520	4,799	(320)	1,779	15,477	41,255
Profit for the year	-	-	-	-	-	-	12,164	12,164
Exchange differences arising on the translation of foreign operation	-	-	-	(2,100)	-	-	-	(2,100)
Total comprehensive (expense) income for the year	-	-	-	(2,100)	-	-	12,164	10,064
Appropriation to reserve	-	-	-	-	-	759	(759)	-
Deemed distribution to shareholders	-	-	-	-	(1,099)	-	-	(1,099)
Dividends recognised as distribution (note 12)	-	-	-	-	-	-	(9,000)	(9,000)
Capitalisation issue (note 28(ii))	4,160	(4,160)	-	-	-	-	-	-
Issue of shares upon share offer (note 28(iii))	1,040	100,880	-	-	-	-	-	101,920
Transaction costs directly attributable to issue of shares	-	(14,849)	-	-	-	-	-	(14,849)
At 31 March 2019	5,200	81,871	19,520	2,699	(1,419)	2,538	17,882	128,291
Loss for the year	-	-	-	-	-	-	(47,045)	(47,045)
Exchange differences arising on the translation of foreign operation	-	-	-	(2,005)	-	-	-	(2,005)
Total comprehensive expense for the year	-	-	-	(2,005)	-	-	(47,045)	(49,050)
Dividends recognised as distribution (note 12)	-	(19,760)	-	-	-	-	-	(19,760)
At 31 March 2020	5,200	62,111	19,520	694	(1,419)	2,538	(29,163)	59,481

Notes:

- (a) Other reserve represents (i) the transfer of HK\$16,500,000 as a result of the transfer of the entire shareholding in Dongguan HYG Garment Company Limited ("HYG"), one of the operating subsidiaries established in the People's Republic of China (the "PRC"), from Mr. Chong Sik ("Mr. S Chong") and Mr. Chong Pun ("Mr. P Chong"), the directors of the Company, in the previous year to KNT International Holdings Limited ("KNT Int'l"), a company incorporated in Hong Kong and wholly-owned by Mr. S Chong and Mr. P Chong, at nil consideration. HYG is then wholly-owned by KNT Int'l since the completion of transfer; and (ii) the transfer of HK\$3,020,000 as a result of the transfer of the entire shareholding in KNT Int'l and KNT Limited ("KNT"), one of the operating subsidiaries incorporated in Hong Kong, from Mr. S Chong and Mr. P Chong in the previous year.
- (b) As stipulated by the relevant PRC laws and regulations, the subsidiary established in the PRC shall set aside 10% of its net profit to the statutory reserve. The statutory reserve can only be used upon approval by the board of directors of the relevant subsidiary and by the relevant authority, to offset previous year's losses or convert into additional capital of the PRC subsidiary.
- (c) The shareholders distribution reserve represents the share issue cost of the shares to be offered for sale by the shareholders of the Company, which was borne by the Group and deemed as shareholders' distribution.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	2020 HK\$'000	2019 HK\$'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	(47,065)	19,510
Adjustments for:		
Bank interest income	(1,093)	(72)
Depreciation of property, plant and equipment	1,114	1,160
Depreciation of right-of-use assets	2,332	–
Amortisation of intangible asset	26	26
Finance costs	2,124	2,079
Write down of inventories	6,669	–
Impairment loss on trade receivables	7,050	–
Impairment loss recognised in respect of property, plant and equipment	4,022	–
Impairment loss recognised in respect of right-of-use assets	2,332	–
Operating cash flows before movements in working capital	(22,489)	22,703
Increase in inventories	(4,291)	(10,073)
(Increase) decrease in trade receivables	(8,283)	1,462
(Increase) decrease in prepayment, deposits and other receivables	(651)	2,199
(Increase) decrease in amount due from a related company	(891)	417
Increase (decrease) in trade payables	6,586	(4,730)
(Decrease) increase in other payables and accruals	(2,387)	1,976
Increase (decrease) in contract liabilities	849	(3,804)
Cash (used in) generated from operations	(31,557)	10,150
Income tax paid	(2,404)	(8,693)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(33,961)	1,457
INVESTING ACTIVITIES		
Placement of pledged bank deposit	(9,500)	–
Payments for acquisition of property, plant and equipment	(4,245)	–
Purchase of property, plant and equipment	(1,309)	(1,547)
Bank interest received	1,093	72
Advance to a director	–	(4,092)
Repayment from a director	–	25,637
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(13,961)	20,070

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

For the year ended 31 March 2020

	2020 HK\$'000	2019 HK\$'000
FINANCING ACTIVITIES		
New bank borrowings raised	98,869	108,198
Repayments of bank borrowings	(91,260)	(128,438)
Dividends paid	(19,760)	–
Repayments of lease liabilities	(2,272)	–
Interest paid	(2,124)	(2,079)
Issue of shares	–	101,920
Share issue cost paid	–	(14,542)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(16,547)	65,059
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(64,469)	86,586
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	97,235	10,718
Effect of foreign exchange rate changes	(51)	(69)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	32,715	97,235
Represented by:		
Bank balances and cash	48,669	97,235
Bank overdrafts	(15,954)	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	32,715	97,235

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

1. GENERAL

KNT Holdings Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 28 February 2019. The addresses of the Company’s registered office and principal place of business are disclosed in the “Corporate Information” section to this annual report.

The principal activity of the Company is investment holding. The principal activities of the Group is manufacturing and trading garment.

The consolidated financial statements are presented in Hong Kong dollar (“HK\$”), whereas the functional currency of the Company is United States Dollar (“US\$”). The management of the Group considered that selecting HK\$ as its presentation currency is more beneficial for the users of the consolidated financial statements as the Company’s shares are listed on the Stock Exchange.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial position and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(CONTINUED)*

New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* (“HKAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019.

As at 1 April 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- (i) relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- (ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with termination options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 16 "Leases" (continued)

As a lessee (continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rate applied is 4%.

	At 1 April 2019 HK\$'000
Operating lease commitments disclosed as at 31 March 2019	971
Lease liabilities discounted at relevant incremental borrowing rate	960
Add: Termination option not reasonably certain not to be exercised	3,683
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 April 2019	4,643
Analysis as:	
Current	2,180
Non-current	2,463
	4,643

The carrying amount of right-of-use assets for own use as at 1 April 2019 comprises the following:

	Right-of-use assets HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	4,643
By class:	
Leased properties	4,643

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and Amendments to HKFRSs that are mandatorily effective for the current year (continued)

HKFRS 16 “Leases” (continued)

As a lessee (continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 April 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 March 2019	Adjustments	Carrying amounts under HKFRS 16 at 1 April 2019
	HK\$'000	HK\$'000	HK\$'000
Non-current assets			
Right-of-use assets	–	4,643	4,643
Current liabilities			
Lease liabilities	–	2,180	2,180
Non-current liabilities			
Lease liabilities	–	2,463	2,463

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 March 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 April 2019 as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(CONTINUED)*

New and Amendments to HKFRSs in issue but not yet effective

The Group has applied the following new and amendments to HKFRSs issued but are not yet effective:

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 16	Covid-19-Related Rent Concession ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

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

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 June 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 April 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of “obscuring” material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from “could influence” to “could reasonably be expected to influence”; and
- include the use of the phrase “primary users” rather than simply referring to “users” which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group’s annual period beginning on 1 April 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(CONTINUED)*

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of the reporting period, as explained in the accounting policies set out below.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 April 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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

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

The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation *(continued)*

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

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

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance 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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue is measured based on the consideration specified in a contract with customer and excluded amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of goods and service to a customer.

The Group recognises revenue mainly from the sales of garment products (including bridesmaid dresses, bridal gowns and special occasion dresses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Sales of garment products

Revenue from the sales of garment products is recognised at a point in time when the control of goods has transferred, being when the goods have been shipped to the customers' specific location. Transportation and other related activities that occur before customers obtains control of the related products are considered as fulfilment activities.

A receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) *(continued)*

Right-of-use assets (continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leases *(continued)*

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) *(continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 April 2019)

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Retirement benefit costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned at the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted for the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in finance costs in the period in which they are incurred.

Taxation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation *(continued)*

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

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for a prospective basis.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible asset

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses.

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

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

Impairment losses on property and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment losses on property and equipment, right-of-use assets and intangible assets other than goodwill *(continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised as an expense immediately in profit or loss.

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

Inventories

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (continued)

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade receivables, deposits and other receivables, amount due from a related company, pledged bank deposit and bank balances), which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

The Group always assesses lifetime ECL for trade receivables and amount due from Veromia Limited and the ECL on these assets are assessed individually for each debtor. The ECL on those financial assets are estimated by applying a probability-weighted estimate of the credit loss for each debtor. The probability-weighted estimate of the credit loss is determined based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast direction of conditions at the end of the reporting period, including time value of money where appropriate.

For all other financial instruments, the Group assesses the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

In particular, the following information is taken into account when assessing whether the credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

(i) Significant increase in credit risk *(continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivable, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL *(continued)*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the correspondence adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including trade payables, other payables and accruals and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management of the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

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

Estimated impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that the asset has suffered an impairment loss; (2) whether the carrying value of an asset is less than its estimated recoverable amount; and (3) key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the estimated recoverable amount and may result in additional impairment losses.

As at 31 March 2020, the carrying amount of property, plant and equipment is HK\$4,305,000 (2019: 8,239,000), after taking into account the impairment loss of HK\$4,022,000 (2019: nil). An impairment loss of HK\$2,332,000 in respect of right-of-use assets has been recognised for the year ended 31 March 2020 and as a result, the right-of-use assets have been fully impaired. Details of the impairment assessment of property, plant and equipment and right-of-use assets are set out in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Net realisable value of inventories

Management of the Group determines provision for obsolete and slow-moving raw materials that are no longer suitable for use in production based on the ageing of inventories and carries out a review on an item-by-item basis with reference to subsequent usage of raw materials, current market condition and expectation of future usage.

Net realisable value of inventories other than raw materials is the estimated selling price in the ordinary course of business, less estimated selling expenses necessary to make the sales. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Management of the Group reassesses the estimations on a product-by-product basis at the end of the reporting period and provision for obsolete inventories will be made when necessary.

As at 31 March 2020, the carrying amounts of inventories are HK\$38,726,000 (2019: HK\$43,850,000) and write down of inventories of approximately HK\$6,669,000 (2019: nil) was charged to profit or loss for the year then ended.

Provision of ECL for trade receivables

The Group assesses lifetime ECL on trade receivables and amount due from Veromia Limited on an individual basis under the ECL model. The estimation on ECL is required in assessing probability-weighted estimate of the credit loss within the relevant time band which is based on Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and forward-looking information that is reasonable and supportable available without undue costs or effort. If there is a significant increase in credit risk on the customers of the Group or Veromia Limited since initial recognition, additional ECL may be required.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 33.

As at 31 March 2020, the carrying amount of trade receivables is approximately HK\$20,809,000 (2019: HK\$19,300,000) and impairment loss on trade receivables of approximately HK\$7,050,000 (2019: nil) was charged to profit or loss for the year then ended.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold by the Group, net of discounts.

The following is an analysis of the Group's revenue:

	2020 HK\$'000	2019 HK\$'000
Sales of garment products recognised at a point in time		
Bridesmaid dresses	79,826	114,697
Bridal gowns	3,469	6,939
Special occasion dresses	84,059	99,778
Others (Note)	1,155	4,166
Total	168,509	225,580

Note: Others include sales of fabrics and accessories.

	2020 HK\$'000	2019 HK\$'000
Geographical markets		
United States of America	147,597	211,229
Europe	12,605	8,436
Australia	2,075	2,701
Others	6,232	3,214
Total	168,509	225,580

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Transaction price allocated to the remaining performance obligations

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the reporting period.

	2020 HK\$'000	2019 HK\$'000
Sales of garment products	31,238	28,744

Segment information

The Group's operation is solely derived from manufacturing and trading of garment products during the year. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the executive directors of the Company) reviews overall results and financial position of the Group as a whole based on same accounting policies set out in note 3. Accordingly, the Group has only one single operating segment and no further analysis of this single segment information is presented.

Geographical information

The Group's operations are mainly located in Hong Kong and the PRC.

Non-current assets by geographical location of assets are detailed below:

	2020 HK\$'000	2019 HK\$'000
Hong Kong	9,625	5,716
PRC	–	2,679
	9,625	8,395

The Group's revenue from external customers based on the location of customers are disclosed above in this note.

Information about major customers

Revenue from customers individually contributing over 10% of the Group's revenue during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Customer A	41,517	68,712
Customer B	75,479	96,866

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

6. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Bank interest income	1,093	72
Sundry income	51	101
	1,144	173

7. OTHER GAINS AND LOSSES

	2020 HK\$'000	2019 HK\$'000
Net exchange gain (loss)	15	(383)

8. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on bank borrowings	1,942	2,079
Interest on lease liabilities	182	–
	2,124	2,079

9. INCOME TAX (CREDIT) EXPENSE

	2020 HK\$'000	2019 HK\$'000
Current tax:		
– Hong Kong Profits Tax	–	5,026
– PRC Enterprise Income Tax	–	2,531
Under (over) provisions in prior years		
– Hong Kong Profits Tax	9	(188)
– PRC Enterprise Income Tax	93	–
Deferred tax credit (note 27)	102 (122)	7,369 (23)
Income tax (credit) expense	(20)	7,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

9. INCOME TAX (CREDIT) EXPENSE (CONTINUED)

Under the two-tiered profits tax rates regime in Hong Kong, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

No Hong Kong Profits Tax has been provided in the consolidated financial statements for the year ended 31 March 2020 as the subsidiaries of the Group operating in Hong Kong are either suffering from tax losses or did not incur assessable profits. Hong Kong Profits Tax was calculated in accordance with the two-tiered profits tax regime for the year ended 31 March 2019.

The Company's subsidiaries operating in Hong Kong are eligible for certain tax concessions. The maximum tax concessions eligible for each subsidiary for the year ended 31 March 2019 is HK\$20,000.

Under the Law of the People's Republic of China on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for both years. No PRC Enterprise Income Tax has been provided in the consolidated financial statements for the year ended 31 March 2020 as the PRC subsidiary is suffering from tax losses.

The income tax (credit) expense for the year can be reconciled to the (loss) profit before taxation per consolidated statement of profit or loss as follows:

	2020 HK\$'000	2019 HK\$'000
(Loss) profit before taxation	(47,065)	19,510
Taxation at Hong Kong Profits Tax rate of 16.5% (Note)	(7,765)	3,219
Tax effect of expenses not deductible for tax purpose	47	3,651
Tax effect of income not taxable for tax purpose	(151)	(12)
Under (over) provisions in prior years	102	(188)
Tax effect of deductible temporary difference not recognised	2,569	–
Tax effect of tax losses not recognised	5,178	–
Tax concession	–	(20)
Tax effect on two-tiered tax rate	–	(165)
Effect of different tax rate operating in other jurisdiction	–	861
Income tax (credit) expense for the year	(20)	7,346

Note: The income tax rate in the jurisdiction where the operations of the Group substantially based is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

9. INCOME TAX (CREDIT) EXPENSE (CONTINUED)

As at 31 March 2020, the Group has deductible temporary differences and estimated unused tax losses of approximately HK\$15,567,000 (2019: nil) and HK\$31,382,000 (2019: nil), respectively available for offset against future profits. No deferred tax asset has been recognised as at 31 March 2020 in respect of these deductible temporary differences and estimated unused tax losses as it is not probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

For the Group's PRC subsidiary, unrecognised tax losses of HK\$3,408,000 (2019: nil) will expire in various dates up to 2025 (2019: N/A). The remaining unrecognised tax losses of the Group can be carried forward indefinitely.

10. (LOSS) PROFIT FOR THE YEAR

	2020 HK\$'000	2019 HK\$'000
(Loss) profit before taxation has been arrived at after charging:		
Directors' emoluments (note 11)	6,817	4,236
Other staff costs:		
– Salaries and other allowances	38,699	38,643
– Retirement benefits scheme contributions (Note)	2,566	3,047
Total staff costs	48,082	45,926
Less: Amount capitalised in inventories	(17,916)	(32,856)
	30,166	13,070
Auditor's remuneration	1,144	1,275
Depreciation of right-of-use assets	2,332	N/A
Depreciation of property, plant and equipment	1,114	1,160
Less: Amount capitalised in inventories	(332)	(355)
	782	805
Amortisation of intangible asset	26	26
Cost of inventories recognised as cost of sales (including write down of inventories of HK\$6,669,000 (2019: nil))	155,725	160,312
Minimum lease payments under operating lease in respect of leasehold land and buildings	N/A	1,945

Note: Amount excludes the retirement benefits scheme contributions for the directors of the Company which are set out in note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's remuneration

Mr. S Chong, who is also chief executive, was re-designated as the executive director of the Company on 23 April 2018. Mr. P Chong was re-designated as the executive director of the Company on 23 April 2018. Mr. Lam Chi Yuen was appointed as the executive director of the Company on 23 April 2018. Mr. Ting Chi Wai Roy was appointed as the non-executive director of the Company on 23 April 2018. Mr. Leung Martin Oh Man, Mr. Lau Koong Yep, Mr. Yuen King Sum and Mr. Lau Kwok Fan was appointed as independent non-executive directors of the Company on 31 January 2019.

The remuneration paid or payable to the directors and chief executive of the Company (including emoluments for services as employee/directors of the group entities prior to becoming the directors of the Company) by entities comprising the Group were as follows:

	Executive directors			Non-executive director	Independent non-executive directors				Total HK\$'000
	Mr. S Chong HK\$'000	Mr. P Chong HK\$'000	Mr. Lam Chi Yuen HK\$'000	Mr. Ting Chi Wai Roy HK\$'000 (Note (iii))	Mr. Leung Martin Oh Man HK\$'000	Mr. Lau Koong Yep HK\$'000	Mr. Yuen King Sum HK\$'000	Mr. Lau Kwok Fan HK\$'000	
2020									
Fee	–	–	–	105	180	180	180	360	1,005
Other remuneration:									
Salaries, allowances and other benefits	2,181	1,315	1,428	–	–	–	–	–	4,924
Performance bonus (Note (i))	372	320	142	–	–	–	–	–	834
Retirement benefits scheme contributions	18	18	18	–	–	–	–	–	54
	2,571	1,653	1,588	105	180	180	180	360	6,817

	Executive directors			Non-executive director	Independent non-executive directors				Total HK\$'000
	Mr. S Chong HK\$'000	Mr. P Chong HK\$'000	Mr. Lam Chi Yuen HK\$'000	Mr. Ting Chi Wai Roy HK\$'000	Mr. Leung Martin Oh Man HK\$'000	Mr. Lau Koong Yep HK\$'000	Mr. Yuen King Sum HK\$'000	Mr. Lau Kwok Fan HK\$'000	
2019									
Fee	–	–	–	16	16	16	16	31	95
Other remuneration:									
Salaries, allowances and other benefits	1,633	1,103	1,263	–	–	–	–	–	3,999
Performance bonus (Note (i))	–	–	88	–	–	–	–	–	88
Retirement benefits scheme contributions	18	18	18	–	–	–	–	–	54
	1,651	1,121	1,369	16	16	16	16	31	4,236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

Directors' and chief executive's remuneration (continued)

Notes:

- (i) The discretionary bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.
- (ii) The emoluments of executive directors stated above were for their services in connection with the management of the affairs of the Company and the Group. The emoluments of non-executive director and independent non-executive directors shown above were for their services as directors of the Company.
- (iii) Mr. Ting Chi Wai Roy resigned as non-executive director of the Company on 1 November 2019.

Employees' emoluments

The five highest paid employees of the Group during the year included three (2019: three) directors of the Company, details of whose remuneration are set out in the disclosures above. Details of the remuneration for the year of the remaining two (2019: two) highest paid employees are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and allowances	1,542	1,549
Performance bonus (Note)	934	157
Contributions to retirement benefits scheme	36	36
	2,512	1,742

Note: The discretionary bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	1	–

No emoluments were paid by the Group to any of the directors of the Company or the chief executive of the Group or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for both years. None of the directors waived any emoluments for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

12. DIVIDENDS

During the year ended 31 March 2020, the Company declared and paid dividends of HK3.8 cents per share, in aggregate of HK\$19,760,000 to ordinary shareholders of the Company. Pursuant to the approval by the ordinary shareholders of the Company on the annual general meeting held on 23 August 2019, the dividends were paid out of the share premium account of the Company.

During the year ended 31 March 2019, the Company declared dividends of HK\$9,000 per share, in aggregate of HK\$9,000,000 to Mr. S Chong and Mr. P Chong before the listing of shares of the Company. As disclosed in note 35, the dividends declared during the year ended 31 March 2019 was settled through the amounts due from directors.

13. (LOSS) EARNINGS PER SHARE

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

(Loss) earnings

	2020 HK\$'000	2019 HK\$'000
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	(47,045)	12,164

Number of shares

	2020 '000	2019 '000
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	520,000	425,118
Effect of dilutive potential ordinary shares: Over-allotment option	N/A	861
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	N/A	425,979

No diluted loss per share was presented for the year ended 31 March 2020 as there were no potential ordinary shares in issue during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST						
As at 1 April 2018	6,623	4,475	2,520	4,662	128	18,408
Additions	–	537	–	1,010	–	1,547
Disposal/written off	–	(72)	–	(29)	–	(101)
Exchange realignment	–	(304)	–	(157)	(9)	(470)
As at 31 March 2019	6,623	4,636	2,520	5,486	119	19,384
Additions	–	481	296	532	–	1,309
Disposal/written off	–	(223)	(2)	(527)	–	(752)
Exchange realignment	–	(306)	–	(158)	(8)	(472)
As at 31 March 2020	6,623	4,588	2,814	5,333	111	19,469
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
As at 1 April 2018	1,987	2,561	2,393	3,366	72	10,379
Provided for the year	165	266	34	665	30	1,160
Eliminated on disposal/written off	–	(72)	–	(29)	–	(101)
Exchange realignment	–	(173)	–	(115)	(5)	(293)
As at 31 March 2019	2,152	2,582	2,427	3,887	97	11,145
Provided for the year	166	297	58	572	21	1,114
Eliminated on disposal/written off	–	(223)	(2)	(527)	–	(752)
Impairment loss recognised	–	2,157	331	1,534	–	4,022
Exchange realignment	–	(225)	–	(133)	(7)	(365)
As at 31 March 2020	2,318	4,588	2,814	5,333	111	15,164
CARRYING VALUES						
As at 31 March 2020	4,305	–	–	–	–	4,305
As at 31 March 2019	4,471	2,054	93	1,599	22	8,239

The above items of property, plant and equipment are depreciated on a straight-line basis at the following:

Leasehold land and buildings	Over the shorter of the lease terms or 50 years
Plant and machinery	20% per annum
Furniture and fixtures	20% per annum
Office equipment	20% per annum
Motor vehicles	20% per annum

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

14. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Due to the prolonged trade disputes between the United States and China and worsening of global economic outlook upon the outbreak of novel coronavirus disease, the management of the Group concluded that there was impairment indicator and conducted a review of the recoverable amount of the property, plant and equipment as at 31 March 2020.

The recoverable amount of the leasehold land and buildings has been determined on the basis of its fair value less costs of disposal. The fair value of the leasehold land and buildings at the end of the reporting period was based on the valuation performed by an independent qualified professional valuer. The fair value was determined by reference to the direct comparison approach, which takes into account a market participant's ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The fair value measurement of the leasehold land and buildings is categorised as Level 3 fair value hierarchy. As the fair value of the leasehold land and buildings is higher than its carrying amount, there is no impairment loss recognised on the leasehold land and buildings during the year ended 31 March 2020.

For the purpose of the impairment assessment of other property, plant and equipment as well as the leased properties under right-of-use assets as stated in note 15, management has determined that it was not possible to estimate the recoverable amount of these assets individually, the Group allocated these assets to the CGU of sales of garment products, being the single CGU of the Group.

The recoverable amount of the CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on the financial budgets approved by management covering a 5-year period and a discount rate of 15%. Other key assumption for the value in use calculation relates to the estimation of cash inflows/outflows which include budgeted revenue, gross profit margin and growth rate during the forecast period, such estimation is based on the Group's historical performance, sales orders on hand and market trend.

Based on the value in use calculation, an impairment of HK\$4,022,000 on property, plant and equipment and impairment of HK\$2,332,000 on right-of-use assets have been recognised as the estimated recoverable amount of the CGU is lower than the carrying amounts of the relevant assets. In respect of leasehold land and buildings and motor vehicles under right-of-use assets, since the estimated recoverable amounts (determined based on fair value less costs of disposal) is higher than their carrying amounts, no impairment loss is recognised.

At 31 March 2020, the Group's leasehold land and buildings with carrying value of HK\$4,305,000 (2019: HK\$4,471,000) were pledged to secure certain banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

15. RIGHT-OF-USE ASSETS

	Leased properties HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST			
At 1 April 2019 (Note)	4,643	–	4,643
Additions	–	1,149	1,149
Exchange adjustments	(300)	–	(300)
At 31 March 2020	4,343	1,149	5,492
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 April 2019 (Note)	–	–	–
Provided for the year	2,230	102	2,332
Impairment loss recognised for the year	2,230	102	2,332
Exchange adjustments	(117)	–	(117)
At 31 March 2020	4,343	204	4,547
CARRYING VALUES			
At 31 March 2020	–	945	945

Note: The amounts are after the adjustment from application of HKFRS 16.

The Group leases factory premises, staff dormitories and motor vehicles for its operations. Lease contracts are entered into for fixed term of 3 years to 5 years, but has a termination option for the lease contracts of its factory premises and staff dormitories as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group reassesses whether it is reasonably certain not to exercise the termination option upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 March 2020, there is no such triggering event and the Group has not exercised any termination option included in the Group's lease contracts.

Details of the lease maturity analysis of lease liabilities are set out in notes 25 and 33.

Lease liabilities of HK\$3,275,000 are recognised with related right-of-use assets with aggregate cost of HK\$5,492,000 as at 31 March 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Impairment assessment on right-of-use assets is disclosed in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

16. INTANGIBLE ASSET

	Golf membership HK\$'000
COST	
At 1 April 2018, 31 March 2019 and 31 March 2020	520
AMORTISATION	
At 1 April 2018	338
Provided for the year	26
At 31 March 2019	364
Provided for the year	26
At 31 March 2020	390
CARRYING VALUES	
At 31 March 2020	130
At 31 March 2019	156

The golf membership is amortised over 20 years.

17. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	17,501	24,851
Work in progress	18,693	18,969
Finished goods	2,532	30
	38,726	43,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

18. TRADE RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	27,859	19,300
Less: Loss allowance	(7,050)	–
	20,809	19,300

As at 1 April 2018, the trade receivables were amounted to HK\$20,762,000.

The credit terms normally granted by the Group to customers upon delivery of goods range from 0 – 90 days. For a major customer of the Group, a credit term up to 135 days from the invoice date would be allowed.

The following is an ageing analysis of trade receivables (net of loss allowance) of the Group presented based on the invoice dates, which approximates to the dates of delivery of goods on which revenue was recognised, at the end of the reporting period:

	2020 HK\$'000	2019 HK\$'000
Within 30 days	11,543	10,439
31 – 60 days	164	2,387
61 – 90 days	6,351	4,314
91 – 180 days	1,822	613
181 – 365 days	16	1,547
Over 365 days	913	–
	20,809	19,300

No interest is charged on the trade receivables.

The Group applies simplified approach to provide for ECL of trade receivables prescribed by HKFRS 9. To measure the ECL, trade receivables have been assessed individually. Details of the assessment are set out in note 33.

As at 31 March 2020, out of the past due balances, HK\$929,000 (2019: HK\$1,630,000) has been past due over 90 days or more and is not considered as in default since the directors of the Company are of the opinion that the balances are still considered recoverable due to the management's historical experience on the settlement pattern or record from these debtors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

19. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Deposits and prepayment for acquisition of property, plant and equipment	4,245	–
Other receivables	320	95
Other tax receivables	502	606
Prepayment	647	333
Deposits paid to suppliers	97	145
Other deposits	290	80
	6,101	1,259
Presented as non-current assets	4,245	–
Presented as current assets	1,856	1,259
	6,101	1,259

20. AMOUNTS DUE FROM A RELATED COMPANY

The balance represents the amount due from Veromia Limited, which is a private limited liability company incorporated in the United Kingdom and Mr. S Chong is the director and sole shareholder.

The balance is trade in nature. Credit terms of 0-90 days are granted by the Group to Veromia Limited upon delivery of goods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

20. AMOUNTS DUE FROM A RELATED COMPANY (CONTINUED)

The following is an ageing analysis presented based on the invoice dates, which are approximate to the dates of delivery of goods on which revenue was recognised, at the end of the reporting period:

	2020 HK\$'000	2019 HK\$'000
Within 30 days	209	336
31 – 60 days	294	32
61 – 90 days	1,299	543
	1,802	911

No interest is charged on the amount due from Veromia Limited.

The Group assessed loss allowance on amount due from Veromia Limited on lifetime ECL basis. Details of the assessment are set out in note 33.

21. PLEDGED BANK DEPOSIT / BANK BALANCES AND CASH

The pledged bank deposit carries fixed interest rate of 1.95% per annum as at 31 March 2020. Pledged bank deposit is pledged to secure banking facilities granted to the Group.

Bank balances carry interest at market rates which range from 0.001% to 2% (2019: 0.001% to 0.25%) per annum for the year ended 31 March 2020.

22. TRADE PAYABLES

The credit period on purchase of goods ranged from 0 to 60 days. The ageing analysis of the trade payables of the Group presented based on the invoice dates at the end of the reporting period is as follows:

	2020 HK\$'000	2019 HK\$'000
Within 30 days	7,780	2,365
31 – 60 days	858	455
61 – 90 days	401	–
91 – 180 days	233	–
181 – 365 days	–	4
Over 365 days	23	28
	9,295	2,852

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

23. OTHER PAYABLES AND ACCRUALS

	2020 HK\$'000	2019 HK\$'000
Other payables and accruals	5,839	5,767
Payables for professional fees for the purpose of listing	–	2,910
Other tax payables	25	16
	5,864	8,693

24. CONTRACT LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Deposits received in relation to sales of garment products	4,002	3,153

Contract liabilities represent the deposits received from customers in advance of the transfer of control of garment products.

For the contract liabilities as at 31 March 2019 and 1 April 2018, the entire balances were recognised as revenue during the years ended 31 March 2020 and 2019 respectively.

25. LEASE LIABILITIES

	2020 HK\$'000
Lease liabilities payable	
Within one year	2,520
More than one year but not more than two years	227
More than two years but not more than five years	528
	3,275
Less: Amount due for settlement within 12 months shown under current liabilities	(2,520)
	755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

26. BANK BORROWINGS

	2020 HK\$'000	2019 HK\$'000
Unsecured and guaranteed:		
Bank overdrafts	7,996	–
Bank loans	16,239	13,901
	24,235	13,901
Secured and guaranteed:		
Bank overdrafts	7,958	–
Bank loans	17,042	11,771
	25,000	11,771
Total	49,235	25,672
Carrying amounts of bank overdrafts and bank loans which based on scheduled repayment dates set out in the loan agreements and classified as current due to repayment on demand clause:		
Within one year	44,260	20,330
More than one year, but not more than two years	1,217	780
More than two years, but not more than five years	2,512	2,454
More than five years	1,246	2,108
Amounts shown under current liabilities	49,235	25,672

The variable-rate bank borrowings of HK\$49,235,000 (2019: HK\$25,672,000) bear interest ranged from Hong Kong Prime Rate minus 3% to Hong Kong Prime Rate (2019: Hong Kong Prime Rate minus 3% to standard bills rate quoted by bank minus 0.25%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

26. BANK BORROWINGS (CONTINUED)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2020	2019
Effective interest rate:		
Variable-rate bank loans	2.25% – 5.34%	2.38% – 6.3%
Variable-rate bank overdrafts	5.13% – 5.38%	N/A

The Group entered into several banking facilities with banks in Hong Kong. The banking facilities are secured by assets held by the Group and/or guaranteed by related parties, details of which is set out as follows:

- Corporate guarantee from the Company as at 31 March 2020 and 2019;
- Leasehold land and buildings of the Group as at 31 March 2020 and 2019; and
- Pledged bank deposit as disclosed in note 21 as at 31 March 2020.

27. DEFERRED TAX LIABILITIES

The following is the deferred tax liabilities recognised and movements thereon during the year:

	Accelerated tax depreciation HK\$'000
At 1 April 2018	440
Credit to profit or loss for the year (note 9)	(23)
At 31 March 2019	417
Credit to profit or loss for the year (note 9)	(122)
At 31 March 2020	295

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiary amounting to HK\$4,000 (2019: HK\$770,000) as at 31 March 2020, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

28. SHARE CAPITAL

	Number of shares	HK\$'000
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1 April 2018	38,000,000	380
Increase on 31 January 2019 (Note (i))	9,962,000,000	99,620
At 31 March 2019 and 31 March 2020	10,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1 April 2018	1,000	—*
Capitalisation issue (Note (ii))	415,999,000	4,160
Issue of new shares upon the listing (Note (iii))	104,000,000	1,040
At 31 March 2019 and 31 March 2020	520,000,000	5,200

* amount less than HK\$1,000

Notes:

- (i) Pursuant to written resolutions passed by the shareholders on 31 January 2019, the authorised share capital of the Company was increased to HK\$100,000,000 by the creation of 9,962,000,000 new shares of HK\$0.01 each.
- (ii) Pursuant to written resolutions passed by the shareholder on 31 January 2019, conditional upon the share premium account of the Company was credited as a result of the allotment and issue of the Company's shares, the directors of the Company were authorised to capitalise the amount of approximately HK\$4,160,000 from the amount standing to the credit of the share premium account of the Company and to apply such amount to pay up in full at par 415,999,000 shares of the Company for the allotment and issue. The capitalisation issue was completed on 28 February 2019.
- (iii) The shares of the Company were listed on the Stock Exchange on 28 February 2019. 104,000,000 ordinary shares were issued at an offer price of HK\$0.98 per share with gross proceeds of HK\$101,920,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

29. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with related parties:

Name of related party	Nature of transaction	2020 HK\$'000	2019 HK\$'000
Veromia Limited	Sales of garment products	5,575	3,994
Mr. S Chong and Mr. P Chong	Rental expenses Interest expense on lease liabilities (Note)	N/A 182	1,945 N/A

Note: As at 1 April 2019, certain lease contracts were entered into with Mr. S Chong and Mr. P Chong for the use of factory premises and staff dormitories.

Compensation of key management personnel

The remuneration of key management personnel was as follows:

	2020 HK\$'000	2019 HK\$'000
Short-term benefits	8,477	5,886
Post-employment benefits	74	90
	8,551	5,976

30. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted, pursuant to a resolution passed on 31 January 2019 which became effective and unconditional upon the Listing, for the purpose of providing incentives to any employee or proposed employee (whether full time or part time, including any director) of any member of the Group or invested entity; and any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholder or other participants who contributes to the development and growth of the Group or any invested entity. Unless otherwise terminated or amended, the Scheme will remain in force for 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

30. SHARE OPTION SCHEME *(CONTINUED)*

Pursuant to the Scheme, the aggregate number of shares which may be issued upon exercise of all options to be granted under the Scheme, and other schemes offered by the Company, as from the date of adoption of the Scheme, shall not exceed 52,000,000 shares, being 10% of the shares in issue on the date of Listing. The overall limit on the number of shares which shall be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme, and other schemes offered by the Company, shall not exceed 30% of the issued share capital of the Company from time to time. The total number of shares issued, and to be issued, upon exercise of options granted in accordance with the Scheme to each eligible participant in any 12-month period shall not exceed 1% of the issued share capital of the Company. The option shall remain open for acceptance by the eligible participant for a period as specified in the offer letter issued by the Company, being not later than 21 days inclusive of, and from the date upon which it is made. A consideration of HK\$1 shall be payable by the participants on acceptance of the offer of the Scheme.

The exercisable period of the share options granted is determinable by the directors of the Company, but no later than 10 years from the date of grant of the options. The subscription price for the shares in respect of which options are granted is determinable by directors of the Company, but shall be no less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of a Company's share.

No share option has been granted, exercised, expired, cancelled or lapsed under Scheme since its adoption by the Company and up to 31 March 2020.

31. RETIREMENT BENEFITS SCHEME

The Group participates the MPF Scheme for all its qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes the lower of HK\$1,500 or 5% of relevant payroll costs per person to the MPF Scheme, which contribution is matched by the employees.

The employees of the subsidiary in the PRC are members of the pension scheme operated by the PRC government. The relevant PRC subsidiary is required to contribute a certain percentage of the relevant portion of these employees' basis salaries to the pension to fund the benefits.

The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions. During the year, the total amounts contributed by the Group to the schemes and costs charged to the profit or loss represents contributions paid or payable to the scheme by the Group at rates specified in the rules of the scheme.

At 31 March 2020 and 2019, there were no significant forfeited contributions which arose upon employees leaving the schemes before they are fully vested in the contributions and which are available to reduce the contributions payable by the Group in the future.

The retirement benefits scheme contributions made by the Group are disclosed in notes 10 and 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes lease liabilities and bank borrowings as disclosed in notes 25 and 26, net of cash and cash equivalents, and equity attributable to owner of the Company, comprising share capital as disclosed in note 28 and reserves as disclosed in consolidated statement of changes in equity.

The management of the Group reviews the capital structure regularly. As part of the review, the directors of the Company consider the cost and the risks associated with each class of the capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through issue of new shares, issue of new debt and redemption of existing debts.

33. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2020 HK\$'000	2019 HK\$'000
Financial assets		
Amortised cost	81,315	117,621
Financial liabilities		
Amortised cost	64,369	37,201

Financial risk management objectives and policies

The Group's financial instruments include trade receivables, deposits and other receivables, amounts due from a related company, pledged bank deposit and bank balances and cash, trade payables, other payables and accruals and bank borrowings.

Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

33. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Market risk

Currency risk

The Group has foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 5.7% (2019: 3.3%) of the Group's sales are denominated in foreign currency other than the functional currency of the group entities, whilst almost 5.8% (2019: 4.0%) of purchase of goods are denominated in currencies other than the functional currency of the group entities during the year ended 31 March 2020.

The Group currently does not have a foreign currency hedging policy. However, management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	HK\$		British Pound ("GBP")		Australian Dollar ("AUD")		Euro ("EUR")		Renminbi ("RMB")	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Trade receivables	-	-	-	-	475	919	90	409	-	-
Deposits and other receivables	131	86	-	-	-	-	-	-	-	-
Amount due from a related company	-	-	1,802	911	-	-	-	-	-	-
Bank balances and cash	19,767	91,321	5,736	-	-	-	2,628	-	-	-
Trade payables	(735)	(439)	-	-	-	-	-	-	(5,201)	(328)
Other payables and accruals	(2,405)	(5,447)	-	-	-	-	(16)	-	-	-
Bank borrowings	(16,672)	(17,635)	-	-	-	-	-	-	-	-
Bank overdrafts	(15,954)	-	-	-	-	-	-	-	-	-

Sensitivity analysis

Since the exchange rate of HK\$ is pegged to US\$, the Group does not expect significant movement in the US\$/HK\$ exchange rate, therefore HK\$ is not considered in the sensitivity analysis.

In the opinion of the management of the Group, no sensitivity analysis is provided on other currencies as the management of the Group considers that the impact on exchange rate fluctuation is minimal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

33. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits and lease liabilities. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 21 for details) and bank borrowings (see note 26 for details).

The Group's cash flow interest rate risk is mainly concentrated on the fluctuations of the HIBOR, standard bills rate quoted by bank, Hong Kong Best Lending Rate or Hong Kong Prime Rate arising from the Group's floating-rate bank borrowings or other market rates from bank balances.

The Group currently does not have interest rate risk hedging policy. However, the management of the Group closely monitors its exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase is used for bank borrowings, which represents management's assessment of reasonably possible changes in interest rates.

For bank borrowings, if interest rate increases/decreases by 50 basis points and all other variables were held constant, the post-tax loss for the year will increase/decrease by approximately HK\$206,000 (2019: post-tax profit for the year will decrease/increase by approximately HK\$107,000).

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

No sensitivity analysis is provided on bank balances as the management of the Group considers that the interest rate fluctuation on bank balances is minimal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

33. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

The Group's credit risk is primarily attributable to trade receivables, deposits and other receivables, amount due from a related company, pledged bank deposit and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of the reporting period.

Trade receivables and amount due from a related company

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Before accepting any new customer, the Group uses an internal credit rating system to assess the potential customer's credit quality and defines credit limits by customer. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group applies simplified approach on trade receivable and amount due from a related company to provide for ECL prescribed by HKFRS 9. To measure the ECL, trade receivables and amount due from a related company have been assessed individually.

As at 31 March 2020, the Group had concentration of credit risk as 74.1% (2019: 45.3%) of the total trade receivables was due from the Group's largest debtor. The Group's concentration of credit risk on the top five largest debtors accounted for 90.8% (2019: 86.7%) of the total trade receivables as at 31 March 2020.

Deposits and other receivables

For other receivables and deposits, the management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of these balances based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of deposits and other receivables. Based on assessment by the management of the Group, the ECL for other receivables and deposits is insignificant.

Bank balances / pledged bank deposit

The management of the Group considers that the credit risks on bank balances and pledge bank deposit are limited because the banks are financial institutions with high credit ratings assigned by international credit-rating agencies. The Group assessed 12-month ECL by reference to probability of default, loss given default by the relevant credit rating grades published by international credit rating agencies and concluded that the ECL is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

33. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables / amount due from a related party	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

33. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

Financial assets	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amounts	
					2020 HK\$'000	2019 HK\$'000
<i>Amortised cost</i>						
Trade receivables	18	N/A	Low risk	Lifetime ECL	4,470	17,670
			Watch list	Lifetime ECL	934	1,630
			Doubtful	Lifetime ECL	19,602	–
			Loss	Lifetime ECL	2,853	–
Amount due from a related company	20	N/A	Low risk	Lifetime ECL	1,802	911
Deposits and other receivables	19	N/A	Low risk	12-month ECL	610	175
Pledged bank deposit	21	A3 – A1	N/A	12-month ECL	9,500	–
Bank balances	21	Aa3 – Aa1	N/A	12-month ECL	45,732	95,640
		A3 – A1	N/A	12-month ECL	437	59
		SG	N/A	12-month ECL	2,425	1,525

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

33. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The debtors are assessed individually by reference to past default experience and current past due exposure of the debtor, and an analysis of the debtor's current financial position.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information (for example, the current and forecasted economic growth rates in Hong Kong and the United States of America, which reflect the general economic conditions of the industry in which the debtors operate) that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated. There has been no change in the estimation techniques or significant assumptions made for both years.

Based on the assessment by the management of the Group, the ECL rates for trade receivables are estimated at a range of 0.1% to 21.3% as at 31 March 2020. The management of the Group considered the ECL for trade receivables, which was estimated based on the ECL rate of 0.1% to 2.1%, was insignificant as at 31 March 2019.

In addition, the ECL for amount due from a related company, which is estimated based on the ECL rate of 0.1% (2019: 0.1%) was insignificant as at 31 March 2020.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach:

	Lifetime ECL	
	not credit- impaired HK\$'000	credit- impaired HK\$'000
At 1 April 2018 and 31 March 2019	–	–
Changes due to financial instruments recognised as at 1 April:		
– Impairment losses recognised	–	1,486
New financial assets originated or purchased	4,197	1,367
At 31 March 2020	4,197	2,853

During the year ended 31 March 2020, there is a significant increase in credit risk in respect of a debtor with gross carrying amount of HK\$19,602,000 due to delayed repayments since March 2020 and certain negative media coverage on the debtor. Thus, the Group recognised an impairment loss of HK\$4,176,000 on this debtor in current year. Also, during the year ended 31 March 2020, impairment loss of HK\$2,853,000 on trade receivables was recognised for credit-impaired debtors who were (i) in the process of winding up; or (ii) defaulted in repayment continuously and minimal settlement was made by these debtors during the year. The directors of the Company is in the process of seeking legal advice for recovering the amount due from these debtors and will closely monitor the development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

33. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk

In management of the liquidity risk, the Group monitors and maintain levels of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates. The table include both interest and principal cash flows. To the extent that interest rates are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity tables

	Weighted average effective interest rate %	Repayable on demand HK\$'000	Less than 1 year HK\$'000	Between 1 to 2 years HK\$'000	Between 2 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
As at 31 March 2020							
Trade payables	N/A	23	9,272	–	–	9,295	9,295
Other payables and accruals	N/A	–	5,839	–	–	5,839	5,839
Bank loans	4.15	33,281	–	–	–	33,281	33,281
Bank overdrafts	5.25	15,954	–	–	–	15,954	15,954
Lease liabilities	4.50	–	2,611	256	555	3,422	3,275
		49,258	17,722	256	555	67,791	67,644
	Weighted average effective interest rate %	Repayable on demand HK\$'000	Less than 3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000	
As at 31 March 2019							
Trade payables	N/A	32	2,820	–	2,852	2,852	
Other payables and accruals	N/A	–	8,677	–	8,677	8,677	
Bank loans	3.90	25,672	–	–	25,672	25,672	
			25,704	11,497	–	37,201	37,201

The amount included above for variable interest instruments for financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

33. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Bank loans with a repayment on demand clause are included in the “repayable on demand” time band in the above maturity analysis. As at 31 March 2020, the aggregate carrying amounts of these bank loans were HK\$33,281,000 (2019: HK\$25,672,000).

Taking into account the Group’s financial position, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management of the Group believes that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

For the purpose of managing liquidity risk, the management of the Group reviews the expected cash flow information of the Group’s bank loans based on the scheduled repayment dates set out in the bank loans agreements as set out in the table below:

	Weighted average effective interest rate %	Less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
Bank loans							
As at 31 March 2020	4.15	22,198	6,420	3,999	1,268	33,885	33,281
As at 31 March 2019	3.90	15,225	5,398	3,594	2,171	26,388	25,672

Fair value of the Group’s financial assets and financial liabilities that are measured at amortised cost

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities of the Group recorded at amortised cost in the consolidated financial statements at the end of the reporting period approximate their fair values.

34. COMMITMENTS

Capital commitments

On 20 February 2020, the Group entered into a provisional sales and purchase agreement with an independent third party for the acquisition of properties in Hong Kong at a consideration of HK\$20,000,000. As at 31 March 2020, deposits of HK\$2,000,000 and stamp duty of HK\$1,500,000 was paid and the remaining consideration of HK\$18,000,000 shall be paid upon completion of the acquisition of the properties.

In addition, capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided in the consolidated financial statements amounted HK\$1,020,000 (2019: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

34. COMMITMENTS (CONTINUED)

Operating lease commitments

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments in respect of factory premises and staff dormitories rented under non-cancellable operating lease which fall due as follows:

	2019 HK\$'000
Within one year	971

The above operating lease payments represented rental payable by the Group to Mr. S Chong and Mr. P Chong for factory premises and staff dormitories. Leases for factory premises and staff dormitories are negotiated and fixed for a term of two to three years.

Certain lease agreements entered into between Mr. S Chong and Mr. P Chong and the Group includes a termination clause and the Group can terminate the agreements anytime with six-months' notice period. Accordingly, lease payments after the six-months' notice period were not included in the above commitment.

35. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2020, the Group entered into new leases in respect of motor vehicles for 5 years. On the lease commencement date, the Group recognised HK\$1,149,000 of right-of-use assets and HK\$1,149,000 of lease liabilities.

During the year ended 31 March 2019, the Company declared dividends of HK\$9,000,000 to Mr. S Chong and Mr. P Chong. The dividends payable was settled through the amounts due from directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

36. MOVEMENT ON GROUP'S LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividends payable	Accrued share issue cost	Lease liabilities	Bank loans	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2018	–	857	–	45,912	46,769
Financing cash flows (Note)	–	(14,542)	–	(22,319)	(36,861)
Finance costs	–	–	–	2,079	2,079
Share issue cost recognised	–	12,586	–	–	12,586
Debited to shareholders' distribution reserve	–	1,099	–	–	1,099
Dividends declared	9,000	–	–	–	9,000
Settled through the amount due from directors (note 35)	(9,000)	–	–	–	(9,000)
At 31 March 2019	–	–	–	25,672	25,672
Adoption of HKFRS 16 (note 2)	–	–	4,643	–	4,643
At 1 April 2019 (restated)	–	–	4,643	25,672	30,315
Financing cash flows (Note)	(19,760)	–	(2,454)	5,667	(16,547)
New lease entered (note 35)	–	–	1,149	–	1,149
Finance costs	–	–	182	1,942	2,124
Dividends declared	19,760	–	–	–	19,760
Exchange adjustments	–	–	(245)	–	(245)
At 31 March 2020	–	–	3,275	33,281	36,556

Note: The financing cash flows represented the net amount of proceeds from bank borrowings, repayment of lease liabilities, share issue cost paid and payment of finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2020 HK\$'000	2019 HK\$'000
Current assets		
Prepayments	535	136
Amounts due from subsidiaries	30,400	6,000
Bank balances and cash	12,284	64,402
	43,219	70,538
Current liability		
Other payables and accruals	902	3,900
Net assets	42,317	66,638
Capital and reserves		
Share capital	5,200	5,200
Reserves	37,117	61,438
Total equity	42,317	66,638

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

Reserves of the Company:

	Share premium	Shareholders distribution reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2018	–	(320)	(3,080)	(3,400)
Loss and total comprehensive expense for the year	–	–	(6,934)	(6,934)
Deemed distribution to shareholders	–	(1,099)	–	(1,099)
Dividends recognised as distribution	–	–	(9,000)	(9,000)
Capitalisation issue	(4,160)	–	–	(4,160)
Issue of shares upon share offer	100,880	–	–	100,880
Transaction costs directly attributable to issue of shares	(14,849)	–	–	(14,849)
At 31 March 2019	81,871	(1,419)	(19,014)	61,438
Loss and total comprehensive expense for the year	–	–	(4,561)	(4,561)
Dividends recognised as distribution	(19,760)	–	–	(19,760)
At 31 March 2020	62,111	(1,419)	(23,575)	37,117

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2020

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group as at 31 March		Principal activities
				2020 %	2019 %	
KNT Group Limited ("KNTGL")	BVI	Hong Kong	US\$1	100	100	Investment holding
KNT	Hong Kong	Hong Kong	Ordinary share HK\$3,000,000	100	100	Manufacturing and trading garments
KNT Int'l	Hong Kong	Hong Kong	Ordinary share HK\$20,000	100	100	Investment holding
東莞泓藝製衣有限公司 HYG (Note)	PRC	PRC	Registered capital HK\$16,500,000	100	100	Manufacturing and trading garments

Note: The entity is registered as wholly foreign owned enterprises under the PRC law. The English translation of the company name is for identification only.

Except for KNTGL, which is directly held by the Company, all other subsidiaries are indirectly held by the Company.

Except for HYG, which adopted 31 December as their financial year end date, the Company and all other subsidiaries have adopted 31 March as their financial year end date.

None of the subsidiaries had issued any debt securities at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 March 2020

39. EVENTS AFTER THE REPORTING PERIOD

Completion of acquisition of properties

On 15 April 2020, the Group completed the acquisition as disclosed in note 34 and paid the remaining consideration of HK\$18,000,000. Accordingly, HK\$3,500,000 of deposits and prepayment for acquisition of the properties were transferred to property, plant and equipment.

Bankruptcy protection filing of a major customer

On 4 May 2020, one of the Group's major customers, announced that its parent company filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Eastern District of Virginia in the United States of America. As at 31 March 2020, the net carrying amounts of trade receivables due from this customer were HK\$15,426,000.

The directors of the Company is in the process of seeking legal advice for recovering the amount due from this customer and will closely monitor the development. Further ECL allowances, if any, may be provided in the Group's future consolidated financial statements.

FINANCIAL SUMMARY

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

RESULTS

	2020 HK\$'000	Year ended 31 March			
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	168,509	225,580	208,403	169,284	165,214
(Loss) profit before taxation	(47,065)	19,510	30,512	29,377	14,803
Income tax credit (expense)	20	(7,346)	(6,695)	(5,545)	(2,714)
(Loss) profit for the year	(47,045)	12,164	23,817	23,832	12,089

ASSETS AND LIABILITIES

	2020 HK\$'000	As at 31 March			
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Total assets	131,447	170,950	124,458	108,857	85,856
Total liabilities	(71,966)	(42,659)	(83,203)	(70,029)	(48,495)
Total equity	59,481	128,291	41,255	38,828	37,361

KNT

KNT HOLDINGS LIMITED

嘉藝控股有限公司*