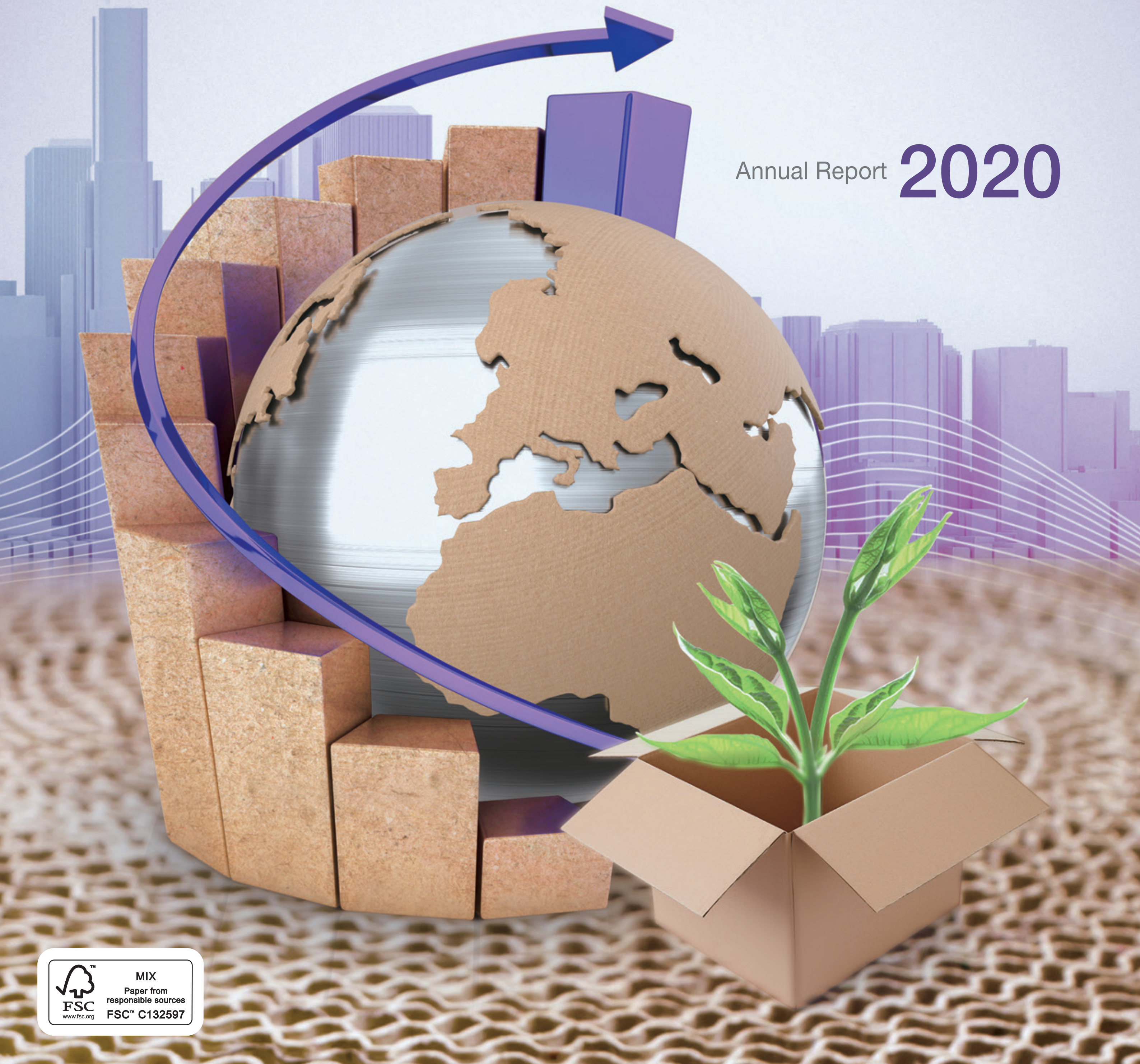
COME SURE

# COMESURE Group (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability) Stock Code: 00794

## Annual Report 2020



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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Mr. CHONG Kam Chau *(Chairman)*
Mr. CHONG Wa Pan *(Chief Executive Officer and President)*
Mr. CHONG Wa Ching

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAU On Ta Yuen
Ms. TSUI Pui Man
Mr. LAW Tze Lun

## LEGAL ADVISERS TO THE COMPANY

### As to Hong Kong law:

Howse Williams
27/F, Alexandra House
18 Chater Road
Central
Hong Kong

### As to PRC law:

Guangdong FA FANG Solicitors
Room 1806, Floor 18,
COFCO Real Estate Group Center,
Longjing 2nd Road
Baoan District
Shenzhen, PRC

## AUDITOR

HLM CPA Limited
Rooms 1501-8, 15/F
Tai Yau Building
181 Johnston Road
Wan Chai
Hong Kong

## VALUERS

Roma Appraisals Limited
22/F, China Overseas Building
139 Hennessy Road,
Wanchai
Hong Kong

## REGISTERED OFFICE

P. O. Box 1350
Clifton House
75 Fort Street
Grand Cayman, KY1-1108
Cayman Islands

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

Units 8–10, 8th Floor
Cornell Centre
50 Wing Tai Road
Chai Wan
Hong Kong

## COMPANY WEBSITE ADDRESS

www.comesure.com

## COMPANY SECRETARY

Ms. BOK Yuk Wan

## AUTHORISED REPRESENTATIVES

Mr. CHONG Wa Pan
Mr. CHONG Wa Ching

## AUTHORISED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE UNDER THE COMPANIES ORDINANCE

Mr. CHONG Wa Ching

## MEMBERS OF AUDIT COMMITTEE

Mr. LAW Tze Lun *(Chairman)*
Mr. CHAU On Ta Yuen
Ms. TSUI Pui Man

# CORPORATE INFORMATION

## MEMBERS OF REMUNERATION COMMITTEE

Ms. TSUI Pui Man *(Chairman)*
Mr. CHAU On Ta Yuen
Mr. LAW Tze Lun
Mr. CHONG Wa Pan

## MEMBERS OF NOMINATION COMMITTEE

Ms. TSUI Pui Man *(Chairman)*
Mr. CHAU On Ta Yuen
Mr. LAW Tze Lun
Mr. CHONG Wa Pan

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

Standard Chartered Bank (Hong Kong) Limited
Standard Chartered Bank Building
4–4A Des Voeux Road Central
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
G/F, The Centre
99 Queen's Road Central
Central
Hong Kong

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Ocorian Trust (Cayman) Limited
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman, KY1-1108
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

## INVESTOR RELATION

DirectiR Limited
10B, Phase 1
Yip Fat Factory Building
77 Hoi Yuen Road
Kwun Tong
Hong Kong

# FINANCIAL SUMMARY

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2016<br>HK$'000 | 2017<br>HK$'000 | 2018<br>HK$'000 | 2019<br>HK$'000 | **2020**<br>**HK$'000** |
| Revenue | 815,127 | 845,546 | 1,326,986 | 1,184,886 | **1,010,653** |
| Cost of goods sold | (645,015) | (660,684) | (1,025,211) | (966,950) | **(807,242)** |
| Gross profit | 170,112 | 184,862 | 301,775 | 217,936 | **203,411** |
| Other income | 9,711 | 8,916 | 6,246 | 5,395 | **13,101** |
| Other gains and losses | (55,848) | (3,793) | 7,007 | 15,419 | **(13,416)** |
| Selling expenses | (42,310) | (40,869) | (60,793) | (56,538) | **(66,404)** |
| Administrative expenses | (114,349) | (104,653) | (108,893) | (116,657) | **(96,004)** |
| Other operating expenses | (15,734) | (2,480) | (10,113) | (165) | **(3,399)** |
| Profit (loss) from operations | (48,418) | 41,983 | 135,229 | 65,390 | **37,289** |
| Finance costs | (11,941) | (12,275) | (13,146) | (15,336) | **(17,901)** |
| Loss on disposal of subsidiaries | – | – | (3,500) | – | **–** |
| Loss on deregistration of subsidiaries | – | – | (2,720) | – | **–** |
| Profit (loss) before tax | (60,359) | 29,708 | 115,863 | 50,054 | **19,388** |
| Income tax expense | (10,174) | (13,193) | (20,458) | (9,006) | **(7,348)** |
| Profit (loss) for the year | (70,533) | 16,515 | 95,405 | 41,048 | **12,040** |

## ASSETS AND LIABILITIES

| | As at 31 March | | | | |
|---|---|---|---|---|---|
| | 2016<br>HK$'000 | 2017<br>HK$'000 | 2018<br>HK$'000 | 2019<br>HK$'000 | **2020**<br>**HK$'000** |
| Non-current assets | 601,784 | 568,539 | 556,591 | 529,776 | **585,323** |
| Current assets | 639,839 | 761,956 | 815,305 | 682,925 | **563,875** |
| Total assets | 1,241,623 | 1,330,495 | 1,371,896 | 1,212,701 | **1,149,198** |
| Non-current liabilities | (17,358) | (13,811) | (41,486) | (18,659) | **(85,958)** |
| Current liabilities | (686,499) | (794,430) | (672,420) | (561,535) | **(476,781)** |
| Total liabilities | (703,857) | (808,241) | (713,906) | (580,194) | **(562,739)** |
| Net assets | 537,766 | 522,254 | 657,990 | 632,507 | **586,459** |
| Equity attributable to owners of the Company | 535,586 | 523,329 | 663,698 | 640,084 | **594,916** |
| Non-controlling interest | 2,180 | (1,075) | (5,708) | (7,577) | **(8,457)** |
| Total equity | 537,766 | 522,254 | 657,990 | 632,507 | **586,459** |

# CHAIRMAN'S **STATEMENT**

## DEAR VALUED SHAREHOLDERS

On behalf of our board (the "**Board**") of directors (the "**Directors**") of Come Sure Group (Holdings) Limited (the "**Company**"), I hereby present the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 March 2020 (the "**Year**"). On behalf of the Board, I would also like to express my heartfelt gratitude to all the shareholders of the Company (the "**Shareholders**") and friends from various communities for their support to the development of the Group.

## OVERVIEW

During the Year, the global economy faced unprecedented challenges from the China-US trade war (the "**Trade War**") and the outbreak of novel coronavirus pandemic. Due to the outbreak of novel coronavirus, the PRC government announced the lock-down of several cities and ordered companies and factories to suspend operations for one to three months in the first quarter of 2020 as quarantine measures. The Group therefore was forced to temporarily suspend the operation of its factories during January and February 2020. As a result of the Group's well-established corporate governance practices and procedures, the Group was one of the earliest manufacturers to resume production with the Government's permission in mid-February, lessening the negative impacts on the Group's production and business growth.

The novel coronavirus pandemic continued to spread worldwide during the second quarter of 2020, weakening the export demand for retail and paper packaging products. Under the unstable business environment, the Group is still facing operating pressure subsequent to the reporting period. Nevertheless, leveraging on the management's extensive experience, the Group was able to respond to the market change quickly and adjusted its business development strategy towards exploiting business opportunities with customers mainly engaged in domestic market, strengthening the Group's brand awareness in the PRC market and establishing a stronger foundation for sustainable sales performance in long term.

### Effectiveness in cost management with diversified sourcing strategy

Leveraging on long-standing business relationship with the main suppliers, the Group carries out cost control measures through importing raw paper from overseas suppliers (including its major supplier) with an aim to provide a defense against the fluctuations in supply and price of raw paper. We believe the prudent cost control and inventory management would stabilise the Group's profitability and generate sustainable returns for our Shareholders.

### Social Responsibility

Having integrated the concept of social responsibility into all aspects of the business operation, we continued to review and strengthen the Group's corporate governance practices in order to ensure continuous compliance with production and operation standards in resources-saving and eco-friendly manner throughout the Year. The Group's products meet various environmental management standards including national standards such as ISO9001, ISO14001 and QC080000 and international standards such as European Restrictions of Hazardous Substances (RoHs) and Waste Electrical and Electronic Equipment (WEEE).

## PROSPECT

The outlook for global economy for the coming years is still uncertain with a weakened demand in manufacturing industry. However, the Group anticipates emerging opportunities from the PRC market with the PRC government's tightening environmental protection measures aiming to phase out the consumption of disposable plastic products and promote, paper packaging products, as an environmentally friendly alternative. Besides, the accelerated growth of e-commerce and delivery platforms together with the increase in consumers' preference on online shopping under the impact of spreading novel coronavirus pandemic give raise to the growth in demand for packaging used in transportation. The Group is well positioned to seek for the potential opportunities from domestic markets, through steadily developing our sustainable green packaging business, with a view to enlarge the market share and consolidate the market leadership position in the PRC corrugated paper packaging industry.

Having attached great importance to good corporate governance, the Group will continue to review the effectiveness of internal control and risk management systems. Through maintaining mutually-trusted communication and relationships with the key stakeholders, including customers, suppliers, Shareholders and surrounding communities, we expect our strenuous efforts would further enhance the Group's profitability, aiming to protect and maximise the returns for our Shareholders in long term.

## ACKNOWLEDGEMENT

I would like to express my appreciation on behalf of the Board to our investors, customers, business partners and government officials for the support and trust over the years. I also extend my gratitude to all the management and staff of the Group for their loyalty and contribution they have bestowed to the Group.

**CHONG Kam Chau**
*Chairman*

30 June 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

The global economic activities continued to slow down during the Year amid the prolonged China-U.S. trade war (the "**Trade War**"). The decline in exports and consumer spending weighed on the economy in the People's Republic of China (the "**PRC**" or "**China**"), leading to the lowest growth rate of 6.1% in the gross domestic product ("**GDP**") of 2019 among the past 29 years, as compared with that of 6.6% in 2018 according to the National Bureau of Statistics of China (the "**NBSC**"). The weakened manufacturing output persisted, offsetting the recovery in domestic consumption driven by the PRC government's measure in stimulating domestic demand; meanwhile, export-oriented packaging manufacturers shifted their focus to domestic markets, intensifying the industrial competition in China during the Year. According to China Light Industry Information Center (the "**CLII**"), the operating income and profit of the overall paper and paper products industry in China in 2019 were approximately RMB1,337.01 billion and RMB68.19 billion respectively, representing a year-to-year ("**YOY**") decrease of approximately 3.0% and approximately 9.1% respectively, demonstrating the decrease in industrial profitability together with the decrease in industrial product prices and sales during the Year.

In addition, the recent outbreak of novel coronavirus during the Year unprecedentedly disrupted the manufacturing industry worldwide. Both paper and paper products manufacturers in the PRC closed down the factories temporarily in response to restrictions imposed by the government and struggled to ramp up their production and sales afterwards, dragging down the operating performance. Also, the suppliers had to spend additional efforts and costs in procuring, storing and cleaning raw materials, exerting mounting cost pressure for paper packaging manufacturers. In the first three months of 2020, sizable paper and paper products manufacturers in China recorded profits of approximately RMB11.5 billion, representing a decrease of approximately 5.5% as compared to the corresponding period in 2019, according to NBSC. Nevertheless, the industrial concentration was accelerated with the phasing out of some small and medium size manufacturers, while the industry leaders were more resilient on business recovery which is attributed to their long-established reputation and solid customer bases.

Despite the stagnant market condition hindering the business growth of paper packaging providers during the Year, there are still business opportunities for the PRC's paper packaging industry as the PRC government further strengthened the control over environmental protection regulations. The Ministry of Ecology and Environment and National Development and Reform Commission of the PRC jointly issued the Opinion on Further Strengthening Plastics Prevention and Control in January 2020, with an aim to gradually reduce the use of single-use, non-degradable plastics parcel packaging for the next five years starting from 2020. Quality paper packaging, being the irreplaceable eco-friendly substitute, is expected to have potential increase in demand. In particular, the corrugated cardboard packaging, which is widely used for express delivery, will be benefitted from the continuing trends of growth in e-commerce businesses and food and beverage takeaway services. Such emerging opportunities are expected to result in economic benefits for the paper packaging industry.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

As a result of the PRC government requesting factories to close temporarily as quarantine efforts amid the novel coronavirus outbreak, the sales orders and revenue of the Group dropped during the Year. The Group's factories in China were close during January and February 2020 in respond to the PRC government's quarantine measures and then resumed production in mid February with the PRC government's prior approval, which was granted due to the Group's well-performing epidemic prevention measures with high standard of corporate governance. After the resumption of production, the Group's sale has gradually returned to its normal level. While the effects of the novel coronavirus pandemic on the economy continued in the United States of America (the "**U.S.**") and in Europe, China's economy and manufacturing industry started to recover in March 2020. The Group's management timely adjusted its sales strategies in response to the market environment by increasing its focus on the customers who engaged in the PRC domestic market during the Year. With effective and efficient adjustment on sales strategies, the Group partially offset the negative impact of deteriorating global trade and expected these strategies to facilitate the Group's sustainable business growth in long term. Coupled with the continued economic impact of the Trade War, raw paper price fluctuated throughout the Year. The overall selling price of the Group's products were adjusted downwards accordingly and resulted in a decrease in the Group's revenue to approximately HK$1,010.7 million during the Year from approximately HK$1,184.9 million for the corresponding period in 2019.

In line with the decrease in the Group's revenue and fluctuated raw paper price during the Year, the Group recorded a decrease in gross profit to approximately HK$203.4 million for the Year (2019: approximately HK$217.9 million). In view of the unsteady global business environment, the Group extended its efforts to strengthen the cost management. Despite the overall global supply chain logistics were adversely affected by the Trade War and the novel coronavirus pandemic, the Group was supported by the long-standing business relationship with its major supplier and was capable to carry on its flexible sourcing strategy during the Year along with maintaining stable raw materials inventory in cost-efficient manner through importing raw materials from its major supplier. Having the internal control measures implemented in a prudent manner, the Group managed to improve its gross profit margin at a sound level at approximately 20.1% during the Year (2019: approximately 18.4%).

Under the adverse economic situation caused by the Trade War throughout the Year, the novel coronavirus pandemic further intensified long term uncertainty with the Hong Kong property market. The Group inevitably recorded a fair value loss on its investment properties of approximately HK$16.4 million during the Year (2019: fair value gain of approximately HK$7.4 million). With the decrease in gross profit and fair value loss on investment properties, the Group recorded a decrease in net profit during the Year to approximately HK$12.0 million (2019: approximately HK$41.0 million). The Group will closely monitor the market dynamics and evaluate the operation and performance of its investment portfolio in a timely manner in order to identify potential opportunities to enhance yields in long term.

# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULT OF OPERATION

| | 2020 HK$'000 | 2020 (%) | 2019 HK$'000 | 2019 (%) |
|---|---|---|---|---|
| *Paper-based packaging* | | | | |
| PRC domestic sales | **812,141** | **80.8** | 949,516 | 80.5 |
| Domestic delivery export | **142,141** | **14.1** | 183,149 | 15.5 |
| Direct export | **51,029** | **5.1** | 47,556 | 4.0 |
| | **1,005,311** | **100.0** | 1,180,221 | 100.0 |
| *Properties investment* | | | | |
| Rental income | **5,342** | | 4,665 | |
| Total revenue | **1,010,653** | | 1,184,886 | |
| Gross profit margin | | **20.1** | | 18.4 |
| Net profit margin | | **1.2** | | 3.5 |

## REVENUE

During the Year, the unsteady global economy and Trade War adversely affected the sales of the Group's paper packaging products, especially for the export products. To mitigate the negative impact on the sales volume, the Group accelerated its pace in reaching potential customers engaged in the PRC domestic market to expand its source of revenue effectively during the Year. However, the unexpected outbreak of novel coronavirus and the subsequent temporary closure of factories as quarantine measures halted the Group's operation during January and February 2020 and dragged down the Group's sales performance for the Year. The Group's revenue for the Year decreased to approximately HK$1,010.7 million (2019: approximately HK$1,184.9 million). Attributed to the Group's responsive measures in compliance with the regulations of the PRC government, the Group was allowed to resume its operations in mid February 2020 with the PRC government's prior approval, which minimised the unfavourable impact on the Group's business.

### Guangdong operation

Engaged in high value-added business including structural-designed corrugated paperboard and paper based packaging products, Guangdong operation had always been the focus of the Group's business. During the Year, the sales growth from Guangdong operation slowed down against the challengeable business environment, as well as the suspension in operation under the PRC government's quarantine measures in January and February 2020. As a result, the revenue generated from Guangdong operation dropped to approximately HK$830.3 million during the Year, representing a decrease of approximately 12.8% as compared to approximately HK$952.7 million for the corresponding period in 2019. Having foreseen the potential market demand in Huidong County of Guangdong Province, the Group was proactively seeking for business opportunities in Guangdong Province and the surrounding areas in order to expand its domestic customers bases and its market presence in the PRC.

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVENUE (Continued)

### Fujian operation

The Group's Fujian Plant is principally engaged in production of corrugated paperboard business, products of which have a relatively low average selling price. The operation continued to boost the Group's revenue source and expand the Group's business. During the Year, in additional to the unfavourable impact on macro business environment, the raw material price fluctuated throughout the Year, the average selling price of Fujian Plant's products were adjusted downwards accordingly caused the revenue decreased by approximately 23.0% to approximately HK$175.1 million, as compared to approximately HK$227.5 million for the corresponding period in 2019. With the Group's continuous effort in improving the production process in Fujian Plant, its brand recognition has been enhanced in corrugated paperboard market of Fujian and the surrounding areas with greater customers' satisfaction and established a solid foundation for achieving constant growth in the Group's corrugated paperboard business in future.

### Properties Investments

As the Group completed the acquisition of a property on 13 June 2019, the revenue generated from properties investment business increased to approximately HK$5.3 million (2019: approximately HK$4.7 million). Please refer to page 12 of this annual report and the announcements of the Company dated 18 March 2019 and 13 June 2019 for further details.

## GROSS PROFIT

During the Year, affected by the weakened sales momentums under the aforementioned business environment, the Group's gross profit decreased to approximately HK$203.4 million (2019: approximately HK$217.9 million), in line with the decrease in the revenue. Despite the negative influence on the global economy due to the novel coronavirus pandemic during the Year, the Group were able to obtain stable and quality supply of raw materials and enhance cost effectiveness through leveraging on its long-standing liaison and cooperative business relationship with its major supplier and importing raw paper from them. Therefore, the Group managed to improve its gross profit margin at approximately 20.1% during the Year (2019: approximately 18.4%).

### Guangdong operation

The high quality value-added structural-designed corrugated paperboard and paper-based packaging products, being the focus of the Group's business, continued to contribute the most to the Group's gross profit during the Year. Although the long-established brand reputation in commitment to quality standards offered the Group with pricing advantage and facilitated the Group to gain sufficient market share over high value-added corrugated paperboard and paper-based packaging business during the Year, in line with the decrease in revenue, the gross profit generated from the Guangdong operation for the Year decreased by approximately 8.9% to approximately HK$177.8 million (2019: approximately HK$195.1 million). The gross profit margin of the Group's Guangdong operation for the Year slightly improved at approximately 21.4% (2019: approximately 20.5%).

### Fujian operation

Despite the lower revenue for the Year that Fujian operation generated, the gross profit increased to approximately HK$20.3 million from approximately HK$18.4 million for the last corresponding year as a result of effective cost management in operation. Fujian Plant mainly operated in corrugated paperboard production business, products of which are offered at a relatively low gross profit margin as compared to the Group's main business of printed corrugated carton, recorded a gross profit margin of approximately 11.6% for the Year (2019: approximately 8.1%). Nevertheless, the premium quality and diversity of product range of corrugated paperboard in the Fujian Plant extended the Group's market coverage in Fujian and the surrounding areas and the Group is expecting to attract sustainable sales orders in long term while maintaining satisfactory utilisation rate of production capacity.

# MANAGEMENT DISCUSSION AND ANALYSIS

## GROSS PROFIT (Continued)

### Properties investment

The cost of properties leasing represented the direct outgoings of the investment properties. The gross profit of properties leasing increased to approximately HK$5.3 million for the Year (2019: approximately HK$4.4 million).

## SELLING AND ADMINISTRATIVE EXPENSES

The Group increased its efforts in exploring new customers and maintaining the relationship with existing quality customers, the selling expenses of the Group for the Year increased to approximately HK$66.4 million (2019: approximately HK$56.5 million). With the Group's effort in strengthening its stringent cost management, the administrative expenses of the Group decreased to approximately HK$96.0 million for the Year from approximately HK$116.7 million for last corresponding year that paving the way for maintaining a sound profit level in long term.

## OTHER OPERATING EXPENSES

Other operating expenses of the Group during the Year increased to approximately HK$2.4 million (2019: approximately HK$0.2 million), mainly representing the loss on disposal of equipment in Huidong Plant amounting to approximately HK$1.5 million. These equipment disposed of were mostly obsolete machines which did not have sufficient capability to handle current customers' orders.

## FINANCE COSTS

The finance costs mainly represented interest expenses on bank borrowings and lease liabilities. The Group's interest on bank borrowings for the Year was approximately HK$14.1 million (2019: approximately HK$15.3 million). Upon the application in "HKFRS 16 Leases", the Group recorded an interest expenses on lease liabilities for the Year amounting to approximately HK$3.8 million. As the Group adopted the modified retrospective approach on HKFRS 16 Leases accounting since 1 April 2019, no restatement was made to comparative figures for the corresponding period in 2019 in this regard.

## NET PROFIT AND EARNINGS PER SHARE

The Group's net profit for the Year decreased significantly to approximately HK$12.0 million from approximately HK$41.0 million for the last corresponding year. In addition to the Trade War and recent outbreak of novel coronavirus adversely affected the Group's performance, the decrease is mainly attributed to the loss on fair value change of investment properties of approximately HK$16.4 million was recorded for the Year, whereas the Group recorded a fair value gain of investment properties of approximately HK$7.4 million for the year ended 31 March 2019. The Group's net profit margin for the Year decreased accordingly to approximately 1.2% (2019: approximately 3.5%).

The basic and diluted earnings per share for the Year was HK3.41 cents (2019: HK11.61 cents).

# MANAGEMENT DISCUSSION AND ANALYSIS

## CAPITAL STRUCTURE

During the Year, the Group has adopted a prudent treasury policy, and maintained stable current ratio (calculated as current assets divided by current liabilities), at approximately 1.18 as at 31 March 2020 (2019: at the level of approximately 1.22).

The Company's issued share capital as at 31 March 2020 was HK$3,483,780 divided into 348,378,000 shares of HK$0.01 each.

## WORKING CAPITAL

| | **2020 Number of days** | 2019 Number of days |
|---|---|---|
| Trade and bills receivable | **78** | 72 |
| Trade and bills payable | **49** | 52 |
| Inventories | **43** | 41 |
| Cash conversion cycle* | **72** | 61 |

* Trade and bills receivable turnover days + Inventories turnover days – Trade and bills payables turnover days

The Group's trade and bills receivables as at 31 March 2020 were approximately HK$219.5 million (2019: approximately HK$209.1 million). Adopting a stringent credit risks management, the Group closely monitored the creditworthiness and collection history of its customers. Under the unfavourable economic situation, the Group accepted a longer credit terms for certain creditworthy customers, which was still considered as a healthy turnover pattern. The Group's trade and bill receivables turnover days for the Year increased to 78 days as compared to 72 days for the last corresponding year.

The Group had been maintaining mutually trusting business relationships with its suppliers, allowing the Group to source some raw papers from suppliers' overseas division to stabilise the supply of quality raw paper and to better respond to the fluctuation in raw paper supply and price. As some imported raw material required cash on delivery as settlement method, which differed from the general credit terms, the trade and bills payables turnover days was slightly shortened to 49 days for the Year from 52 days for the last corresponding year. The trade and bills payables maintained at approximately HK$105.3 million as at 31 March 2020 (2019: approximately HK$109.5 million).

In response to the fluctuating market demands, the Group has been maintaining its inventories at a stable level of approximately HK$93.4 million as at 31 March 2020 (2019: approximately HK$95.2 million), ensuring a smooth and cost-effective operation. The inventories turnover days slightly increased to 43 days for the Year from 41 days for the last corresponding year.

Affected by the abovementioned factors, the Group's cash conversion cycle increased to 72 days for the Year (2019: 61 days).

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

| | As at 31 March | |
|---|---|---|
| | **2020** | 2019 |
| Current ratio | **1.18** | 1.22 |
| Gearing ratio | **22.7%** | 31.0% |

During the Year, the principal sources of working capital of the Group remained to be the cash flow from operating activities and bank borrowings. As the Group committed to reduce financial burden by restructuring the bank borrowings portfolio to cope with market uncertainties, its bank and cash balances decreased to approximately HK$176.7 million as at 31 March 2020 (2019: approximately HK$232.3 million), excluding pledged deposit of approximately HK$24.0 million (2019: approximately HK$94.7 million). The Group also had unused banking facilities of approximately HK$540.0 million as at 31 March 2020 in order to secure future cashflow.

The current ratio (current assets divided by current liabilities) of the Group remained stable at approximately 1.18 as at 31 March 2020 (2019: approximately 1.22). The current assets and current liabilities of the Group as at 31 March 2020 were approximately HK$563.9 million and approximately HK$476.8 million respectively, as compared to approximately HK$682.9 million and approximately HK$561.5 million, respectively, as at 31 March 2019.

As at 31 March 2020, all the bank borrowings of the Group were secured, mostly denominated in HKD and RMB and carried floating interest rates. The total outstanding bank borrowings were approximately HK$260.7 million as at 31 March 2020 (2019: approximately HK$376.5 million), of which approximately HK$248.7 million was repayable within one year and approximately HK$12.0 million was repayable after one year.

The Group had been keeping a sound liquidity position. As at 31 March 2020, the gearing ratio (total borrowings divided by total assets) of the Group was approximately 22.7% (2019: approximately 31.0%). By keeping sufficient cash level and banking facilities, the Group was in a better position to maintain a sustainable business development and finance potential investment opportunities in the future.

## MATERIAL ACQUISITIONS OR DISPOSALS

On 18 March 2019, Cheer Fame Holdings Limited ("**Cheer Fame**"), an indirect wholly-owned subsidiary of the Group, entered into a provisional agreement with Power Benefit Company Limited ("**Power Benefit**"), an independent third party pursuant to which Power Benefit conditionally agreed to sell, and Cheer Fame conditionally agreed to acquire the property located at Shop No. 2, Ground Floor, Ka Hing Building, 41–47 Java Road, North Point, Hong Kong with a total gross floor area of approximately 763 square feet at a total consideration of HK$28 million. The acquisition of the said property was completed on 13 June 2019. Further details in respects of the above acquisition are set out in the Group's announcements dated 18 March 2019 and 13 June 2019.

Save as the above, there was no material acquisition or disposal of subsidiaries, associated companies and joint ventures by the Group during the Year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FOREIGN EXCHANGE RISK

The Group is exposed to foreign currency risk as some of its business transactions, assets and liabilities are denominated in currencies other than the functional currency of the respective members of the Group. The Group will continue to monitor the foreign currency exposure closely and will consider taking appropriate initiatives to hedge significant foreign currency exposure if necessary.

## CHARGE OF ASSETS

As at 31 March 2020, the Group pledged certain assets including bank deposits, property, plant and equipment, and investment properties, with aggregate net book value of approximately HK$266.7 million (2019: approximately HK$323.0 million), to secure banking facilities granted to the Group.

## CAPITAL COMMITMENT

As at 31 March 2020, the Group's capital expenditure regarding property, plant and equipment and investment property, which are contracted but not provided, was approximately HK$9.0 million (2019: approximately HK$27.3 million).

As at 31 March 2020, the Group did not have any capital expenditure authorised but not contracted for (2019: Nil).

## CONTINGENT LIABILITIES

The Inland Revenue Department of Hong Kong (the "**IRD**") issued estimated assessment and additional assessment for the year of assessment 2009/10 to 2013/14 to six subsidiaries of the Group amounting to HK$16,867,000. In the opinion of the Directors, there is no specific basis for adjusting the subsidiaries' tax position for the years of assessment 2009/10 to 2013/14 specified in the estimated assessment and additional assessment. The Directors are of the view that no tax provision for Hong Kong Profits Tax is required at this stage. The subsidiaries will discuss with the IRD and will continue to monitor the progress and to defend the subsidiaries' tax position vigorously. Therefore, no tax provision was provided thereon at 31 March 2020 in this regard (2019: Nil).

## EMPLOYEES AND REMUNERATION

The Group had 1,211 employees in total as at 31 March 2020 (2019: 1,243). For the Year, the Group's total expenses on the remuneration of employees, including the emolument of the Directors were approximately HK$144.7 million (2019: approximately HK$166.0 million). The Group's emolument policies are primarily formulated based on the performance of individual employees and the current market situation, which will be reviewed periodically.

In addition to medical insurance and Mandatory Provident Fund scheme, competitive remuneration packages, discretionary bonuses, as well as employee share options schemes (which generally structured by referencing to market terms) are also awarded to eligible employees in accordance with the assessment of individual performance.

The remuneration and bonuses of the Directors and senior management are reviewed and approved by the remuneration committee of the Company (the "**Remuneration Committee**") with reference but not limited to the individual performance, qualification, competence, the Group's financial position and the prevailing market condition.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECT

In addition to the persisting Trade War tensions, the spreading of novel coronavirus pandemic across Europe, the U.S. and other countries is expected to threaten the prosperity globally, dragging down the volume of retail sales orders from overseas in general. With the Group's strong reputation built in the PRC's corrugated paper packaging industry, the Group will carry on its forward-looking strategy of strengthening domestic business development and striving for extensive sales orders from customers engaging in business in China, in order to offset certain effects of weakened exporting sales and ensure its business sustainability in the years ahead.

Despite the unfavourable business environment, quarantine measures for novel coronavirus pandemic has been driving another surge in e-commerce traffic as consumers prefer safe and hygienic online shopping experience, boosting the demand for quality and eco-friendly packaging for e-commerce transportation and delivery services. The Group will continue to explore these growth and business opportunities, especially from the domestic market in the PRC. Meanwhile, the Group is planning to expand its production area by adding production lines in Huidong Plant in Guangdong Province, which is located in the rapidly developing Greater Bay Area. The Group aims to achieve sufficient capacity to capture the foreseeable customer demands from Greater Bay Area and surrounding areas, thereby reinforcing its market leadership in the paper packaging industry in the PRC.

In response to the adverse impact on the Group's profitability resulted from the external business environment and market conditions during the Year, the Group has always been aware of its approaches for effective internal management, including the cost control and corporate governance. Meanwhile, the Group will keep up the collaborative relationship with existing suppliers to purchase raw materials from overseas and continue its diversified sourcing strategy to assure stable and quality supply at reasonable cost. In face of the increasing uncertainties from the external environment in the coming years, the Group will continue to stay alert to the development of its existing investment properties and carry out its investment decisions cautiously, with a view to create sustainable and optimal returns to shareholders in long term.

# CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining appropriate corporate governance practices to enhance the accountability and transparency of the Company in order to protect the Shareholders' interests and to ensure that the Company complies with the latest statutory requirements and professional standards.

The Company has complied with the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the Year.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the standards for securities transactions by Directors.

All the members of the Board have confirmed, following specific enquires by the Company, that they had complied with the required standards set out in the Model Code throughout the Year.

## THE BOARD

The Board is responsible for the overall management of the Company and the mission of the Board is to maximise the Shareholders' return and uplift the Company's long term value.

The Board has formulated the overall business strategies and management policies, and set up the corporate governance practices, internal control procedures and risk management to ensure a proper management of the Company. The Board has undertaken the corporate governance function as required under the Code. The terms of reference of the corporate governance as set out in the Code have been approved by the Board for adoption. During the Year, the Board had reviewed and discussed the corporate governance policy and the Shareholders' communication policy of the Group and was satisfied with the effectiveness of such policies.

The Company will provide sufficient resources to all Directors to discharge their duties: independent professional advice is available in appropriate circumstances at the Company's expenses upon reasonable request to the Board, and all Directors have access to the company secretary's advice with a view to ensuring that the Board procedures and all applicable rules and regulations are followed.

During the Year, the Company had arranged and maintained appropriate insurance cover on the Directors' liabilities in respect of legal actions against the Directors arising out of corporate activities.

### Board Composition

As at 31 March 2020, the Board is comprised of the following 6 members:

(a) Three executive Directors, namely Mr. CHONG Kam Chau (Chairman), Mr. CHONG Wa Pan (Chief Executive Officer and President) and Mr. CHONG Wa Ching; and

(b) Three independent non-executive Directors, namely Mr. CHAU On Ta Yuen, Ms. TSUI Pui Man and Mr. LAW Tze Lun.

The members of the Board have various experience and skills and possess different professional knowledge which is necessary for the development of the Company. The brief biographical details of the Directors are set out in the section of "Directors and Senior Management" of this annual report.

# CORPORATE **GOVERNANCE REPORT**

## **THE BOARD** (Continued)

### **Board Composition** (Continued)

The roles of the chairman of the Board (the "**Chairman**") are separated from the chief executive officer of the Company (the "**Chief Executive Officer**"). The Chairman approves and monitors the Company's strategies and policies, and supervises the management of the Company. The senior management team is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

Mr. CHONG Kam Chau (the Chairman) is the father of Mr. CHONG Wa Pan (the executive Director, the Chief Executive Officer and President), Mr. CHONG Wa Ching (the executive Director) and Mr. CHONG Wa Lam (a senior management of the Company). Apart from that, there is no relationship (including financial, business, family or other material relationship) among members of the Board. In compliance with Rule 3.10 of the Listing Rules, the Board comprises three independent non-executive Directors which represent more than one-third of the Board. These independent non-executive Directors possess a broad range of expertise and experience in the areas of business management, legal, and accounting and finance matters. The current Board composition brings a strong independent element to the Board, which can effectively exercise independent judgment in making reasonable strategic decisions in different aspects.

The Company has received, from each of the independent non-executive Directors, an annual written confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. In light of these confirmations, the Company considers all independent non- executive Directors to be independent in accordance with the guidelines set out in the Listing Rules. Each independent non-executive Director has entered into a service agreement for a term of two years from 26 February 2019.

## **DELEGATION OF MANAGEMENT FUNCTIONS**

The Board has delegated the day-to-day management, administration and operations of the Company to the management. The responsibilities and authorities of each level of staff are clearly outlined in the Group's internal control policies, in case of any substantial transactions and decisions to be made the management has to report back and obtain prior approval from the Board. The performances of the management are regularly assessed by the executive committee of the Company (the "**Executive Committee**"), which consists of the executive Directors. In addition to the Executive Committee, the Board has established an audit committee of the Company (the "**Audit Committee**"), the Remuneration Committee and a nomination committee of the Company (the "**Nomination Committee**") (collectively, the "**Board Committees**") and delegated various responsibilities to these committees as set out in their respective terms of reference. Further details of these committees are set out on page 19 to page 22 of this annual report.

## **BOARD MEETINGS**

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals. Directors may participate either in person or through other means of communication. Ad-hoc meetings will also be convened if there is any events that raise the Board's concern.

# CORPORATE GOVERNANCE REPORT

## BOARD MEETINGS (Continued)

During the Year, four Board meetings, except for the circulation of written resolutions in lieu of Board meetings, were held for reviewing the operating performance and latest market condition, considering and approving the overall strategies, re-appointment of external auditor and the annual/interim results of the Group for the Year, and one general meeting (i.e. the annual general meeting of the Company held on 23 September 2019) was held. The attendance of individual Directors at these Board meetings and general meeting were as follows:

| Directors | Number of Board meetings attended/eligible to attend | Number of general meeting attended/held |
|---|---|---|
| **Executive Directors** | | |
| Mr. CHONG Kam Chau | 4/4 | 1/1 |
| Mr. CHONG Wa Pan | 4/4 | 1/1 |
| Mr. CHONG Wa Ching | 4/4 | 1/1 |
| **Independent Non-executive Directors** | | |
| Mr. CHAU On Ta Yuen | 4/4 | 1/1 |
| Ms. TSUI Pui Man | 4/4 | 1/1 |
| Mr. LAW Tze Lun | 4/4 | 1/1 |

Directors are provided with timely updates on changes in laws and compliance issues and the business environment relevant to the Group. All members of the Board attended the trainings. Continuing training and professional development for Directors will be arranged when necessary. The Company also encourages its Directors to enrol in relevant professional development courses to continually update and further improve their relevant knowledge and skills. All Directors had participated in continuous professional development to develop and refresh their knowledge and skills and provided their training records for the Year to the Company.

The company secretary of the Company is responsible for preparing agenda for regular Board meetings and will despatch the agenda to all Directors at least 10 days in advance and that all Directors will have the opportunity within reasonable time to include matters in the agenda for regular Board meetings.

Notice for regular Board meetings will be sent to all Directors at least 14 days in advance to facilitate the attendance. For all other Board meetings, the agenda and notice will be despatched at least three days in advance. All Directors are entitled to have access to Board papers, minutes and related materials.

A duly appointed secretary is responsible for keeping the minutes of Board meetings and meetings of Board Committees, all minutes are available for inspection by any Director at a reasonable time on reasonable notice. All the minutes are kept in sufficient details, including matters considered by the Board, decisions reached and any concerns raised by Directors or dissenting views expressed. The draft minutes will be despatched to all Directors within five working days after the meetings for their comment and the approved final version will be sent to all Directors within 15 working days after the meetings for their record.

If a Director has a material interest in a matter to be considered by the Board, a physical meeting will be held to discuss the matter instead of seeking Directors' written consent by way of circulation of written resolution. In accordance with the Company's articles of association (the "**Articles of Association**"), such Director who is considered to be materially interested in the matter shall abstain from voting and not be counted in the quorum.

# CORPORATE **GOVERNANCE REPORT**

## APPOINTMENT, RE-ELECTION AND REMOVAL

At each of the annual general meeting of the Company, at least one-third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. Any Directors who has not been subject to retirement by rotation in the three years preceding the annual general meeting shall retire by rotation at such annual general meeting. Any further Directors who shall retire will be those who have been longest in the office since their last re-election or appointment.

Each of the independent non-executive Directors entered into a service agreement for a term of two years from 26 February 2019, subject to rotation and re-election accordance to the Articles of Association. Each of the Directors has entered into a service contract with the Company and may be terminated by either party by giving not less than three months' (for executive Director) or one month's (for independent non-executive Directors) prior written notice.

From time to time, the Board shall have the power to appoint any person as a Director to fill a casual vacancy or act as an additional Director. Any director so appointed shall then be eligible for re-election after the appointment at the next general meeting (for filling casual vacancy) or at the next following annual general meeting (for additional to the existing Board).

Any newly appointed Director will receive an induction handbook to ensure that the Director has a proper understanding of the operation and business of the Company and will be fully aware of the responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and corporate governance policies of the Company.

The Nomination Committee reviews the Board structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience necessary for the development of the Company. When vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary. Suitable candidates, who will be interviewed initially by an independent non-executive Director, will then be recommended to the Board and meet all the Directors.

The Nomination Committee will also make recommendations to the Board on relevant matters relating to the appointment, re-election and removal of directors. Mr. CHONG Wa Ching and Ms. TSUI Pui Man shall retire by rotation and being eligible, offer themselves for re- election at the forthcoming annual general meeting of the Company (the "**AGM**").

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES

The Company has formed four Board Committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Executive Committee. All Board Committees are formed with specific written terms of reference setting out clearly the committees' authority and duties, and the terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are available on the websites of the Stock Exchange and the Company. The Company has provided the Audit Committee, the Remuneration Committee and the Nomination Committee with sufficient resources to perform its duties, which includes seeking independent professional advice, at the Company's expense to perform their respective responsibilities.

## AUDIT COMMITTEE

The Company has established an Audit Committee on 5 February 2009 in compliance with Rule 3.21 of the Listing Rules with written terms of reference which is available on the websites of the Stock Exchange and the Company. The main duties of the Audit Committee are to monitor the relationship of external auditors, to review the financial statements of the Group and to oversee the Group's financial reporting system, risk management and internal control procedures. The Audit Committee consists of three independent non-executive Directors, namely Mr. LAW Tze Lun (chairman of the Audit Committee), Mr. CHAU On Ta Yuen and Ms. TSUI Pui Man.

None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The duties of the Audit Committee are set out in the terms of reference, which include, among others, the following:

(i) to monitor the integrity of the consolidated financial statements, annual reports and interim reports of the Company and to review any significant financial reporting judgments contained in them;

(ii) to review and monitor the independence and objectivity of the external auditors and the effectiveness of the audit process with applicable standards, make recommendations to the Board on appointment, re-appointment and removal, and to approve the remuneration and terms of engagement of external auditors;

(iii) to review the effectiveness and adequacy of the financial control, risk management and internal control system, and to ensure the timely response from management towards the issues raised in and the management letter from external auditors; and

(iv) to review the effectiveness of the internal audit function of the Company.

During the Year, four meetings were held by the Audit Committee to consider the re-appointment of external auditors, their remuneration and terms of engagement and the Company's annual and interim results. All committee members attended all the meetings.

The Audit Committee, together with the management of the Company and the external auditors, had reviewed the audited consolidated financial statements of the Group for the Year, the accounting principles and practices adopted and discussed auditing, internal controls, risk management and financial reporting matters.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on 5 February 2009 in compliance with Rule 3.25 of the Listing Rules with written terms of reference which is available on the websites of the Stock Exchange and the Company.

The Remuneration Committee is responsible for reviewing the remuneration structure and policy of the executive Directors and for fixing the remuneration packages for all Directors in order to retain or attract the competent personnel.

The Remuneration Committee consists of three independent non-executive Directors, namely Ms. TSUI Pui Man (the chairman of the Remuneration Committee), Mr. CHAU On Ta Yuen and Mr. LAW Tze Lun, and one executive Director, Mr. CHONG Wa Pan, who is responsible for the human resource management of the Group.

The duties of Remuneration Committee are set out in the terms of reference, which include, among others, the following:

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

(ii) to make recommendations to the Board on the remuneration packages of all executive Directors and senior management, including their respective terms of service agreements, the type and form and amount of remuneration, and make recommendations to the Board for the remuneration of non-executive Directors;

(iii) to review and approve the management's remuneration proposals with reference to corporate goals and objectives;

(iv) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure they are consistent with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(v) to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The remuneration of the Directors and senior management are determined with reference to the Group's operating results, individual performance, qualification and competence and the prevailing market conditions.

During the Year, one meeting was held by the Remuneration Committee to review and determine the remuneration of all executive Directors and senior management for the 2019/20 fiscal year and their performance-based remuneration and bonus with reference to corporate goals and objectives resolved by the Board. All committee members (including Mr. CHONG Wa Pan who attended the meeting but abstained from voting on the resolution for approving his salary) attended the meeting.

# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE

The Company established the Nomination Committee on 5 February 2009 with written terms of reference and is available on the websites of the Stock Exchange and the Company. The committee consists of three independent non-executive Directors, namely Ms. TSUI Pui Man (the chairman of the Nomination Committee), Mr. CHAU On Ta Yuen, Mr. LAW Tze Lun, and one executive Director, Mr. CHONG Wa Pan. The roles and functions of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board, identifying individuals suitably qualified to become Board member and assessing the independence of independent non-executive Directors.

The Board has adopted the Board Diversity Policy which sets out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance, and will select candidates for the Board based on a range of diversity perspectives, including but not limited to gender, age, educational background, professional experience, skills, knowledge and independence (the "**Measurable Objectives**"). The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will review the Measurable Objectives set for implementing the Board Diversity Policy by considering the Company's business model and specific needs from time to time and will recommend any revision thereof, if necessary, to the Board for consideration and approval.

The Company has a nomination policy of having a board of directors with a diversity of skills and experience. The selection and proposed appointment of the Directors are submitted for the approval from both the Nomination Committee and the Board, subject to the re-election of Directors in accordance with the Articles of Association. The criteria of assessing a candidate include his/her ability to devote sufficient time and attention to participate in the affairs of the Company including the attendance of Board meetings and serving on the Board Committees, to bring business experience to the Board and to contribute to the Board diversity. Once the candidate is proposed to be appointed as an independent non-executive Director, his/her independence shall be assessed in accordance with the requirements under the Listing Rules. The totality of the candidate's education, qualifications and experience shall be evaluated in assessing his/her suitability.

The Nomination Committee will review, as appropriate, the Board Diversity Policy and the Nomination Policy to ensure its effectiveness. The Nomination Committee will also discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The duties of the Nomination Committee are set out in the terms of reference, which include, among others, the following:

(i) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(ii) review the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy;

(iii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(iv) assess the independence of independent non-executive Directors; and

(v) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer.

During the Year, one meeting was held by the Nomination Committee to review the Board's composition, recommend the rotation of Directors and assess the independence of the independent non-executive Directors. All committee members attended the meeting.

# CORPORATE GOVERNANCE REPORT

## EXECUTIVE COMMITTEE

The Company has set up the Executive Committee which determines the Group's strategies, reviews business performances and monitors the management's performance. As at 31 March 2020, the Executive Committee consists of three executive Directors, namely Mr. CHONG Kam Chau, Mr. CHONG Wa Pan and Mr. CHONG Wa Ching. Meetings are held regularly with the senior management of the Company to review the operation performance.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements which give a true and fair view of the state of the Group's affairs, results and cashflow for the Year.

In preparing the consolidated financial statements, supported by the finance department of the Group, the Directors have:

(i) reviewed the adoption of all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;

(ii) selected suitable accounting policies and applied them on a consistent basis;

(iii) made judgment and estimates that are prudent, fair and reasonable; and

(iv) prepared the consolidated financial statements on a going concern basis.

The Board is also responsible for presenting a balanced, clear and understandable assessment in annual and interim reports, other inside information announcements and other financial disclosures of the Group required under the Listing Rules and other statutory requirements.

The Board has received sufficient explanation and information from the management, which enabled the Board to make an informed assessment of the consolidated financial statements and other information before approval.

The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and 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.

## EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The Audit Committee reviewed the letter from HLM CPA Limited (the external auditor of the Company) and confirmed their independence, approved their appointment, discussed the scope of their audit services and approved their fees.

HLM CPA Limited had stated their reporting responsibilities in the independent auditor's report on the consolidated financial statements on page 44 to page 48 of this annual report.

For the year ended 31 March 2020, the fee paid and payable to HLM CPA Limited in respect of audit and audit related services amounted to approximately HK$1.1 million.

The Audit Committee recommended the appointment and reappointment of HLM CPA Limited for audit service.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL

During the Year, the Group had complied with Principle C.2 of the Corporate Governance Code by establishing appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Board oversees the Company's risk management and internal control on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

### Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification*: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- *Evaluation*: Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management*: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted during the Year, no significant risk was identified.

### Internal Control System

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- *Control Environment*: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- *Risk Assessment*: A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
- *Control Activities*: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- *Information and Communication*: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- *Monitoring*: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

# CORPORATE GOVERNANCE REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

### Internal Control System (Continued)

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- the access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality;

- confidentiality agreements are in place when the Group enters into significant negotiations; and

- the Executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews conducted during the Year, no significant control deficiency was identified.

### Internal Auditors

The Group has an Internal Audit function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant) ("**IA**"). The IA function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An IA plan has been approved by the Board. According to the established plan, review of the effectiveness of the Group's risk management and internal control systems should be conducted at least annually and the results are reported to the Board via Audit Committee afterwards.

### Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Board, through its review and the review made by IA and the Audit Committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, 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. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

# CORPORATE GOVERNANCE REPORT

## COMPANY SECRETARY

Ms. BOK Yuk Wan, who has been appointed as the company secretary of the Company since 16 January 2017, has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements during the Year.

## COMMUNICATION WITH SHAREHOLDERS

The Directors acknowledge that they are entrusted to manage the Company on behalf of the Shareholders and they are responsible to the Shareholders for the operation and performance of the Company, therefore maintaining an open and effective communication with Shareholders is crucial for the Company to present the latest business development to them and obtain their opinions.

All Shareholders are encouraged to attend the general meetings of the Company to raise comments and exchange views with the Board. The Chairman, the chairpersons of the Committees and the members of the Committees will attend the general meetings to answer questions raised at the general meetings.

The Company will use a range of communication tools to ensure the Shareholders are kept well-informed including general meetings, annual reports, various notices, announcements and circulars. To promote effective communication, the Company maintains a website at www.comesure.com to post up-to-date information on the Group's latest business development, financial information and other relevant information for public access.

The forthcoming AGM of the Company is scheduled be held on 7 September 2020. Notice of the AGM and necessary information on issues to be considered in the AGM will be despatched to the Shareholders at least 20 clear business days in advance in accordance with the Listing Rules.

## DIVIDEND POLICY

The Company adopts a dividend policy, taking into consideration all circumstances including the following factors before declaring or recommending dividends: (i) the current and projected financial performance of the Company; (ii) the growth and investment opportunities; (iii) other macro and micro economic factors; and (iv) other factors or events that the Board may consider relevant or appropriate from time to time. The payment of dividend is also subject to any restrictions under the applicable laws and the Articles of Association.

The Board does not propose any payment of final dividend for the Year.

## SHAREHOLDERS' RIGHT

### Procedures for convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings by the Shareholders

The Board and the management of the Group endeavored to ensure all the Shareholders are treated fairly and equally. The Board has established the shareholders' communication policy to maintain an open and effective communication with the Shareholders and to update the Shareholders on relevant information on the Group's business in a timely manner.

To ensure the rights of all the Shareholders, separate resolutions are proposed at the general meeting on each substantial issue, including but not limited to connected transactions, substantial acquisitions and election of individual Directors.

Extraordinary general meetings ("**EGM**") shall be convened on the requisition of one or more Shareholders holdings, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meeting. Such requisition shall be made in writing to the Board or the company secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition.

Any Shareholder may appoint a proxy or representative to attend the general meeting, and they are entitled to exercise the same voting rights in the meeting.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHT (Continued)

### Procedures for convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings by the Shareholders (Continued)

The convene and holding of general meetings and information distribution to the Shareholders are conducted strictly pursuant to the applicable laws and regulations and constitutional documents of the Company.

AGM procedures are reviewed from time to time to ensure that the Company complies with the code provisions of the Code. The chairperson of the AGM exercises his/her power under the Articles of Association to put each proposed resolution to the vote by way of a poll. The procedures for conducting a poll are explained at the general meeting prior to the polls being taken. Voting results are posted on the Company's website on the day of the AGM.

### Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Hong Kong office of the Company whose contact details are as follows:

Address: Units 8–10, 8th Floor
Cornell Centre
50 Wing Tai Road
Chai Wan
Hong Kong
Email: calvinchong@comesure.com
Tel No.: (852) 2889 0310
Fax No.: (852) 2558 7474/(852) 2896 6511

## CHANGES TO CONSTITUTIONAL DOCUMENTS

During the Year, there was no significant change in the Company's constitutional documents. The constitutional documents of the Company are published on the Company's website and on the Stock Exchange's website.

## INVESTORS RELATIONS

The Group values feedback from the Shareholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions to the Board or the Company are welcome to contact our investor relation company.

### Designated contact information

DirectiR Limited
Address: 10B, Phase 1, Yip Fat Factory Building
77 Hoi Yuen Road
Kwun Tong
Hong Kong
Tel.: (852) 5318 1969
Email: comesure@directir.com.hk

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. CHONG Kam Chau (莊金洲先生) ("Mr. CHONG")**, aged 73, the founder and Chairman of the Group, is responsible for the strategic planning and overall development of the Group. Mr. CHONG is a director of Central Dragon Limited, Central Master Limited, Come Sure Development Limited, Come Sure Holdings Limited, Grand View Enterprises Group Limited, Joy Honest Holdings Limited, Jumbo Match Limited and Wah Ming International Limited (all of which are subsidiaries of the Company). Mr. CHONG is also the sole director and controlling shareholder of Perfect Group Version Limited. He was a standing committee member of the 9th, 10th and 11th term of the Political Consultative Conference of Shanxi Province (山西省政協第九、十及十一屆常務委員), and is the Honorary President of Shanxi Association of Overseas Liaison (山西省海外聯誼會名譽會長), and the Permanent Honorary President of the Eastern District Industries & Commerce Association (香港東區工商業聯會永遠名譽會長). Mr. CHONG was the committee member of the 16th and 17th term and the vice chairman of the 18th term of The Hong Kong Corrugated Paper Manufacturers' Association (HKCPMA). Mr. CHONG has over 30 years of experience in the operation and management of companies engaging in manufacturing and/or trading of corrugated paper products in Hong Kong and the PRC. Mr. CHONG is the father of Mr. CHONG Wa Pan (an executive Director, the Chief Executive Officer and President of the Company), Mr. CHONG Wa Ching (an executive Director) and Mr. CHONG Wa Lam (a senior management of the Company).

**Mr. CHONG Wa Pan (莊華彬先生)**, aged 48, is the eldest son of Mr. CHONG, the elder brother of Mr. CHONG Wa Ching (an executive Director) and Mr. CHONG Wa Lam (a senior management of the Company). Mr. CHONG Wa Pan is the Chief Executive Officer and President of the Company. He joined the Group in December 1991 and is responsible for the Group's overall management. Mr. CHONG Wa Pan is a director of Central Dragon Limited, Central Master Limited, Cheer Power (China) Limited, Huizhou Come Sure Paper Industrial Company Limited, Come Sure Development Limited, Come Sure Group Limited – Macao Commercial Offshore, Come Sure Holdings Limited, Come Sure Packing Products (Shenzhen) Company Limited, Huizhou Come Sure Packing Products Company Limited, Luck Sea Investment Limited, Mass Linker Limited and Smart Profit Capital Investment Limited (all of which are subsidiaries of the Company). Mr. CHONG Wa Pan obtained a post-graduate certificate in June 2002 and a professional certificate in March 2006 both in Enterprise Management from Shanxi University of Finance and Economics in the PRC (山西財經大學). Mr. CHONG Wa Pan is a member of the Political Consultative Conference of Jiangxi Province (江西省政協委員), the Vice-President of the Jiangxi Association of Overseas Liaison (江西省海外聯誼會副理事長), the Vice-President of Hong Kong Federation Jiangxi Association (香港江西社團(聯誼)總會副主席), the Executive President of Guangdong Province of Jin Jiang Chamber of Commerce (廣東省晉江商會執行會長), the Vice-President of Shenzhen Enterprise Confederation and Shenzhen Entrepreneur Association (深圳市企業聯合會及深圳市企業家協會副會長), the Vice-President of Shenzhen Province Foreign Investment Enterprise Association (深圳外商投資企業協會副會長), and the Permanent Honorary President of the Eastern District Industries & Commerce Association (香港東區工商業聯會永遠名譽會長).

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS (Continued)

### Executive Directors (Continued)

**Mr. CHONG Wa Ching (莊華清先生)**, aged 43, is the second son of Mr. CHONG, the elder brother of Mr. CHONG Wa Lam (a senior management of the Company), the younger brother of Mr. CHONG Wan Pan (an executive Director, the Chief Executive Officer and President of the Company). Mr. CHONG Wa Ching is a director of Century Shiny Investment Limited, Cheer Fame Asia Limited, Fortune Port Technology Limited, Come Sure Packing Products (Shenzhen) Company Limited, Kechen Technology Limited, Playful Games Holdings Limited, Sky Achiever Holdings Limited, Superb Speed Limited, Think Speed Group Limited, Turbo Best Holdings Limited and Wise Luck International (HK) Limited (all of which are subsidiaries of the Company). He joined the Group in August 2000 and is responsible for the strategic planning and control of the procurement and logistic activities of the Group, management of capital market operations, and investors' relationship. Mr. CHONG Wa Ching holds a Bachelor's degree in Business (Information Technology) from Swinburne University of Technology in Australia and a Master's Degree in Business from the University of Newcastle in Australia via distance learning. Mr. CHONG Wa Ching is a member of the Political Consultative Conference of Shanxi Province (山西省政協委員), a committee member of China Federation of Youth Committee (中國僑聯青年委員會委員), the vice-chairman of the Shanxi Federation of Youth Committee (山西省僑聯青年委員會副主席), a youth standing committee of Shanxi Province (山西省青年常委), an executive director of the Shanxi Association of Overseas Liaison (山西省海外聯誼會常務理事).

### Independent Non-executive Directors

**Mr. CHAU On Ta Yuen (周安達源先生) ("Mr. CHAU")**, aged 73, was appointed as an independent non-executive Director on 5 February 2009. He graduated from Xiamen University, majoring in Chinese language and literature. Mr. CHAU is currently an executive director and the chairman of the board of directors of ELL Environmental Holdings Limited (Stock Code: 1395), an independent non-executive director of Good Resources Holdings Limited (formerly known as Good Fellow Resources Holding Limited) (Stock Code: 109), an independent non-executive director of Redco Properties Group Limited (Stock Code: 1622), an independent non-executive director of Hang Pin Living Technology Company Limited (formerly known as Hua Long Jin Kong Company Limited) (Stock Code: 1682) and an independent non-executive director of Million Hope Industries Holdings Limited (Stock Code: 1897), the shares of all of which are listed on the Main Board of the Stock Exchange. Mr. CHAU was a non-executive director and the honorary chairman of the board of directors of China Ocean Industry Group Limited (formerly known as China Ocean Shipbuilding Industry Group Limited) (Stock Code: 651) from June 2015 to December 2019. He is a standing committee member of the 13th National Committee of the Chinese People's Political Consultative Conference of the PRC (第十三屆全國政協常委) and honorary advisor of Hong Kong Federation of Fujian Associations (香港福建社團聯會榮譽顧問). Mr. CHAU is awarded with a Bronze Bauhinia Star (BBS) and Silver Bauhinia Star (SBS) by the Government of Hong Kong on 1 July 2010 and 1 July 2016, respectively.

**Ms. TSUI Pui Man (徐珮文女士)**, aged 63, was appointed as an independent non-executive Director on 5 February 2009. She is a practising lawyer in Hong Kong. Ms. TSUI holds a Bachelor's degree in Arts and a Bachelor's degree in Law from the University of Hong Kong. Ms. TSUI is a qualified solicitor in Hong Kong (admitted in 1988), England and Wales, Australia and Singapore. She is also a Notary Public and a China-Appointed Attesting Officer. Ms. TSUI was a member of Disciplinary Panel of Hong Kong Certified Public Accountants.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS (Continued)

### Independent Non-executive Directors (Continued)

**Mr. LAW Tze Lun (羅子璘先生)**, aged 48, was appointed as an independent non-executive Director on 5 February 2009. He is currently a director of ANSA CPA Limited. Mr. LAW holds a Bachelor of Commerce (Accounting) from the Curtin University of Technology. He is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of CPA Australia. Mr. LAW has over 25 years of experience in auditing, accounting and finance gained from various accounting firms in Hong Kong. Mr. LAW is currently an independent non-executive director of Gemini Investments (Holdings) Limited (Stock code: 174) and an independent non-executive director of Justin Allen Holdings Limited (Stock Code: 1425), both of which are listed on the Main Board of the Stock Exchange and an independent non-executive director of Tak Lee Machinery Holdings Limited (Stock Code: 8142) which is listed on the GEM Board of the Stock Exchange. Mr. LAW was an independent non-executive director of National Investments Fund Limited (Stock Code: 1227) from December 2013 to September 2018.

The interest of the Directors in shares and/or underlying shares of the Company are set out in the paragraphs headed "Directors' and chief executive's interests and short positions in Shares" in the Directors' Report of this annual report.

## SENIOR MANAGEMENT

**Mr. YEOH Keng Gut**, aged 51, is the plant manager of Come Sure Packing Products (Shenzhen) Company Limited. He joined the Group in June 2007 and is responsible for overall plants operation of Come Sure Shenzhen. He holds a Bachelor's degree in Applied Science (Engineering) from University of Toronto in Canada. Mr. YEOH has more than 20 years experience in the packaging industry involved in engineering, production, planning and customer services gained in Malaysia and China.

**Mr. CHONG Wa Nam (莊華楠先生)**, aged 49, is the supervisor of Come Sure Packing Products (Shenzhen) Company Limited and a director of Chance Bright Limited – Macao Commercial Offshore, Come Sure Paper Industrial (Shenzhen) Company Limited, Huizhou Come Sure Packing Products Company Limited, Huizhou Come Sure Paper Industrial Company Limited, Shenzhen Qianhai Come Sure Packing Creative and Cultural Industries Company Limited, Wah Ming Colour Printing (Shenzhen) Company Limited and Jiangxi Come Sure Packing Products Company Limited (all of which are subsidiaries of the Company). Mr. CHONG Wa Nam joined the Group since 1992 and is responsible for monitoring the management and operations of a group of PRC subsidiaries to ensure the Group is in compliance with the PRC company laws and other legal regulations. Mr. CHONG Wa Nam holds a professional certificate in Enterprise Management from Shanxi University of Finance and Economics in the PRC (山西財經大學). Mr. CHONG Wa Nam has more than 25 years of experience in the packaging industry involved in production, logistics, customer services and administration gained within the Group.

# DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT (Continued)

**Mr. CHONG Wa Lam (莊華琳先生)**, aged 41, is the youngest son of Mr. CHONG, the younger brother of Mr. CHONG Wa Pan, and Mr. CHONG Wa Ching, all of whom are executive Directors. Mr. CHONG Wa Lam is a director of Come Sure Packing Products (Shenzhen) Company Limited, China Apex Investment Limited, Huizhou Come Sure Paper Industrial Company Limited, Come Sure Packing Products (Quanzhou) Company Limited, Kechen Technology Limited, Mass Winner Holdings Limited, Playful Games Holdings Limited, Superb Speed Limited, Think Speed Group Limited, Turbo Best Holdings Limited, Wah Ming Colour Printing (Shenzhen) Company Limited and Wah Ming Paper Industrial (Shenzhen) Company Limited (all of which are subsidiaries of the Company). He joined the Group in April 2002 and is responsible for the Group's sales and marketing activities including sales and product development of the Group, and the management of new investment projects. Mr. CHONG Wa Lam obtained a postgraduate certificate in June 2002 and a professional certificate in March 2006 both in Enterprise Management from Shanxi University of Finance and Economics in the PRC (山西財經大學). He is a member of the Political Consultative Conference of Anhui Province (安徽省政協委員), a director of the Shanxi Association of Overseas Liaison (山西省海外聯誼會理事), a director of Shenzhen Printing Association (深圳市印刷行業協會理事), a vice chairman of Shenzhen Packaging Industry Association (深圳市包裝行業協會副會長), a vice chairman of The Hong Kong Corrugated paper Manufacturers' Association (HKCPMA), the vice president of Huidong Province Foreign Investment Enterprise Association (惠東外商投資企業協會副會長), a standing committee member of China Packaging Federation Paper Products Committee (中國包裝聯合會紙制品包裝委員會常務委員).

**Mr. LUK Kwok Tung, Eric (陸國棟先生)**, aged 44, is the financial controller of the Group, and is responsible for the financial and accounting management of the Group. Mr. LUK joined the Group as Assistant Accounting Manager in September 2004. Mr. LUK is a director of Kechen Technology Limited, Playful Games Holdings Limited, Superb Speed Limited and Think Speed Group Limited (all of which are subsidiaries of the Company). Mr. LUK holds a bachelor's degree in Business Accounting from the University of Glamorgan (now known as University of South Wales), United Kingdom. He is a fellow member of the Association of Chartered Certified Accountants. Mr. LUK has over 20 years of experience of financial and accounting and auditing, gained from the Group and local and international accounting firms.

**Mr. LIN Mingzhong (林明忠先生)**, aged 51, is the plant manager of Wah Ming Colour Printing (Shenzhen) Company Limited and Sky Achiever Paper Industrial (Shenzhen) Company Limited, and the sales manager of Come Sure Group Limited – Macao Commercial Offshore. He joined the Group in 1 January 2003 and is responsible for overall operation of colour printing and molded pulp business and sales activities of Come Sure Group Limited – Macao Commercial Offshore. He graduated from 海南省郵電學校 with a college degree in electromechanical communication. Mr. LIN Mingzhong has over 15 years of experience in the packaging industry, involving engineering, production, planning and customer service.

## COMPANY SECRETARY

**Ms. BOK Yuk Wan (濮玉云女士)**, aged 38, is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Ms. BOK obtained a bachelor degree of Accountancy awarded by the University of South Australia in January 2009. Ms. Bok has over 10 years of experience in accounting, auditing and corporate management.

# DIRECTORS' REPORT

The Directors are pleased to present this annual report and the audited consolidated financial statements for the Year.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries, are set out in note 44 to the consolidated financial statements.

Further discussion and analysis of the business review required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis on financial key performance indicators, principal risks and uncertainties facing the Group and an indication of likely future developments in the businesses of the Group can be found in the "Chairman's Statement" and "Management Discussion and Analysis" set out on pages 5 to 14 of this annual report. These discussions form part of this "Directors' Report".

## RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 49 of this annual report.

No interim dividend was paid during the Year (2019: Nil). The Board does not propose any payment of final dividend for the Year.

## CLOSURE OF REGISTER OF MEMBERS

The AGM will be held on 7 September 2020. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 2 September 2020 to 7 September 2020, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the AGM, all transfer of shares, 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 no later than 4:30 p.m. on 1 September 2020.

## FIXED ASSETS

During the Year, the Group has acquired approximately HK$12.5 million property, plant and equipment, which is mainly for regular replacement and the upgrading of production facilities.

Details of these and other movements during the Year in property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

During the Year, the Group has paid approximately HK$2.8 million (2019: approximately HK$1.8 million) as the deposits for the acquisition of property, plant and equipment.

## SHARE CAPITAL

Details of the movements during the Year in the share capital of the Company are set out in note 34 to the consolidated financial statements of this annual report.

## TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their shareholding in the Company.

# DIRECTORS' REPORT

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to the Shareholders as at 31 March 2020 amounted to approximately HK$361.4 million (2019: approximately HK$408.2 million).

Details of the movements in the reserves of the Group and the Company during the Year are set out in page 52 to page 53 and note 45(d) to the consolidated financial statements of this annual report, respectively.

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

During the Year, the Company bought-back a total of 5,094,000 ordinary shares of HK$0.01 each of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") at an aggregate consideration (including transaction cost) of approximately HK$3.1 million. 4,472,000 shares bought-back by the Company were cancelled during the Year. 622,000 shares bought-back by the Company were subsequently cancelled in April 2020.

Particulars of the buy-backs during the Year are as follows:

| Month of buy-backs | Number of ordinary shares of HK$0.01 each | Price per share Highest | Price per share Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$ |
| April 2019 | 742,000 | 0.80 | 0.79 | 596,737 |
| August 2019 | 1,558,000 | 0.57 | 0.54 | 887,753 |
| October 2019 | 546,000 | 0.60 | 0.57 | 324,663 |
| December 2019 | 1,626,000 | 0.60 | 0.58 | 978,995 |
| March 2020 | 622,000 | 0.51 | 0.50 | 315,127 |
| | 5,094,000 | | | 3,103,275 |

Subsequent to 31 March 2020 and up to the date of this annual report, the Company bought-back a total of 1,120,000 shares at an aggregate consideration (including transaction cost) of HK$576,057. All 1,120,000 bought-back shares were subsequently cancelled in April 2020. The number of issued shares of the Company as at the date of this annual report was 347,258,000 shares.

The Directors believe that share buy-backs are in the best interests of the Company and the Shareholders as a whole and that such share buy-backs would lead to an enhancement of the net asset value and/or earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

## FINANCIAL STATEMENTS

The profit of the Group and the financial conditions of the Company and the Group for the Year are set out in the financial statements on pages 49 to 124 of this annual report.

## ENVIRONMENTAL POLICIES

The Group is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimise our environmental impact by energy saving and wastage reduction, and encouraging recycle of office supplies and other materials. The Group also requires its factories to operate in strict compliance with the relevant environmental regulations and rules and possess all necessary permission and approval from the relevant PRC regulators.

# DIRECTORS' REPORT

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors recognise that employees, customers and business partners are the keys to the sustainable development of the Group. The Group is committed to building a close and caring relationship with its employees and business partners and improving the quality of services to the customers.

Employees are regarded as the most important and valuable assets of the Group. The Group ensures all staff is reasonably remunerated and its workers are provided with regular training courses on operation of different types of machinery, as well as work safety. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

The Group also stays connected with its customers and suppliers and has ongoing communication with the customers and suppliers through various channels such as telephone, electronic mails and physical meetings to obtain their feedback and suggestions.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the Year and up to the date of this annual report, the Group's operation has complied with all the relevant laws and regulations in the PRC and Hong Kong in all material respects.

## DIRECTORS

The Directors during the Year and up to the date of this annual report were as follows:

### Executives Directors

Mr. CHONG Kam Chau
Mr. CHONG Wa Pan
Mr. CHONG Wa Ching

### Independent Non-executive Directors

Mr. CHAU On Ta Yuen
Ms. TSUI Pui Man
Mr. LAW Tze Lun

In accordance with the provisions of the Articles of Association, Mr. CHONG Wa Ching and Ms. TSUI Pui Man will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM. No Directors have waived or agreed to waive any emoluments.

## DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2020 are set out in notes 31 and 32 to the consolidated financial statements of this annual report.

## FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years are set out on page 4 of this annual report.

# DIRECTORS' REPORT

## RETIREMENT BENEFITS SCHEMES

Particulars of the Group's retirement benefits schemes are set out in note 37 to the consolidated financial statements of this annual report.

## MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business were entered into or existed during the Year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 March 2020, the interests and short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix X to the Listing Rules were as follows:

### Long positions in the Shares

| Name | Capacity/Nature of interest | Number of Shares | Percentage of issued Shares |
|---|---|---|---|
| Mr. CHONG Kam Chau (Notes 1 & 2) | Interest of a controlled corporation; founder and beneficiary of a discretionary trust | 233,000,000 | 66.88% |
| Mr. CHONG Wa Pan (Notes 1 & 3) | Beneficiary of a discretionary trust | 233,000,000 | 66.88% |
| Mr. CHONG Wa Ching (Notes 1 & 3) | Beneficiary of a discretionary trust | 233,000,000 | 66.88% |
| Mr. CHONG Wa Lam (Notes 1 & 3) | Beneficiary of a discretionary trust | 233,000,000 | 66.88% |
| Mr. CHAU On Ta Yuen | Beneficial owner | 300,000* | 0.09% |
| Ms. TSUI Pui Man | Beneficial owner | 300,000* | 0.09% |
| Mr. LAW Tze Lun | Beneficial owner | 300,000* | 0.09% |

* These long positions represent the share options granted to the respective Directors under the share option scheme of the Company. Each share option shall entitle the holder thereof to subscribe for one share.

# DIRECTORS' REPORT

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES (Continued)

### Long positions in the ordinary shares of associated corporation

| Name | Name of associated corporation | Capacity/Nature of interest | Number of securities | Percentage of shareholding |
|---|---|---|---|---|
| Mr. CHONG Kam Chau (Notes 1 & 2) | Perfect Group Version Limited | Interest of a controlled corporation; founder and beneficiary of a discretionary trust | 10,000 ordinary shares | 100% |
| Mr. CHONG Wa Pan (Notes 1 & 3) | Perfect Group Version Limited | Beneficiary of a discretionary trust | 10,000 ordinary shares | 100% |
| Mr. CHONG Wa Ching (Notes 1 & 3) | Perfect Group Version Limited | Beneficiary of a discretionary trust | 10,000 ordinary shares | 100% |
| Mr. CHONG Wa Lam (Notes 1 & 3) | Perfect Group Version Limited | Beneficiary of a discretionary trust | 10,000 ordinary shares | 100% |

Notes:

1. The entire issued shares of Perfect Group Version Limited ("**Perfect Group**") are held by Jade City Assets Limited ("**Jade City**"), which is in turn held by HSBC International Trustee Limited acting as the trustee of the CHONG Family Trust. The CHONG Family Trust is an irrevocable discretionary trust set up by Mr. CHONG Kam Chau as settlor and HSBC International Trustee Limited as trustee on 2 February 2009. The beneficiaries of the CHONG Family Trust include Mr. CHONG Kam Chau, Ms. CHAN Po Ting, Mr. CHONG Wa Pan, Mr. CHONG Wa Ching, Mr. CHONG Wa Lam and Mr. CHONG Kam Shing, who is the son of Mr. CHONG Wa Pan.

2. Mr. CHONG Kam Chau is the founder, an executive Director and the Chairman. Mr. CHONG Kam Chau is the sole director of Perfect Group and therefore Mr. CHONG Kam Chau is deemed or taken to be interested in the entire issued shares of Perfect Group and the 233,000,000 Shares beneficially owned by Perfect Group for the purposes of the SFO. Mr. CHONG Kam Chau as settlor and a beneficiary of the CHONG Family Trust is also deemed or taken to be interested in the 233,000,000 Shares held by Perfect Group under the SFO.

3. Mr. CHONG Wa Pan, the Chief Executive Officer and the President of the Company, together with Mr. CHONG Wa Ching, the executive Director, and Mr. CHONG Wa Lam, the senior management of the Company, all as beneficiaries and Mr. CHONG Kam Shing, the son of Mr. CHONG Wa Pan, as beneficiary of the CHONG Family Trust, are deemed or taken to be interested in entire issued shares of Perfect Group and the 233,000,000 Shares held by Perfect Group under the SFO.

Save as disclosed above, none of the Directors or chief executive, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2020.

# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2020, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

### Long positions in the Shares

| Name | Capacity/Nature of interest | Number of shares | Percentage of issued shares |
|---|---|---|---|
| Perfect Group Version Limited (Notes 1 & 2) | Beneficial owner | 233,000,000 | 66.88% |
| Jade City Assets Limited (Notes 1 & 2) | Interest of controlled corporation | 233,000,000 | 66.88% |
| HSBC International Trustee Limited (Notes 1 & 2) | Trustee | 233,000,000 | 66.88% |
| Ms. CHAN Po Ting (Notes 1 & 3) | Family interests; Beneficiary of a discretionary trust | 233,000,000 | 66.88% |
| Ms. HUNG Woon Cheuk (Note 4) | Family interests | 233,000,000 | 66.88% |
| Ms. YUEN Chung Yan (Note 5) | Family interests | 233,000,000 | 66.88% |
| Mr. CHONG Kam Shing (Note 1) | Beneficiary of a discretionary trust | 233,000,000 | 66.88% |

Notes:

1. The entire issued shares of Perfect Group are held by Jade City, which is in turn held by HSBC International Trustee Limited acting as the trustee of the CHONG Family Trust. The CHONG Family Trust is an irrevocable discretionary trust set up by Mr. CHONG Kam Chau as settlor and HSBC International Trustee Limited as trustee on 2 February 2009. The beneficiaries of the CHONG Family Trust include Mr. CHONG Kam Chau, Ms. CHAN Po Ting, Mr. CHONG Wa Pan, Mr. CHONG Wa Ching and Mr. CHONG Wa Lam and Mr. CHONG Kam Shing, who is the son of Mr. CHONG Wa Pan.

2. Such Shares are held by Perfect Group, the entire issued shares of which are held by Jade City. The entire issued capital of Jade City is held by HSBC International Trustee Limited acting as the trustee of the CHONG Family Trust.

3. Ms. CHAN Po Ting, the spouse of Mr. CHONG Kam Chau and one of the beneficiaries of the CHONG Family Trust, is deemed or taken to be interested in the interests held by Mr. CHONG Kam Chau and Perfect Group under the SFO.

4. Ms. HUNG Woon Cheuk is the spouse of Mr. CHONG Wa Pan. Therefore, Ms. HUNG Woon Cheuk is deemed or taken to be interested in the interests held by Mr. CHONG Wa Pan under the SFO.

5. Ms. YUEN Chung Yan is the spouse of Mr. CHONG Wa Ching. Therefore, Ms. YUEN Chung Yan is deemed or taken to be interested in the interests held by Mr. CHONG Wa Ching under the SFO.

# DIRECTORS' REPORT

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save for the share option scheme adopted by the Company on 5 February 2009 (the "**Scheme**"), at no time during the Year was the Company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SIGNIFICANT INVESTMENTS HELD

Save as disclosed in note 25 to the consolidated financial statement, there were no significant investment held by the Group as at 31 March 2020.

## DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, or its subsidiaries was a party and in which the Controlling Shareholder or a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## CONTINUING CONNECTED TRANSACTIONS

### Master Materials Purchase Agreement

On 29 July 2010, Nine Dragons Paper (Holdings) Limited ("**Nine Dragons**") and the Company entered into a master materials purchase agreement (the "**Master Materials Purchase Agreemen**t") in relation to the purchase of raw paper materials by the Group from Nine Dragons for a period commencing from 22 October 2010 to 31 March 2013. The annual aggregate transaction amounts in respect of the purchase of raw paper materials by the Group from Nine Dragons under the Master Materials Purchase Agreement or the separate sale and purchase agreements between Nine Dragons and the Group for the period from 22 October 2010 to 31 March 2011 and the two financial years of the Company ending on 31 March 2012 and 31 March 2013 shall be capped at and not exceed RMB200 million, RMB400 million and RMB500 million, respectively.

As the controlling shareholder of Nine Dragons indirectly owned as to 40% of the issued share capital of an indirectly owned subsidiary of the Company (the "**Subsidiary**"), Nine Dragons is a connected person of the Company pursuant to Chapter 14A of the then Listing Rules and as each of the percentage ratios (other than the profits ratio) for the aggregate caps of the transactions contemplated under the Master Materials Purchase Agreement for the period from 22 October 2010 to 31 March 2011 and the two financial years of the Company ending on 31 March 2012 and 31 March 2013 of RMB200 million, RMB400 million and RMB500 million, respectively is on an annual basis more than 25%, the transactions contemplated under the Master Materials Purchase Agreement were subject to the reporting, announcement and independent shareholders' approval requirements pursuant to the then Listing Rules at the time of entering the Master Materials Purchase Agreement.

The above continuing connected transaction and the annual caps contemplated under the Master Materials Purchase Agreement were approved by the independent Shareholders at an extraordinary general meeting of the Company held on 6 September 2010. For details, please refer to the announcements of the Company dated 29 July 2010 and 6 September 2010, and the circular of the Company dated 19 August 2010.

# DIRECTORS' REPORT

## CONTINUING CONNECTED TRANSACTIONS (Continued)

### Master Materials Purchase Agreement (Continued)

On 28 February 2013, Nine Dragons and the Company renewed the Master Materials Purchase Agreement for a period commencing from 1 April 2013 to 31 March 2016. The annual aggregate transaction amounts in respect of the purchase of raw paper materials by the Group from Nine Dragons for the three financial years of the Company ending on 31 March 2014, 2015 and 2016 shall be capped at and not exceed RMB500 million, RMB500 million and RMB600 million, respectively. As the transaction meets the requirements under Rule 14A.31 of the then Listing Rules, the said continuing connected transaction is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33 of the then Listing Rules.

On 7 March 2016, both parties renewed the Master Materials Purchase Agreement for a period commencing from 1 April 2016 to 31 March 2019. The annual aggregate transaction amounts in respect of the purchase of raw paper materials by the Group from Nine Dragons for the three financial years of the Company ending on 31 March 2017, 2018 and 2019 shall be capped at and not exceed RMB500 million each year. On 6 March 2019, both parties have renewed the Master Materials Purchase Agreement for a period commencing from 1 April 2019 to 31 March 2022. The annual aggregate transaction amounts in respect of the purchase of raw paper materials by the Group from Nine Dragons for the three financial years of the Company ending on 31 March 2020, 2021 and 2022 shall be capped at and not exceed RMB550 million each year. As the Subsidiary meets the requirements under Rule 14A.09 of the Listing Rules as an insignificant subsidiary, the said transactions are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements.

Pursuant to the Listing Rules, if the Subsidiary no longer meets the conditions for the exemption under Rule 14A.09 of the Listing Rules or if there is a material change to the terms of such agreement, the Company must comply with all applicable rules under Chapter 14A of the Listing Rules in relation to the announcement, reporting and/or independent shareholders' approval requirements. The Company confirms the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied.

The amount paid by the Group to Nine Dragons and the percentage of relevant expenses are as follows:

| Name of connected person | Nature of transactions | **2020** Amount | **2020** % | 2019 Amount | 2019 % |
|---|---|---|---|---|---|
| Nine Dragons Paper (Holdings) Limited | Purchase of raw paper | **RMB312,723,271** | **54.5%** | RMB385,011,978 | 59.0% |

The independent non-executive Directors have reviewed the above continuing connected transactions and have confirmed that such transactions entered into by the Group were:

(i) in the ordinary and usual course of business of the Group;

(ii) 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 than terms available to or from independent third parties;

(iii) in accordance with relevant agreements governing such transactions; and

(iv) on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

# DIRECTORS' REPORT

## CONTINUING CONNECTED TRANSACTIONS (Continued)

### Master Materials Purchase Agreement (Continued)

The auditors of the Company has confirmed to the Board on matters stated in Rule 14A.56 of the Listing Rules in relation to the above continuing connected transactions.

Save as the transactions disclosed above, the Directors consider that those related party transactions disclosed in note 41 to the consolidated financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules or are exempt from the reporting, annual review, announcement or independent shareholders' approval requirements under the Listing Rules.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## DIRECTOR'S INTERESTS IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the Year and up to and including the date of this annual report.

## EMOLUMENT POLICY

The emolument policy for the senior management of the Group is set by the Remuneration Committee on the basis of their merit, qualifications and competence with reference to similar prevailing market condition.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

## SHARE OPTION SCHEME

As to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted the Scheme on 5 February 2009 whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company to, inter alia, any employees (full-time or part-time), directors, consultants and advisers or any substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 26 February 2009 and shall be valid and effective for a period of ten years commencing on 5 February 2009, subject to the early termination provisions contained in the Scheme.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00. The subscription price of a share of the Company in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a share of the Company on the date of grant of the option.

# DIRECTORS' REPORT

## SHARE OPTION SCHEME (Continued)

The Company shall be entitled to issue options, provided that the total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10% of the shares in issue on the listing date of the Company. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares of the Company in issue at the time.

On 6 January 2010, according to the terms of the Scheme, the Company has granted 8,400,000 share options (5,700,000 share options of which were granted to the then Directors) to certain eligible participants including certain Directors and employees at an exercise price of HK$1.18 per share and the consideration for each of the grant was HK$1. The share options granted pursuant to the Scheme was exercisable from 6 January 2011 and expired on 5 January 2020. Particulars of the share options granted under the Scheme were set forth in the announcement of the Company dated 6 January 2010.

On 17 May 2010, according to the terms of the Scheme, the Company had granted 19,600,000 share options (900,000 share options of which were granted to the Directors) to certain eligible participants including certain Directors and employees at an exercise price of HK$1.05 per share of the Company and the consideration for each of the grant was HK$1. The share options granted pursuant to the Scheme was exercisable from the 180th day after the date of acceptance of the share options by the Grantees and expired on 16 May 2020. Particulars of the share options granted under the Scheme were set forth in the announcement of the Company dated 17 May 2010.

The total number of shares of the Company issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

During the Year, a total of 5,900,000 share options were lapsed. As at 31 March 2020, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 3,900,000 (as at 31 March 2019: 9,800,000), representing approximately 1.12% (as at 31 March 2019: approximately 2.77%) of the issued share capital of the Company. As at the date of this annual report, all outstanding options under the Scheme were lapsed.

# DIRECTORS' REPORT

## SHARE OPTION SCHEME (Continued)

Details of the share options outstanding as at 31 March 2020 under the Scheme are as follows:

| Name or category of grantees | Date of grant | Exercisable period | Exercise price (HK$) (Note 1) | Share options held on 1 April 2019 | Share options granted during the Year | Share options exercised during the Year | Share options lapsed/ cancelled during the Year | Share options held on 31 March 2020 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Mr. CHONG Kam Chau | 6 January 2010 | 6 January 2011 to 5 January 2020 | 1.18 | 680,000 | – | – | 680,000 | – |
| | 6 January 2010 | 6 January 2012 to 5 January 2020 | 1.18 | 510,000 | – | – | 510,000 | – |
| | 6 January 2010 | 6 January 2013 to 5 January 2020 | 1.18 | 510,000 | – | – | 510,000 | – |
| | | | | 1,700,000 | – | – | 1,700,000 | – |
| Mr. CHONG Wa Pan | 6 January 2010 | 6 January 2011 to 5 January 2020 | 1.18 | 480,000 | – | – | 480,000 | – |
| | 6 January 2010 | 6 January 2012 to 5 January 2020 | 1.18 | 360,000 | – | – | 360,000 | – |
| | 6 January 2010 | 6 January 2013 to 5 January 2020 | 1.18 | 360,000 | – | – | 360,000 | – |
| | | | | 1,200,000 | – | – | 1,200,000 | – |
| Mr. CHONG Wa Ching | 6 January 2010 | 6 January 2011 to 5 January 2020 | 1.18 | 240,000 | – | – | 240,000 | – |
| | 6 January 2010 | 6 January 2012 to 5 January 2020 | 1.18 | 180,000 | – | – | 180,000 | – |
| | 6 January 2010 | 6 January 2013 to 5 January 2020 | 1.18 | 180,000 | – | – | 180,000 | – |
| | | | | 600,000 | – | – | 600,000 | – |
| **Independent non-executive Directors** | | | | | | | | |
| Mr. CHAU On Ta Yuen | 6 January 2010 | 6 January 2011 to 5 January 2020 | 1.18 | 200,000 | – | – | 200,000 | – |
| | 17 May 2010 | 13 November 2010 to 16 May 2020 | 1.05 | 300,000 | – | – | – | 300,000 |
| | | | | 500,000 | – | – | 200,000 | 300,000 |
| Ms. TSUI Pui Man | 6 January 2010 | 6 January 2011 to 5 January 2020 | 1.18 | 200,000 | – | – | 200,000 | – |
| | 17 May 2010 | 13 November 2010 to 16 May 2020 | 1.05 | 300,000 | – | – | – | 300,000 |
| | | | | 500,000 | – | – | 200,000 | 300,000 |
| Mr. LAW Tze Lun | 6 January 2010 | 6 January 2011 to 5 January 2020 | 1.18 | 200,000 | – | – | 200,000 | – |
| | 17 May 2010 | 13 November 2010 to 16 May 2020 | 1.05 | 300,000 | – | – | – | 300,000 |
| | | | | 500,000 | – | – | 200,000 | 300,000 |
| **Eight other eligible participants of the Group** | | | | | | | | |
| | 6 January 2010 | 6 January 2011 to 5 January 2020 | 1.18 | 660,000 | – | – | 660,000 | – |
| | 6 January 2010 | 6 January 2012 to 5 January 2020 | 1.18 | 495,000 | – | – | 495,000 | – |
| | 6 January 2010 | 6 January 2013 to 5 January 2020 | 1.18 | 495,000 | – | – | 495,000 | – |
| | 17 May 2010 | 13 November 2010 to 16 May 2020 | 1.05 | 3,000,000 | – | – | – | 3,000,000 |
| | | | | 4,650,000 | – | – | 1,650,000 | 3,000,000 |
| **One other eligible participant of the Group** | | | | | | | | |
| | 6 January 2010 | 6 January 2011 to 5 January 2020 | 1.18 | 150,000 | – | – | 150,000 | – |
| | | | | 150,000 | – | – | 150,000 | – |
| | | | | 9,800,000 | – | – | 5,900,000 | 3,900,000 |

Notes: 1. (a) The closing price of the Shares on 5 January 2010 (the day immediately before the date of grant) was HK$1.18.

(b) The closing price of the Shares on 16 May 2010 (the day immediately before the date of grant) was HK$1.05.

2. For further details, please refer to note 35 to the consolidated financial statements.

# DIRECTORS' REPORT

## CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this annual report, no contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders during the Year.

## PRE-EMPTIVE RIGHTS

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

## SUFFICIENCY OF PUBLIC FLOAT

As far as the Company is aware, more than 25% of the issued shares of the Company were held in public hands as of 31 March 2020 and up to the date of this annual report.

## PERMITTED INDEMNITY PROVISION

The Articles of Association provides that every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has maintained appropriate Directors' liability insurance coverage for the Directors during the Year.

## CHARITABLE DONATIONS

During the Year, the Group made charitable donation amounting to HK$2,267,000 (2019: HK$399,000).

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the Year under review is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 10.14% | N.A. |
| Five largest customers in aggregate | 27.73% | N.A. |
| The largest supplier | N.A. | 54.47% |
| Five largest suppliers in aggregate | N.A. | 76.08% |

At no time during the year have the Directors, their associates or any Shareholder (who/which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## EVENTS AFTER THE REPORTING PERIOD

With effect from 6 April 2020, the Company's principal share registrar and transfer agent in the Cayman Islands changed its company name from Estera Trust (Cayman) Limited to Ocorian Trust (Cayman) Limited. The address of the principal share registrar and transfer agent of the Company in the Cayman Islands remains unchanged.

Subsequent to 31 March 2020 and up to the date of this annual report, the Company bought-back a total of 1,120,000 shares at an aggregate consideration (including transaction cost) of HK$576,057. All 1,120,000 shares bought-back by the Company were subsequently cancelled in April 2020. The number of issued shares of the Company as at the date of this annual report was 347,258,000 shares.

# DIRECTORS' REPORT

On 24 June 2020 (after trading hours), Come Sure Packaging Products (Shenzhen) Company Limited* (錦勝包裝（深圳）有限公司), being an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") with Dongguan City Ruixing Paper Products Company Limited* (東莞市瑞興紙製品有限公司), an independent third party, to purchase certain assets and machineries used for the production of corrugated paperboards and paper-based packaging products (the "**Assets**") at a total consideration of RMB21,880,000 (equivalent to approximately HK$23,849,200). The Assets to be acquired under the Sale and Purchase Agreement are mainly for the purpose of ensuring smooth operation and enhancing the production capacity. For further details, please refer to the Company's announcement dated 24 June 2020.

Save as disclosed above, the Group had no other material event after the reporting period and up to the date of this annual report.

## FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group has no future plans for material investments or capital assets and their expected sources of funding in the coming year other than those set out in this annual report.

## AUDITOR

The consolidated financial statements of the Group for the years ended 31 March 2019 and 31 March 2020 have been audited by HLM CPA Limited which will retire and, being eligible, offer itself for re-appointment at the AGM. A resolution will be submitted on the AGM to appoint HLM CPA Limited as auditor of the Company.

On behalf of the Board

**CHONG Kam Chau**
*Chairman*

30 June 2020

# INDEPENDENT AUDITOR'S REPORT

恒健會計師行有限公司
**HLM CPA LIMITED**
**Certified Public Accountants**

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TO THE MEMBERS OF
**COME SURE GROUP (HOLDINGS) LIMITED**
(Incorporated in the Cayman Islands with limited liability)

## OPINION

We have audited the consolidated financial statements of Come Sure Group (Holdings) Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 49 to 123, which comprise the consolidated statement of financial position as at 31 March 2020, and 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Impairment assessments of trade and bills receivables

As set out in note 23 to the consolidated financial statements, as at 31 March 2020, the Group had trade and bills receivables amounting to approximately HK$219,478,000, net of allowance for doubtful debts of approximately HK$10,285,000. The Group applies HKFRS 9 simplified approach to measure expected credit loss ("**ECL**"). Trade receivables have been assessed for impairment both on an individual basis and on a collective group basis based on different credit risk characteristics. Management is required to carry out an estimation of the ECL at the reporting date, which is judgemental and may be subjected to management bias.

## KEY AUDIT MATTERS (Continued)

### How our audit addressed the Key Audit Matters

Our procedures in relation to valuation on trade receivables and assessment of ECL included:

- evaluating the design and implementation of controls applied by the management to assess the measurement of ECL of trade receivables;
- testing the accuracy of the receivables aging analysis and the recoverability of amounts due from debtors through circularisation, testing of subsequent receipts and corroborative enquiry;
- confirming the existence and assessing the valuation of significant receivables as at year end by tracing to subsequent/recent receipts;
- assessing the reasonableness of the methods and assumptions used by the management to estimate the ECL of trade receivables; and
- assessing, validating and discussing with management and evaluating their assessment on the recoverability of the outstanding debts and the adequacy of allowance made based on the trade receivables aging analysis, collections subsequent to the end of the reporting period, past collection history as well as trend analysis and knowledge of the businesses, with focus on long outstanding debts and debts which are past due but not impaired.

We found that the estimation and judgement made by management in respect of the recoverability of trade receivables were supported by credible evidence.

### Valuation of investment properties

We identified the valuation of investment properties as a key audit matter as the valuation is subject to significant management estimate.

The carrying value of investment properties amounted to approximately HK$242,860,000 as at 31 March 2020 and the decrease in fair value of the investment properties recorded in the profit for the year was approximately HK$16,440,000. In estimating the fair value of investment properties, it is the Group's policy to engage an independent professional valuer to perform the valuation. Management worked with the valuer to establish and determine the appropriate valuation technique and inputs to the valuation model.

Details of the investment properties are set out in note 19 to the consolidated financial statements.

### How our audit addressed the Key Audit Matters

Our procedures in relation to management's valuation of investment properties included:

- examining and reviewing the valuation report issued by the independent professional property valuer;
- evaluating the qualification, independence and objectivity of the independent professional property valuer; and
- obtaining an understanding from the independent professional property valuer about the valuation methodology, the performance of the property markets, significant assumptions adopted, critical judgment on key inputs and data used in the valuations and evaluating if the valuation methodology used and the key estimates and key input adopted in the valuation are reasonable.

We found that the assumptions made by the independent professional property valuer were reasonable based on available evidence.

# INDEPENDENT **AUDITOR'S REPORT**

## **KEY AUDIT MATTERS** (Continued)

### Impairment assessment of goodwill

As at 31 March 2020, the Group has goodwill of approximately HK$11,631,000 relating to the acquisition of 100% equity interest in Sky Achiever Holdings Limited ("**SAH**"). Management has concluded that there is no impairment in respect of the goodwill in SAH. This conclusion was based on a value-in-use model that required significant management judgement with respect to the discount rate and the underlying cash flows, in particular future revenue growth.

### How our audit addressed the Key Audit Matters

Our procedures in relation to management's impairment assessment of goodwill included:

- evaluating the appropriateness of methodology and assumptions used by the management;

- assessing the reasonableness of the underlying key assumptions and data used in the cash flow forecast (including revenue growth rate, operating results, discount rate, terminal growth rate) based on our knowledge of the business and industry; and

- testing the mathematical accuracy of the underlying valuation.

We found the assumptions made by management in relation to the value-in-use calculations to be reasonable based on available evidence. The significant inputs have been appropriately disclosed in note 20 to the consolidated financial statements.

## OTHER INFORMATION

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

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

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

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

The Directors are responsible for the preparation of 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.

# INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

- 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.

# INDEPENDENT **AUDITOR'S REPORT**

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law 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.

**HLM CPA Limited**
*Certified Public Accountants*
**Chan Lap Chi**
Practising Certificate Number: P04084
Hong Kong, 30 June 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

| | Note | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Revenue** | 7 | **1,010,653** | 1,184,886 |
| Cost of goods sold | | **(807,242)** | (966,950) |
| **Gross profit** | | **203,411** | 217,936 |
| Other income | 8 | **13,101** | 5,395 |
| Other gains and losses | 9 | **(13,416)** | 15,419 |
| Selling expenses | | **(66,404)** | (56,538) |
| Administrative expenses | | **(96,004)** | (116,657) |
| (Impairment) reversal of impairment of trade receivables | | **(726)** | 39 |
| Bad debt written off | | **(251)** | – |
| Other operating expenses | | **(2,422)** | (204) |
| **Profit from operations** | | **37,289** | 65,390 |
| Finance costs | 10 | **(17,901)** | (15,336) |
| **Profit before tax** | | **19,388** | 50,054 |
| Income tax expense | 11 | **(7,348)** | (9,006) |
| **Profit for the year** | 12 | **12,040** | 41,048 |
| **Other comprehensive expense** | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translating foreign operations | | **(32,074)** | (34,264) |
| **Other comprehensive expense for the year, net of income tax** | | **(32,074)** | (34,264) |
| **Total comprehensive (expense) income for the year** | | **(20,034)** | 6,784 |
| **Profit (loss) for the year attributable to:** | | | |
| Owners of the Company | | **11,979** | 41,969 |
| Non-controlling interests | | **61** | (921) |
| | | **12,040** | 41,048 |
| **Total comprehensive (expense) income attributable to:** | | | |
| Owners of the Company | | **(19,154)** | 8,653 |
| Non-controlling interests | | **(880)** | (1,869) |
| | | **(20,034)** | 6,784 |
| **Earnings per share** | 15 | | |
| Basic and diluted | | **HK3.41 cents** | HK11.61 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

| | Note | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Prepaid lease payments | 16 | **42,581** | 45,356 |
| Right-of-use assets | 18 | **79,724** | – |
| Property, plant and equipment | 17 | **205,343** | 236,361 |
| Investment properties | 19 | **242,860** | 228,500 |
| Goodwill | 20 | **11,631** | 11,631 |
| Deposits paid for acquisition of investment property | 21 | **–** | 5,181 |
| Deposits paid for acquisition of property, plant and equipment | 21 | **2,818** | 2,381 |
| Club membership | | **366** | 366 |
| | | **585,323** | 529,776 |
| **Current assets** | | | |
| Inventories | 22 | **93,400** | 95,222 |
| Trade and bills receivables | 23 | **219,478** | 209,073 |
| Prepayments, deposits and other receivables | 24 | **14,055** | 15,270 |
| Prepaid lease payments | 16 | **–** | 1,150 |
| Tax recoverable | | **7,755** | 5,711 |
| Equity securities at fair value through profit or loss ("**FVTPL**") | 25 | **28,529** | 29,547 |
| Pledged bank deposits | 26 | **24,008** | 94,658 |
| Bank and cash balances | 26 | **176,650** | 232,294 |
| | | **563,875** | 682,925 |
| **Current liabilities** | | | |
| Trade and bills payables | 27 | **105,305** | 109,516 |
| Accruals and other payables | 28 | **36,548** | 40,192 |
| Contract liabilities | 29 | **12,114** | 13,673 |
| Lease liabilities | 33 | **6,168** | – |
| Amounts due to non-controlling shareholders | 30 | **36,783** | 20,196 |
| Short-term bank borrowings | 31 | **228,335** | 285,969 |
| Tax payables | | **21,446** | 20,151 |
| Long-term bank borrowings | 32 | **30,082** | 71,838 |
| | | **476,781** | 561,535 |
| **Net current assets** | | **87,094** | 121,390 |
| **Total assets less current liabilities** | | **672,417** | 651,166 |

# CONSOLIDATED **STATEMENT OF FINANCIAL POSITION**

At 31 March 2020

| | Note | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Long-term bank borrowings | 32 | **2,328** | 18,659 |
| Lease liabilities | 33 | **83,630** | – |
| | | **85,958** | 18,659 |
| **NET ASSETS** | | **586,459** | 632,507 |
| **Capital and reserves** | | | |
| Share capital | 34 | **3,484** | 3,535 |
| Reserves | | **591,432** | 636,549 |
| Equity attributable to owners of the Company | | **594,916** | 640,084 |
| Non-controlling interests | | **(8,457)** | (7,577) |
| | | **586,459** | 632,507 |

The consolidated financial statements on pages 49 to 123 were approved and authorised for issue by the Board of Directors on 30 June 2020 and are signed on its behalf by:

**Mr. CHONG Kam Chau**
*Director*

**Mr. CHONG Wa Pan**
*Director*

# CONSOLIDATED **STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 March 2020

| | Attributable to shareholder of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 (note 34) | **Share premium reserve** HK$'000 (note (i)) | **Special reserve** HK$'000 (note (ii)) | **Share-based payment reserve** HK$'000 (note (iii)) | **Foreign currency translation reserve** HK$'000 (note (iv)) | **Statutory reserve** HK$'000 (note (v)) | **Other reserve** HK$'000 (note (vi)) | **Contribution reserve** HK$'000 (note (vii)) | **Retained profits** HK$'000 | **Total** HK$'000 | **Non-controlling interests** HK$'000 | **Total equity** HK$'000 |
| **At 1 April 2018** | 3,623 | 193,212 | 105,309 | 3,579 | 66,212 | 33,362 | (20) | 15,840 | 242,581 | 663,698 | (5,708) | 657,990 |
| Profit (loss) for the year | – | – | – | – | – | – | – | – | 41,969 | 41,969 | (921) | 41,048 |
| *Other comprehensive expense for the year:* | | | | | | | | | | | | |
| Exchange differences on translating foreign operations | – | – | – | – | (33,316) | – | – | – | – | (33,316) | (948) | (34,264) |
| Total comprehensive income (expense) for the year | – | – | – | – | (33,316) | – | – | – | 41,969 | 8,653 | (1,869) | 6,784 |
| Transfer to statutory reserve | – | – | – | – | – | 111 | – | – | (111) | – | – | – |
| Buy-back of ordinary shares | (88) | (6,818) | – | – | – | – | – | – | – | (6,906) | – | (6,906) |
| Dividend paid (note 14) | – | – | – | – | – | – | – | – | (25,361) | (25,361) | – | (25,361) |
| Change in equity for the year | (88) | (6,818) | – | – | (33,316) | 111 | – | – | 16,497 | (23,614) | (1,869) | (25,483) |
| **At 31 March 2019** | 3,535 | 186,394 | 105,309 | 3,579 | 32,896 | 33,473 | (20) | 15,840 | 259,078 | 640,084 | (7,577) | 632,507 |
| **At 1 April 2019** | **3,535** | **186,394** | **105,309** | **3,579** | **32,896** | **33,473** | **(20)** | **15,840** | **259,078** | **640,084** | **(7,577)** | **632,507** |
| Adjustment for impact on adoption of HKFRS 16 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(8,567)** | **(8,567)** | **-** | **(8,567)** |
| At 1 April 2019 (restated) | **3,535** | **186,394** | **105,309** | **3,579** | **32,896** | **33,473** | **(20)** | **15,840** | **250,511** | **631,517** | **(7,577)** | **623,940** |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **11,979** | **11,979** | **61** | **12,040** |
| *Other comprehensive expense for the year:* | | | | | | | | | | | | |
| Exchange differences on translating foreign operations | **-** | **-** | **-** | **-** | **(31,133)** | **-** | **-** | **-** | **-** | **(31,133)** | **(941)** | **(32,074)** |
| Total comprehensive income (expense) for the year | **-** | **-** | **-** | **-** | **(31,133)** | **-** | **-** | **-** | **11,979** | **(19,154)** | **(880)** | **(20,034)** |
| Transfer to statutory reserve | **-** | **-** | **-** | **-** | **-** | **5,667** | **-** | **-** | **(5,667)** | **-** | **-** | **-** |
| Share option lapsed | **-** | **-** | **-** | **(2,328)** | **-** | **-** | **-** | **-** | **2,032** | **(296)** | **-** | **(296)** |
| Buy-back of ordinary shares | **(51)** | **(3,053)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(3,104)** | **-** | **(3,104)** |
| Dividend paid (note 14) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(14,047)** | **(14,047)** | **-** | **(14,047)** |
| Change in equity for the year | **(51)** | **(3,053)** | **-** | **(2,328)** | **(31,133)** | **5,667** | **-** | **-** | **(5,703)** | **(36,601)** | **(880)** | **(37,481)** |
| **At 31 March 2020** | **3,484** | **183,341** | **105,309** | **1,251** | **1,763** | **39,140** | **(20)** | **15,840** | **244,808** | **594,916** | **(8,457)** | **586,459** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

Notes:

**(i) Share premium reserve**

Under the Companies Law of the Cayman Islands, the funds in the share premium reserve of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

**(ii) Special reserve**

The special reserve of the Group arose as a result of the reorganisation (the "**Reorganisation**") implemented in the preparation for listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing**") and represented the difference between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the shares of the Company issued in exchange therefor.

**(iii) Share-based payment reserve**

The share-based payment reserve represents the fair value of the actual number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3.

**(iv) Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3.

**(v) Statutory reserve**

The statutory reserve, which is non-distributable, is appropriated from the profit after tax of the Group's subsidiaries operating in the People's Republic of China (the "**PRC**") under applicable laws and regulations of the PRC.

**(vi) Other reserve**

Other reserve represents the difference between the proportionate share of the carrying amount of the Group's subsidiaries' net assets and the consideration paid for the additional interests when the Group acquired non-controlling interests.

**(vii) Contribution reserve**

Contribution reserve represents contributions from shareholders for indemnity liabilities payable for periods prior to the Listing.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

| | Note | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before tax | | **19,388** | 50,054 |
| Adjustments for: | | | |
| Amortisation of prepaid lease payments | | **1,106** | 1,177 |
| Depreciation of property, plant and equipment | 17 | **27,101** | 27,823 |
| Depreciation of right-of-use assets | 18 | **11,488** | – |
| Write-off of property, plant and equipment | | **–** | 24 |
| Bad debts written off | | **251** | – |
| Impairment loss (reversal of impairment) on trade receivables | | **726** | (39) |
| Loss on disposal of property, plant and equipment | | **1,957** | 131 |
| Gain on disposal of equity securities at FVTPL | 9 | **(2,061)** | (2,967) |
| Gain on disposal of certificate of deposits measured at amortised cost | 9 | **–** | (162) |
| Fair value changes of equity securities at FVTPL | 9 | **1,446** | (1,109) |
| Fair value changes of investment properties | 9 | **16,440** | (7,380) |
| Income from wealth management products | 9 | **(2,362)** | (3,801) |
| Income from redemption of government bond | 9 | **(47)** | – |
| Dividend income from equity securities at FVTPL | 8 | **(150)** | (158) |
| Government subsidies | 8 | **(4,425)** | (1,361) |
| Finance costs | 10 | **17,901** | 15,336 |
| Interest income | 8 | **(2,516)** | (2,933) |
| Operating cash flows before working capital changes | | **86,243** | 74,635 |
| (Increase) decrease in inventories | | **(4,031)** | 16,509 |
| (Increase) decrease in trade and bills receivables | | **(22,895)** | 37,112 |
| Decrease (increase) in prepayments, deposits and other receivables | | **298** | (1,567) |
| Increase (decrease) in trade and bills payables | | **2,537** | (46,703) |
| Decrease in accruals and other payables | | **(1,071)** | (25,559) |
| Decrease in contract liabilities | | **(751)** | – |
| Cash generated from operations | | **60,330** | 54,427 |
| Income taxes paid | | **(7,222)** | (27,815) |
| Net cash generated from operating activities | | **53,108** | 26,612 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

| | Note | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Repair and maintenance expenses capitalised for investment properties | | **(268)** | (1,220) |
| Purchase of property, plant and equipment | 17, 38 | **(9,807)** | (7,980) |
| Purchase of equity securities at FVTPL | | **(6,739)** | (71,244) |
| Purchase of certificate of deposits measured at amortised cost | | **–** | (14,132) |
| Proceeds from disposal of equity securities at FVTPL | | **8,556** | 73,182 |
| Proceeds from disposal of certificate of deposits measured at amortised cost | | **–** | 23,341 |
| Deposits paid for acquisition of property, plant and equipment | | **(1,798)** | (1,755) |
| Deposits paid for acquisition of investment property | | **–** | (5,181) |
| Decrease in pledged bank deposits | | **66,573** | 20,607 |
| Purchase of investment property | 19, 38 | **(25,351)** | – |
| Income from redemption of government bond | | **47** | – |
| Dividend income from equity securities at FVTPL | | **150** | 158 |
| Cash inflow from wealth management products | | **2,362** | 3,801 |
| Proceeds from disposal of property, plant and equipment | | **363** | 144 |
| Interest received | | **2,516** | 2,933 |
| Net cash generated from investing activities | | **36,604** | 22,654 |
| **FINANCING ACTIVITIES** | | | |
| Drawdown of new bank borrowings | | **144,207** | 73,830 |
| Payment on buy-back of ordinary shares | 34 | **(3,104)** | (6,906) |
| Repayment of bank borrowings | | **(256,791)** | (99,855) |
| Repayment of lease liabilities | | **(16,199)** | – |
| Advance from non-controlling shareholder | | **16,587** | – |
| Government subsidies | | **4,425** | 1,361 |
| Dividend paid | 14 | **(14,047)** | (25,361) |
| Interest paid | | **(14,316)** | (15,273) |
| Net cash used in financing activities | | **(139,238)** | (72,204) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(49,526)** | (22,938) |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **(6,118)** | (2,281) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **232,294** | 257,513 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR,** represented by bank and cash balances | | **176,650** | 232,294 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 10 March 2006 as an exempted company with limited liability under the Companies Law of the Cayman Islands. In the opinion of the Directors, the immediate and ultimate holding company of the Company is Perfect Group Version Limited ("**Perfect Group**"), a company incorporated in the British Virgin Islands (the "**BVI**"). The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate Information" section to the annual report.

The Company is an investment holding company and the principal activities of its principal subsidiaries are set out in note 44.

The shares of the Company were listed on the Main Board of the Stock Exchange on 26 February 2009.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"). Other than those subsidiaries established in the PRC whose functional currency is Renminbi ("**RMB**"), the functional currency of the Company and its other subsidiaries is HK$.

## 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 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 performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### 2.1 Impact and changes in accounting policies of application on HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and the related interpretations, HK(IFRIC)-Int 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases - incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 from 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity as at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)

#### 2.1 Impact and changes in accounting policies of application on HKFRS 16 Leases (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

*(a) Changes in the accounting policies*

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)

#### 2.1 Impact and changes in accounting policies of application on HKFRS 16 Leases (Continued)

*(a) Changes in the accounting policies (Continued)*

(ii) Lessee accounting (Continued)

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the right-of-use assets that meet the definition of investment property are carried at fair value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("**leasehold investment properties**"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, Investment properties, to account for all of its leasehold properties that were held for investment purposes as at 31 March 2019. Consequentially, these leasehold investment properties continue to be carried at fair value.

(iv) Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

*(b) Transitional impact*

The Group applies the modified retrospective approach under HKFRS 16, and therefore no restatement is made to the comparative amounts for the corresponding year ended 31 March 2019 prior to the adoption of HKFRS 16. A retrospective adjustment to the Group's retained profits (after tax) as at 1 April 2019, for a cumulative decrease in the amount of approximately HK$8,567,000, was recognised in the Group's consolidated statement of changes in equity for the year ended 31 March 2020.

At transition, except for short-term leases of the Group in respect of which the Company or any of its subsidiaries is a lessee and in relation to which the "practical expedient" under HKFRS 16 is applicable, the Group recognises for each of the remaining leases (the "**Remaining Leases**") a right-of-use asset, which is measured at its carrying amount as if HKFRS 16 had been applied since the commencement dates of the Remaining Leases, discounted at the Group's incremental borrowing rate as at 1 April 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)

#### 2.1 Impact and changes in accounting policies of application on HKFRS 16 Leases (Continued)

*(b) Transitional impact (Continued)*

At transition, lease liabilities were measured at the present value of the Remaining Leases payments, discounted at the Group's incremental borrowing rate as at 1 April 2019. When measuring lease liabilities, the Group discounted lease payments using its weighted average incremental borrowing rate as at 1 April 2019 of 3.8% per annum.

| | **At 1 April 2019** HK$'000 |
|---|---|
| Operating lease commitments disclosed as at 31 March 2019 | 161,625 |
| Less: Commitments relating to lease exempt from capitalisation: | |
| Short-term lease and other lease with Remaining Leases term ending on or before 31 March 2020 | (2,600) |
| | 159,025 |
| Less: Total future interest expenses | (51,917) |
| Total lease liabilities recognised as at 1 April 2019 | 107,108 |
| Analysed as | |
| Current | 14,156 |
| Non-current | 92,952 |
| | 107,108 |

| | **At 1 April 2019** HK$'000 |
|---|---|
| Right-of-use assets relating to operating lease recognised upon application of HKFRS 16 | 96,527 |
| By class: | |
| Production plant | 96,527 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)

#### 2.1 Impact and changes in accounting policies of application on HKFRS 16 Leases (Continued)

*(b) Transitional impact (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 as at 31 March 2019<br>HK$'000<br>Dr/(Cr) | Adjustment<br>HK$'000<br>Dr/(Cr) | Carrying amounts under HKFRS 16 at 1 April 2019<br>HK$'000<br>Dr/(Cr) |
|---|---|---|---|
| **Non-current assets** | | | |
| Right-of-use assets | – | 96,527 | 96,527 |
| **Current liabilities** | | | |
| Accruals and other payables | (40,192) | 2,014 | (38,178) |
| Lease liabilities | – | (14,156) | (14,156) |
| **Non-current liabilities** | | | |
| Lease liabilities | – | (92,952) | (92,952) |
| **Capital and reserves** | | | |
| Retained profits | (259,078) | 8,567 | (250,511) |

### New and amendments to HKFRSs issued but not yet effective

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts[2] |
| Amendments to HKFRS 3 | Definition of a Business[1] |
| 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[1] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[1] |
| Amendments to HKFRS 16 | Covid-19-Related Rent Concessions[4] |

1 Effective for annual period beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective date to be determined
4 Effective for annual periods beginning on or after 1 June 2020

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 issued but not yet effective (Continued)

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 January 2020.

The Directors anticipate that the application of these new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

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.

### Basis of preparation

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

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*.

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

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

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

The principal accounting policies are set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Changes in the Group's interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### Goodwill

Goodwill arising from a business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in subsidiaries

Investments in subsidiaries are included in the statement of financial position of the Company (see note 45) at cost less any identified impairment loss.

### Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes other than properties under construction as described below 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 other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are reclassified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair value. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss for the period in which the property is derecognised.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)

*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, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to leases of office premises/car parks that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

*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, unless those costs are incurred to produce inventories.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

*Refundable rental deposits*

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("**HKFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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 lease payments change due to changes in market rental rates following a market rent review or a change in expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.
- The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

*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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

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, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

**The Group as a lessor**

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Interest and rental income which are derived from the Group's ordinary course of business are presented as revenue.

### Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation) which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of a control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

### Club membership

Club membership with indefinite useful life is stated at cost less any impairment loss. Impairment is reviewed annually or when there is any indication that the club membership has suffered impairment loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the 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.

The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads based on normal operating capacity. It excludes borrowing costs.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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 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.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting 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 FVTPL, except that at the date of initial application of HKFRS 9/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)*

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, 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.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

*Impairment of financial assets*

The Group performs impairment assessment under expected credit loss ("**ECL**") model on financial assets (including trade and bills receivables, deposit and other receivables 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 ("**12m 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. Assessments 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.

The Group always recognise lifetime ECL for trade receivables without significant financing component. Except for those debtors with impaired creditworthiness which are re-assessed individually, the ECL on trade receivables is assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equals to 12m 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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 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;
- 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.

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.

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

For internal credit risk management, the Group considers an event of default occurs when 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 of any collaterals held by the Group).

Irrespective of the above, 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

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 of default 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:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) 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;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) 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.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

**Financial assets** (Continued)

*Derecognition of financial assets (Continued)*

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.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

**Financial liabilities and equity**

*Classification as debt or equity instruments*

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.

Buy-back of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

*Financial liabilities at amortised cost*

Financial liabilities including trade and bills payables, accruals and other payables, amounts due to non-controlling shareholders and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

*Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

*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

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and cash equivalents

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

### 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 and 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.

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("**MPF Scheme**"), Central Provident Fund System and central pension scheme are recognised as an expense when employees have rendered services.

### Short-term and other long-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, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a reduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Share-based payment transactions

**Equity-settled share-based payment transactions**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve).

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-marketing vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payments reserve.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share premium reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to retained profits.

When an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met.

### 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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation

Income tax expense represents the sum of the current tax and deferred tax.

#### Current tax

Tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit/loss before tax' 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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to cover or settle the carrying amount of its assets and liabilities.

For the purpose of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of tangible assets and intangible assets (other than impairment of goodwill set out in accounting policy of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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 relevant asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash- generating units for which a reasonable and consistent allocation basis can be identified.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the 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 immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under the standard.

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 as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 the 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).

### Related parties

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

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

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

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

- (i) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) both entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(a) that person's children and spouse or domestic partner;
(b) children of that person's spouse or domestic partner; and
(c) dependents of that person or that person's spouse or domestic partner.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets, 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.

### Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

**Deferred taxation on investment properties**

For the purpose of measuring deferred tax liabilities from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment properties portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantively all of the economic benefits embodied in the investment properties over time, rather than sale. Therefore, in measuring the Group's deferred taxation on investment properties, the Directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred tax on changes in fair value of investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

### Key sources of estimation uncertainty

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

**Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, which is the higher of the value-in-use or fair value less costs of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit (or group of cash-general units) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, material impairment loss/further impairment loss may arise. At 31 March 2020, the carrying amount of goodwill is approximately HK$11,631,000 (2019: approximately HK$11,631,000), no impairment loss was recognised for both years. Details of the basis and assumption are disclosed in note 20.

**Fair value of investment properties**

As disclosed in note 19, the Group's investment properties were revalued at the end of the reporting period on an open market value basis by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might differ materially from the actual result. In making the judgment, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. At 31 March 2020, the carrying amount of investment properties are approximately HK$242,860,000 (2019: approximately HK$228,500,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

**Property, plant and equipment and depreciation**

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment as set out in note 17. This estimate is based on historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. At 31 March 2020, the carrying amount of property, plant and equipment was approximately HK$205,343,000 (2019: approximately HK$236,361,000).

**Provision for ECL for trade and other receivables**

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision matrix is based on management's estimate of the lifetime ECL to be incurred, which is estimated by taking into account the creditworthiness, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. The Group regularly monitors and reviews assumptions related to the calculation of ECL.

The provision of ECLs is sensitive to changes in circumstances and of forecast general economic conditions. If the financial condition of the customers or the forecast economic conditions were to deteriorate, actual impairment allowance would be higher than estimated.

As at 31 March 2020, the carrying amount of trade and bills receivables was approximately HK$219,478,000 (2019: approximately HK$209,073,000), net of ECL provision of approximately HK$10,285,000 (2019: approximately HK$12,933,000). As at 31 March 2020, the carrying amount of prepayments, deposits and other receivables was approximately HK$14,055,000 (2019: approximately HK$15,270,000), net of ECL provision of approximately HK$14,560,000 (2019: approximately HK$14,560,000).

**Allowance for inventories**

Allowance for inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in the future is different from the original estimation, such difference will impact the carrying value of inventories and allowance charged to the profit or loss for the year in which such estimation has been made. As at 31 March 2020, the carrying amount of inventories was approximately HK$93,400,000 (2019: approximately HK$95,222,000). No write-down of inventories was recognised for both years.

**Value-added tax ("VAT")**

The Group is subject to VAT in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities of anticipated sales and purchase transactions based on estimation of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the VAT recoverable or payables in the year in which such determination is made. At 31 March 2020, the carrying amount of VAT recoverable was approximately HK$4,531,000 (2019: approximately HK$3,407,000) and the carrying amount of VAT payable was approximately HK$1,567,000 (2019: approximately HK$8,100,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 5. 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 Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits. The Directors review the capital structure on a semi-annual basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy-backs as well as issue of new debts or redemption of existing debts.

The net debt to equity ratio at the end of the reporting period was as follows:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Debt (note a) | **350,543** | 376,466 |
| Less: Bank and cash balances | **(176,650)** | (232,294) |
| Net debt | **173,893** | 144,172 |
| Equity (note b) | **594,916** | 640,084 |
| Net debt to equity ratio | **29%** | 22% |

*Note:*

(a) Debt is defined as short-term, long-term bank borrowings and lease liabilities, as detailed in notes 31, 32 and 33 respectively.

(b) Equity includes all capital and reserves of the Group attributable to owners of the Company.

The Group is not subject to any externally imposed capital requirements.

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| **Financial assets:** | | |
| Financial assets at FVTPL | **28,529** | 29,547 |
| Financial assets at amortised cost | **431,356** | 553,938 |
| **Financial liabilities:** | | |
| Financial liabilities at amortised cost | **527,251** | 536,972 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, equity securities at FVTPL, bank and cash balances, trade and bills payables, accruals and other payables, amounts due to non-controlling shareholders, bank borrowings and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

*i. Currency risk*

The Group is not exposed to significant foreign currency risk as most of its monetary assets and monetary liabilities are denominated in the functional currency of the individual group entity. The management is of the opinion that the Group's exposure to foreign currency risk is minimal. Accordingly, no foreign exchange risk sensitivity analysis is presented. The significant balance carried in the translation reserve account is occasioned by the translation of the financial statements of the Group's subsidiaries into the presentation currency of the consolidated financial statements of the Group at each reporting date.

*ii. Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see notes 31 and 32 for details of these borrowings). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly related to the fluctuation of Hong Kong Interbank Offered Rate ("**HIBOR**") arising from the Group's floating rate bank borrowings.

The Group's pledged bank deposits and bank borrowings (see notes 26, 31 and 32 respectively) bearing fixed or floating interest rates and therefore subject to interest rate risk. The Directors consider the Group's exposure to interest rate risk on pledged bank deposits and bank borrowings not significant.

The Group's cash flow interest rate risk primarily relates to variable-rate bank deposits and bank borrowings.

Sensitivity analysis
The sensitivity analysis below has been determined based on the exposure to interest rates for its variable rate bank deposits and bank borrowings at the end of the reporting period. The analysis is prepared assuming the amounts of bank deposits and bank borrowings outstanding at the end of each reporting period were outstanding for the whole year. A 100 basis point (2019: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2019: 100 basis points) higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 March 2020 would increase/decrease by approximately HK$502,000 (2019: loss increase/decrease by approximately HK$413,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

**Market risk** (Continued)

*iii. Other price risk*

The Group is exposed to equity price risk through its equity securities at FVTPL. Management manages this exposure by maintaining a portfolio of investments with different risks. Management monitors the equity price exposure by regularly reviewing and maintaining a portfolio of equity investments with different risk profiles.

Sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period. If the prices of the respective equity instruments had been 10% (2019: 10%) higher/lower and all other variables were held constant, the Group's profit after tax for the year ended 31 March 2020 would increase/decrease by approximately HK$2,382,000 (2019: profit after tax increase/decrease by approximately HK$2,467,000) as a result of the changes in fair value of equity securities at FVTPL.

**Credit risk**

As at 31 March 2020, 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 arise from the carrying amount of trade and bill receivables, deposits and other receivables, bank balances and pledged bank deposits included in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade and bills receivables. The Group has policies in place to ensure that sales are made to customers with proper credit history. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts.

The Group has no significant concentration of credit risk. The percentage of trade and bills receivables due from the Group's five largest customers in aggregate to the Group's total trade and bills receivables net of allowance is 28% (2019: 27%) as at 31 March 2020.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 84% (2019: 80%) of the total trade and bills receivables as at 31 March 2020.

The credit risk on pledged deposits and bank balances is limited because the counterparties are well-recognised financial institutions with high credit rating.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

**Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has 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 loans 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 non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are of floating rate, the undiscounted amount is derived from the interest rate curve at the end of the reporting period.

| | On demand or less than 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Over 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| **At 31 March 2020** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Bank and other borrowings | 260,217 | 1,811 | 585 | – | 262,613 | 260,745 |
| Trade and bills payables | 105,305 | – | – | – | 105,305 | 105,305 |
| Accruals and other payables | 34,620 | – | – | – | 34,620 | 34,620 |
| Amounts due to non-controlling shareholders | 36,783 | – | – | – | 36,783 | 36,783 |
| Lease liabilities | 9,502 | 8,482 | 25,246 | 89,425 | 132,655 | 89,798 |
| | 446,427 | 10,293 | 25,831 | 89,425 | 571,976 | 527,251 |

| | On demand or less than 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Over 5 years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|
| **At 31 March 2019** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Bank and other borrowings | 364,217 | 16,705 | 2,362 | – | 383,284 | 376,466 |
| Trade and bills payables | 109,516 | – | – | – | 109,516 | 109,516 |
| Accruals and other payables | 30,794 | – | – | – | 30,794 | 30,794 |
| Amounts due to non-controlling shareholders | 20,196 | – | – | – | 20,196 | 20,196 |
| | 524,723 | 16,705 | 2,362 | – | 543,790 | 536,972 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 6. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risk management objectives and policies (Continued)

**Liquidity risk** (Continued)

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 year" time band in the above maturity analysis. As at 31 March 2020 and 2019, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$23,628,000 and approximately HK$51,353,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that such bank loans will be repaid within 1 to 5 years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to approximately HK$25,358,000 (2019: approximately HK$54,326,000).

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

### (c) Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring measurement, grouped into Levels 1 to 2 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

| | **Level 1 HK$'000** | **Level 2 HK$'000** | **Total HK$'000** |
|---|---|---|---|
| **At 31 March 2020** | | | |
| **Financial assets at FVTPL** | | | |
| Equity securities at FVTPL | **28,529** | **–** | **28,529** |

| | Level 1 HK$'000 | Level 2 HK$'000 | Total HK$'000 |
|---|---|---|---|
| **At 31 March 2019** | | | |
| **Financial assets at FVTPL** | | | |
| Equity securities at FVTPL | 29,547 | – | 29,547 |

There was no transfer between levels of fair value hierarchy in the current and prior years.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 7. REVENUE AND SEGMENT INFORMATION

Revenue of the Group represents revenue arising from sale of goods and gross rental income earned during the year.

### Segment information

The chief operating decision makers have been identified as the executive directors of the Company (the "**Executive Directors**"). The Executive Directors review the Group's internal reports in order to assess performance and allocate resources. Management determined the operating segments based on the internal reports.

The Group has three reportable and operating segments under HKFRS 8 as follows:

| | | |
|---|---|---|
| Corrugated products | – | manufacture and sale of corrugated board and corrugated paper-based packing products; |
| Offset printed corrugated products | – | manufacture and sale of offset printed corrugated products; and |
| Properties leasing | – | properties leased in Hong Kong for rental income. |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment revenues and results

The revenue from sale of corrugated board, corrugated paper-based packing products and offset printed corrugated products are recognised at a point in time when "control" was transferred, while rental income from property leasing is recognised over time.

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

**For the year ended 31 March 2020**

| | Corrugated products HK$'000 | Offset printed corrugated products HK$'000 | Properties leasing HK$'000 | Elimination HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Segment revenue from contracts with customers within the scope of HKFRS 15** | | | | | |
| External sales | 856,183 | 149,128 | – | – | 1,005,311 |
| Inter-segment sales | 46,385 | 25,350 | – | (71,735) | – |
| | 902,568 | 174,478 | – | (71,735) | 1,005,311 |
| **Revenue from other sources** | | | | | |
| Gross rental income | – | – | 5,342 | – | 5,342 |
| **Total** | 902,568 | 174,478 | 5,342 | (71,735) | 1,010,653 |
| **Segment results** | 54,777 | 8,283 | (11,726) | | 51,334 |
| Dividend income from equity securities at FVTPL | | | | | 150 |
| Fair value changes of equity securities at FVTPL | | | | | (1,446) |
| Income from wealth management products | | | | | 2,362 |
| Gain on disposal of equity securities at FVTPL | | | | | 2,061 |
| Income from redemption of government bond | | | | | 47 |
| Finance costs | | | | | (17,901) |
| Other corporate expenses | | | | | (17,219) |
| **Profit before tax** | | | | | 19,388 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment revenues and results (Continued)

**For the year ended 31 March 2019**

| | Corrugated products HK$'000 | Offset printed corrugated products HK$'000 | Properties leasing HK$'000 | Elimination HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Segment revenue from contracts with customers within the scope of HKFRS 15** | | | | | |
| External sales | 977,854 | 202,367 | – | – | 1,180,221 |
| Inter-segment sales | 52,493 | 12,047 | – | (64,540) | – |
| | 1,030,347 | 214,414 | – | (64,540) | 1,180,221 |
| **Revenue from other sources** | | | | | |
| Gross rental income | – | – | 4,665 | – | 4,665 |
| **Total** | 1,030,347 | 214,414 | 4,665 | (64,540) | 1,184,886 |
| **Segment results** | 49,389 | 19,658 | 8,850 | | 77,897 |
| Dividend income from equity securities at FVTPL | | | | | 158 |
| Fair value changes of equity securities at FVTPL | | | | | 1,109 |
| Income from wealth management products | | | | | 3,801 |
| Gain on disposal of certificate of deposits measured at amortised cost | | | | | 162 |
| Gain on disposal of equity securities at FVTPL | | | | | 2,967 |
| Finance costs | | | | | (15,336) |
| Other corporate expenses | | | | | (23,637) |
| Other corporate income | | | | | 2,933 |
| **Profit before tax** | | | | | 50,054 |

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profits represented the profit earned from each segment without allocation of fair value changes of equity securities at FVTPL, income from wealth management products, dividend income from equity securities at FVTPL, gain on disposal of certificate of deposits measured at amortised cost, gain on disposal of equity securities at FVTPL, finance costs and corporate income and expenses. This is the measurement reported to the chief operating decision makers is for the purposes of resources allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

**At 31 March 2020**

| | Corrugated products HK$'000 | Offset printed corrugated products HK$'000 | Properties leasing HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment assets** | **695,703** | **156,969** | **242,761** | **1,095,433** |
| **Total assets for reportable segments** | | | | **1,095,433** |
| **Unallocated items:** | | | | |
| Leasehold land in Hong Kong for corporate use | | | | **1,085** |
| Investment properties for capital appreciation purpose | | | | **1,260** |
| Goodwill | | | | **11,631** |
| Club membership | | | | **366** |
| Equity securities at FVTPL | | | | **28,529** |
| Tax recoverable | | | | **7,755** |
| Bank balances managed on central basis | | | | **2,296** |
| Others | | | | **843** |
| **Consolidated assets** | | | | **1,149,198** |
| **Segment liabilities** | **150,699** | **90,515** | **1,260** | **242,474** |
| **Total liabilities for reportable segments** | | | | **242,474** |
| **Unallocated items:** | | | | |
| Tax payables | | | | **21,446** |
| Amounts due to non-controlling shareholders | | | | **36,783** |
| Bank borrowings | | | | **260,745** |
| Others | | | | **1,291** |
| **Consolidated liabilities** | | | | **562,739** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Segment assets and liabilities (Continued)

**At 31 March 2019**

| | Corrugated products HK$'000 | Offset printed corrugated products HK$'000 | Properties leasing HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment assets** | 790,120 | 136,144 | 228,274 | 1,154,538 |
| **Total assets for reportable segments** | | | | 1,154,538 |
| **Unallocated items:** | | | | |
| Leasehold land in Hong Kong for corporate use | | | | 1,125 |
| Investment properties for capital appreciation purpose | | | | 1,300 |
| Goodwill | | | | 11,631 |
| Club membership | | | | 366 |
| Equity securities at FVTPL | | | | 29,547 |
| Tax recoverable | | | | 5,711 |
| Bank balances managed on central basis | | | | 5,171 |
| Others | | | | 3,312 |
| **Consolidated assets** | | | | 1,212,701 |
| **Segment liabilities** | 140,566 | 20,239 | 1,294 | 162,099 |
| **Total liabilities for reportable segments** | | | | 162,099 |
| **Unallocated items:** | | | | |
| Tax payables | | | | 20,151 |
| Amounts due to non-controlling shareholders | | | | 20,196 |
| Bank borrowings | | | | 376,466 |
| Others | | | | 1,282 |
| **Consolidated liabilities** | | | | 580,194 |

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than leasehold land in Hong Kong for corporate use, investment properties for capital appreciation purpose, goodwill, club membership, equity securities at FVTPL, bank balances managed on central basis, tax recoverable and other corporate assets; and

- all liabilities are allocated to segments other than tax payables, amounts due to non-controlling shareholders, bank borrowings and other corporate liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Other segment information

**For the year ended 31 March 2020**

| | Corrugated products HK$'000 | Offset printed corrugated products HK$'000 | Properties leasing HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Amounts included in the measurement of segment profit or segment assets:** | | | | | |
| Depreciation and amortisation | **27,281** | **12,304** | **–** | **110** | **39,695** |
| Additions to non-current assets *(note)* | **14,261** | **213** | **25,619** | **1,831** | **41,924** |
| Loss on disposal of property, plant and equipment | **1,957** | **–** | **–** | **–** | **1,957** |
| Impairment of trade receivables | **597** | **129** | **–** | **–** | **726** |
| Bad debt written off | **1** | **250** | **–** | **–** | **251** |

*Note:* Additions to non-current assets included property, plant and equipment, investment properties, deposits paid for acquisition of property, plant and equipment.

| | Corrugated products HK$'000 | Offset printed corrugated products HK$'000 | Properties leasing HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss or segment assets:** | | | | | |
| Interest income | **(2,472)** | **(41)** | **–** | **(3)** | **(2,516)** |
| Interest expenses | **12,299** | **5,183** | **419** | **–** | **17,901** |
| Income tax expense | **6,237** | **470** | **544** | **97** | **7,348** |

**For the year ended 31 March 2019**

| | Corrugated products HK$'000 | Offset printed corrugated products HK$'000 | Properties leasing HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Amounts included in the measurement of segment profit or segment assets:** | | | | | |
| Depreciation and amortisation | 21,023 | 7,867 | – | 110 | 29,000 |
| Additions to non-current assets *(note)* | 5,898 | 4,472 | 6,401 | 482 | 17,253 |
| Loss on disposal of property, plant and equipment | 131 | – | – | – | 131 |
| Write-off of property, plant and equipment | 24 | – | – | – | 24 |
| Reversal of impairment of trade receivables | – | (39) | – | – | (39) |

*Note:* Additions to non-current assets included property, plant and equipment, investment properties, deposits paid for acquisition of property, plant and equipment and deposits paid for acquisition of investment property.

| | Corrugated products HK$'000 | Offset printed corrugated products HK$'000 | Properties leasing HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Amounts regularly provided to the chief operating decision maker but not included in the measurement of segment profit or loss or segment assets:** | | | | | |
| Interest income | (2,894) | (39) | – | – | (2,933) |
| Interest expenses | 12,786 | 2,237 | 313 | – | 15,336 |
| Income tax expense | 6,395 | 2,611 | – | – | 9,006 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 7. REVENUE AND SEGMENT INFORMATION (Continued)

### Geographical information

The Group's operations are located in the People's Republic of China (the "**PRC**" or "**China**"), Hong Kong and Macau.

Information about the Group's revenue from external customers is presented based on the location of the customers and information about its non-current assets is presented based on the geographical location as detailed below:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong | **133,755** | 148,801 | **246,920** | 236,665 |
| Macau | **64,757** | 86,570 | **24** | 34 |
| The PRC except Hong Kong and Macau | **812,141** | 949,515 | **326,748** | 281,446 |
| Consolidated total | **1,010,653** | 1,184,886 | **573,692** | 518,145 |

Note: Non-current assets included prepaid lease payments, right-of-use assets, property, plant and equipment, investment properties, deposits paid for acquisition of investment property, deposits paid for acquisition of property, plant and equipment and club membership.

### Information about major customers

Details of the customers who accounted for 10% or more of the aggregate revenue of the Group during the year are as follows:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A *(note)* | **102,474** | 137,356 |

*Note:* Revenue from corrugated products.

## 8. OTHER INCOME

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Dividend income from equity securities at FVTPL | **150** | 158 |
| Government subsidies | **4,425** | 1,361 |
| Bank interest income | **2,516** | 2,933 |
| Other rental income | **840** | 773 |
| Exchange gain | **4,298** | – |
| Sundry income | **872** | 170 |
| | **13,101** | 5,395 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 9. OTHER GAINS AND LOSSES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Gain on disposal of certificate of deposits measured at amortised cost | – | 162 |
| Gain on disposal of equity securities at FVTPL | **2,061** | 2,967 |
| Income from redemption of government bond | **47** | – |
| Fair value changes of equity securities at FVTPL | **(1,446)** | 1,109 |
| Fair value changes of investment properties | **(16,440)** | 7,380 |
| Income from wealth management products | **2,362** | 3,801 |
| | **(13,416)** | 15,419 |

## 10. FINANCE COSTS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| – bank borrowings | **14,129** | 15,330 |
| – bank overdraft | **11** | 6 |
| – lease liabilities | **3,761** | – |
| | **17,901** | 15,336 |

## 11. INCOME TAX EXPENSE

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Hong Kong Profits Tax: | | |
| – Current tax | **702** | 998 |
| – Under (over) provision for previous years | **79** | (511) |
| | **781** | 487 |
| PRC enterprise income tax ("**EIT**"): | | |
| – Current tax | **4,849** | 11,661 |
| – Over provision for previous years | **(2,634)** | (4,408) |
| – Withholding tax | **4,352** | 1,266 |
| | **6,567** | 8,519 |
| | **7,348** | 9,006 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 11. INCOME TAX EXPENSE (Continued)

### Hong Kong

Hong Kong Profits Tax is calculated at 16.5% (2019: 16.5%) on the estimated assessable profits except for the first HK$2,000,000 of a qualifying group entity's assessable profit which is calculated at 8.25%, in accordance with the two-tiered profit tax rate regime.

### PRC

Under the Enterprise Income Tax Law of the PRC (the "**EIT Law**") and implementation regulation of the EIT Law, the tax rate of PRC subsidiaries is 25% from 1 January 2008 onward.

Except that Come Sure Packing Products (Shenzhen) Company Limited ("**CSP**") and Sky Achiever Paper Industrial (Shenzhen) Company Limited ("**SAP**") are entitled to preferential rate of 15% for the year ended 31 March 2020 as both of the subsidiaries fulfil the requirements of High and New Technology Enterprise ("**HNTE**").

According to the relevant requirements of the Administrative Measures with regard to the recognition of HNTE, an enterprise which has obtained the HNTE qualification is entitled to enjoy tax preferential treatment from the year in which the certificate is issued. Furthermore, in accordance with the relevant requirements of the EIT Law, HNTEs are entitled to enjoy a preferential tax rate at the EIT rate of 15%. CSP and SAP therefore enjoy a preferential tax concession and the applicable EIT rate are at a reduced rate of 15% from 1 January 2018 to 31 December 2020 and 1 January 2019 to 31 December 2021 respectively. The HNTE designation will be reassessed every three years according to relevant rules and regulations.

Apart from the above, certain PRC subsidiaries concurrently meet the following three conditions classified as small low-profit enterprises. These conditions are: (1) annual taxable amount of not more than RMB3 million; (2) number of employees of not more than 300; and (3) total assets of not exceeding RMB50 million.

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Implementation of Inclusive Tax Relief Policy for Small Low-profit Enterprises (No. 13 [2019], Ministry of Finance) and Announcement of the State Administration of Taxation on Issues Relating to Implementation of Inclusive Income Tax Relief Policy for Small Low-profit Enterprises (No. 2 [2019] of the State Administration of Taxation), the portion of annual taxable income of a small low-profit enterprise which does not exceed RMB1 million shall be calculated at a reduced rate of 25% as taxable income amount and be subject to EIT at 20% tax rate; the portion over RMB1 million but not exceeding RMB3 million shall be calculated at a reduced rate of 50% as taxable income amount and be subject to EIT at 20% tax rate.

The profits of the PRC subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% (2019: 5%) upon distribution of such profits to foreign investors in Hong Kong.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 11. INCOME TAX EXPENSE (Continued)

### Macau

A portion of the Group's profit for the years ended 31 March 2020 and 2019 were earned by the subsidiaries of the Group incorporated under the Macao Special Administrative Region's Offshore Law. Pursuant to the Macao Special Administration Region's Offshore Law, such portion of profits is exempted from Macau complimentary tax. Furthermore, in the opinion of the Directors, that portion of the Group's profit is not, at present, subject to taxation in any other jurisdiction in which the Group operates.

### The Group

During the years ended from 31 March 2016 to 2020, the IRD issued estimated assessment and additional assessment for the years of assessment 2009/10 to 2013/14 to six subsidiaries of the Group amounting to HK$16,867,000. The Group had made objections to IRD on these assessments and purchased tax reserve certificates amounting to HK$6,876,000 in aggregate. IRD has held over the payment of profits tax of HK$9,991,000.

Having taken advice from the Group's tax advisor, the Directors are of the opinion that, as at 31 March 2020, the provision for taxation made in the consolidated financial statements is sufficient and not excessive.

The tax charge for the years can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2020<br>HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Profit before tax | **19,388** | 50,054 |
| Tax at rate of 25% (note) | **4,847** | 12,513 |
| Tax effect of income that is not taxable | **(2,754)** | (1,434) |
| Tax effect of expenses that are not deductible | **7,774** | 5,458 |
| Tax effect on temporary differences not recognised | **20** | (193) |
| Tax effect of tax losses not recognised | **4,394** | 3,479 |
| Tax effect of utilisation of tax losses not previously recognised | **(996)** | (428) |
| Tax effect of tax deduction | **(10,491)** | (7,905) |
| Effect of tax exemptions granted to Macau subsidiaries | **(644)** | 241 |
| Withholding tax | **4,352** | 1,266 |
| Over provision in previous years | **(2,554)** | (4,919) |
| Effect of different tax rates of subsidiaries | **3,400** | 928 |
| Income tax expense | **7,348** | 9,006 |

Note: The income tax rate of 25% in the jurisdiction where the operation of the Group is substantially based is adopted.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting) the followings:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Depreciation for property, plant and equipment | **27,101** | 27,823 |
| Depreciation for right-of-use assets | **11,488** | – |
| Amortisation of prepaid lease payments | **1,106** | 1,177 |
| Total depreciation and amortisation | **39,695** | 29,000 |
| Cost of inventories recognised as an expense | **807,157** | 966,694 |
| Direct operating expense of investment properties that generated rental income | **85** | 256 |
| Total cost of goods sold | **807,242** | 966,950 |
| Auditor's remuneration | **1,100** | 1,100 |
| Loss on disposal of property, plant and equipment | **1,957** | 131 |
| Minimum lease payment paid under operating leases in respect of land and buildings previously classified as operating lease under HKAS 17 *(note)* | **–** | 18,647 |
| Lease payments for short-term lease not included in the measurement of lease liabilities *(note)* | **1,604** | – |
| Impairment (reversal of impairment) of trade receivables | **726** | (39) |
| Bad debt written off | **251** | – |
| Net foreign exchange (gain) loss | **(4,298)** | 6,096 |
| Write-off of property, plant and equipment | **–** | 24 |

*Note*: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 April 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. Please refer to note 2 for details.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

The emoluments paid or payable to each of the 6 (2019: 6) directors were as follows:

**For the year ended 31 March 2020**

| | Fees HK'000 | Salaries and other benefits HK$'000 | Discretionary Bonus (note (i)) HK$'000 | Retirement benefits scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Emoluments paid or payable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | |
| **Executive directors:** | | | | | |
| Mr. CHONG Kam Chau | – | 2,940 | 900 | 18 | 3,858 |
| Mr. CHONG Wa Pan (note (ii)) | – | 2,340 | 600 | 18 | 2,958 |
| Mr. CHONG Wa Ching | – | 1,920 | 600 | 18 | 2,538 |
| | – | 7,200 | 2,100 | 54 | 9,354 |
| **Independent non-executive directors:** | | | | | |
| Mr. CHAU On Ta Yuen | 120 | – | – | – | 120 |
| Ms. TSUI Pui Man | 120 | – | – | – | 120 |
| Mr. LAW Tze Lun | 120 | – | – | – | 120 |
| | 360 | – | – | – | 360 |
| | 360 | 7,200 | 2,100 | 54 | 9,714 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

### (a) Directors' emoluments (Continued)

**For the year ended 31 March 2019**

| | Fees<br>HK'000 | Salaries and other benefits<br>HK$'000 | Discretionary Bonus (note (i))<br>HK$'000 | Retirement benefits scheme contributions<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|
| Emoluments paid or payable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking | | | | | |
| **Executive directors:** | | | | | |
| Mr. CHONG Kam Chau | – | 2,490 | 4,300 | 18 | 6,808 |
| Mr. CHONG Wa Pan (note (ii)) | – | 1,890 | 3,000 | 18 | 4,908 |
| Mr. CHONG Wa Ching | – | 1,470 | 2,300 | 18 | 3,788 |
| | – | 5,850 | 9,600 | 54 | 15,504 |
| **Independent non-executive directors:** | | | | | |
| Mr. CHAU On Ta Yuen | 120 | – | – | – | 120 |
| Ms. TSUI Pui Man | 120 | – | – | – | 120 |
| Mr. LAW Tze Lun | 120 | – | – | – | 120 |
| | 360 | – | – | – | 360 |
| | 360 | 5,850 | 9,600 | 54 | 15,864 |

Notes:

(i) The discretionary bonus is determined by the remuneration committee of the Company with reference to the financial performance of the Group and the performance of individual directors.

(ii) Mr. CHONG Wa Pan is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

### (b) Directors' termination benefits

During the year ended 31 March 2020, no termination benefits were paid to the Directors (2019: Nil).

### (c) Consideration provided to third parties for making available Directors' services

During the year ended 31 March 2020, no consideration was paid for making available the services of the Directors (2019: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

### (d) Information about loans, quasi-loans and other dealings in favour of Directors, controlled bodies corporate by and connected entities with such Directors

During the year ended 31 March 2020, no loans, quasi-loans and other dealings were entered into by the Company or subsidiaries undertaking of the Company, where applicable, in favour of the Directors (2019: Nil).

### (e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2019: Nil).

### (f) Employees' emoluments

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Directors' emoluments (note 13(a)) | **9,714** | 15,864 |
| Other staff costs | | |
| – Other staff salaries, bonus and allowances | **129,158** | 143,298 |
| – Retirement benefits scheme contributions (excluding directors) | **5,804** | 6,869 |
| | **144,676** | 166,031 |

Of the five individuals with the highest emoluments in the Group, three (2019: three) were directors of the Company whose emoluments are included in the disclosures in note 13(a) above. The emoluments of the remaining two (2019: two) individuals were as follows:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Salaries and other allowances | **9,196** | 1,620 |
| Discretionary bonus | **4,867** | 12,909 |
| | **14,063** | 14,529 |

Their emoluments were within the following bands:

| | **Number of individuals 2020** | 2019 |
|---|---|---|
| HK$1,000,001-HK$1,500,000 | **1** | – |
| HK$3,000,001-HK$3,500,000 | **1** | – |
| HK$5,000,001-HK$5,500,000 | **–** | 1 |
| HK$9,000,001-HK$9,500,000 | **–** | 1 |
| | **2** | 2 |

**(g)** During the year ended 31 March 2020, no emoluments were paid by the Group to any of the Directors or any of the five highest-paid individuals as an inducement to join or upon joining the Group (2019: Nil).

**(h)** No director waived any emoluments in the years ended 31 March 2020 and 2019. No incentive payment for joining the Group or as compensation for loss of office was paid or payable to any directors during the years ended 31 March 2020 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 14. DIVIDEND

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Dividend paid during the year: | | |
| Final dividend for the year ended 31 March 2019 – HK4.00 cents per share (2019: Final dividend for the year ended 31 March 2018 – HK7.00 cents per share) | **14,047** | 25,361 |

No dividend for the year ended 31 March 2020 was paid or proposed during the year ended 31 March 2020, nor has any dividend been proposed since the end of the reporting period (2019: HK4.00 cents per share was proposed).

## 15. EARNINGS PER SHARE

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

### Earnings

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Profit for the year attributable to owners of the Company | **11,979** | 41,969 |

### Number of shares

| | Number of shares<br>2020 | <br>2019 |
|---|---|---|
| Weighted average number of ordinary shares (after adjustment for the effects of buy-back of shares which cancelled during the year) for the purpose of basic and diluted earnings per share | **351,268,110** | 361,361,008 |

The calculation of diluted earnings per share for the year ended 31 March 2020 and 2019 did not assume the exercise of the Company's share options because the exercise prices of those options were higher than the average market price of shares for both 2020 and 2019.

## 16. PREPAID LEASE PAYMENTS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current portion | **–** | 1,150 |
| Non-current portion | **42,581** | 45,356 |
| | **42,581** | 46,506 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Leasehold land in Hong Kong HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 April 2018 | 170,479 | 2,209 | 46,039 | 398,277 | 12,887 | 14,557 | 4,902 | 649,350 |
| Additions | 565 | – | 4,265 | 4,018 | 1,239 | 729 | 14 | 10,830 |
| Disposal | – | – | – | (134) | – | (2,062) | – | (2,196) |
| Written off | – | – | – | – | (247) | – | – | (247) |
| Exchange differences | (11,241) | – | (2,681) | (33,528) | (744) | (578) | (149) | (48,921) |
| At 31 March 2019 and 1 April 2019 | 159,803 | 2,209 | 47,623 | 368,633 | 13,135 | 12,646 | 4,767 | 608,816 |
| Additions | – | – | 524 | 2,910 | 575 | 2,315 | 6,220 | 12,544 |
| Disposal | – | – | – | (5,705) | – | (323) | – | (6,028) |
| Exchange differences | (10,001) | – | (2,413) | (17,398) | (719) | (411) | (778) | (31,720) |
| **At 31 March 2020** | 149,802 | 2,209 | 45,734 | 348,440 | 12,991 | 14,227 | 10,209 | 583,612 |
| **Accumulated depreciation and impairment** | | | | | | | | |
| At 1 April 2018 | 35,271 | 1,044 | 34,079 | 279,827 | 11,324 | 11,080 | 4,902 | 377,527 |
| Charge for the year | 7,311 | 40 | 2,656 | 15,950 | 750 | 1,116 | – | 27,823 |
| Disposals | – | – | – | (61) | – | (1,860) | – | (1,921) |
| Written off | – | – | – | – | (223) | – | – | (223) |
| Exchange differences | (2,054) | – | (2,106) | (25,483) | (552) | (407) | (149) | (30,751) |
| At 31 March 2019 and 1 April 2019 | 40,528 | 1,084 | 34,629 | 270,233 | 11,299 | 9,929 | 4,753 | 372,455 |
| Charge for the year | 7,050 | 40 | 3,058 | 15,160 | 627 | 1,166 | – | 27,101 |
| Disposals | – | – | – | (3,408) | – | (300) | – | (3,708) |
| Exchange differences | (2,408) | – | (2,057) | (11,686) | (524) | (294) | (610) | (17,579) |
| **At 31 March 2020** | 45,170 | 1,124 | 35,630 | 270,299 | 11,402 | 10,501 | 4,143 | 378,269 |
| **Carrying amounts** | | | | | | | | |
| **At 31 March 2020** | **104,632** | **1,085** | **10,104** | **78,141** | **1,589** | **3,726** | **6,066** | **205,343** |
| At 31 March 2019 | 119,275 | 1,125 | 12,994 | 98,400 | 1,836 | 2,717 | 14 | 236,361 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 17. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

| | |
|---|---|
| Buildings | Over the shorter of the lease term, or 20 years |
| Leasehold land in Hong Kong | Over the lease term |
| Leasehold improvements | Over the shorter of the lease term, or 5–10 years |
| Plant and machinery | 5–10 years |
| Furniture, fixtures and equipment | 3–10 years |
| Motor vehicles | 5–10 years |

The buildings situated in Hong Kong, which have been fully depreciated, and leasehold land in Hong Kong are pledged as security for the banking facilities granted to the Group, had an aggregate carrying amount of approximately HK$1,085,000 (2019: approximately HK$1,125,000) as at 31 March 2020 (note 36).

## 18. RIGHT-OF-USE ASSETS

| | HK$'000 |
|---|---|
| **At 1 April 2019** | |
| Carrying amount | 96,527 |
| **For the year ended 31 March 2020** | |
| Additions to right-of-use assets | 316 |
| Depreciation charge | (11,488) |
| Exchange adjustments | (5,631) |
| **As at 31 March 2020** | |
| Carrying amount | 79,724 |

Right-of-use asset included leases of production plants and staff quarters in Shenzhen of the PRC. Lease contracts are entered into for fixed term of 3 years to 36 years. Lease terms are negotiated on an individual basis and contained various terms and conditions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 19. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| At 1 April 2018 | 219,900 |
| Repair and maintenance expenses capitalised for investment properties | 1,220 |
| Increase in fair value recognised in profit or loss *(note 9)* | 7,380 |
| At 31 March 2019 and 1 April 2019 | 228,500 |
| Purchase of investment property | 30,532 |
| Repair and maintenance expenses capitalised for investment properties | 268 |
| Decrease in fair value recognised in profit or loss *(note 9)* | (16,440) |
| **At 31 March 2020** | **242,860** |

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at 31 March 2020 the Group's investment properties of HK$241,600,000 (2019: HK$227,200,000) have been pledged to secure banking facilities granted to the Group (note 36).

The fair values of the Group's investment properties as at 31 March 2020 and 31 March 2019 have been arrived at on the basis of a valuation carried out on the respective dates by Roma Appraisals Limited and Grant Sherman Appraisal Limited respectively, independent qualified professional valuers not connected to the Group. The valuation was arrived at on an open market value basis by reference to market evidence of transaction prices for similar properties in the similar locations and conditions.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group's investment properties were classified under level 3 of the fair value hierarchy. There were no transfers into or out of Level 3 during the year.

The following table gives information about how the fair values of the investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Level 3) based on the degree to which the inputs to the fair value measurements is observable.

| | Fair Value Hierarchy | Valuation Techniques | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|
| Investment properties located in Hong Kong | Level 3 | Direct comparison method | Estimated market unit sale price per square feet | The increase/decrease in the market unit sale price would result in an increase/decrease in the fair value of the property<br><br>Adjustment on locations and conditions of the property |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 20. GOODWILL

| | HK$'000 |
|---|---|
| **Cost** | |
| At 1 April 2018, 31 March 2019, 1 April 2019 and 31 March 2020 | 11,631 |
| **Impairment** | |
| At 1 April 2018, 31 March 2019, 1 April 2019 and 31 March 2020 | – |
| **Carrying values** | |
| **At 31 March 2020** | **11,631** |
| At 31 March 2019 | 11,631 |

The Group acquired 100% equity interest in Sky Achiever Holdings Limited ("**SAH**") with a goodwill of approximately HK$11,631,000. Goodwill arising from a business combination is allocated, on acquisition, to the cash-generating-units (the "**CGU**"s) that are expected to benefit from the synergies of that business combination.

The management considers goodwill arising from the acquisition of SAH is allocated to one separate CGU for the purpose of impairment testing. A CGU for SAH is included in the segment of corrugated products.

The recoverable amount of SAH has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management of the Group covering a 5-year period, and a discount rate of 17.48% (2019: 16.16%). The cash flow projections for the 5-year period are extrapolated using an estimated average sale growth pattern at an annualised rate of 0% (2019: 3%) and SAH's cash flows beyond the 5-year period are extrapolated using zero growth rate. Other key assumptions for the value-in-use calculation relate to the estimation of cash inflows/outflows which include gross margin of 16.30% (2019: 13.56%), such estimation is based on past performance and management's expectations of market development. The Directors believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of SAH to exceed the aggregate recoverable amount of SAH, and no impairment loss of goodwill was necessary.

## 21. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

The amount represents deposits paid for the acquisition of plant and machinery of approximately RMB2,575,000 (equivalent to approximately HK$2,818,000) (2019: approximately RMB2,042,000 (equivalent to approximately HK$2,381,000) and investment property of nil (2019: approximately HK$5,181,000) respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 22. INVENTORIES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Raw materials | **78,143** | 83,298 |
| Work in progress | **1,684** | 1,046 |
| Finished goods | **13,430** | 10,878 |
| Goods in transit | **143** | – |
| | **93,400** | 95,222 |

## 23. TRADE AND BILLS RECEIVABLES

Payment terms with customers are mainly on credit, cash on delivery and payment in advance. Credit periods range from 15 days to 120 days after the end of the month in which the revenue is recognised and invoiced. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. The aging analysis of trade and bills receivables, based on the due date for settlement, is as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Trade receivables: | | |
| Not yet due for settlement *(note a)* | **166,599** | 173,217 |
| Overdue: | | |
| 1 to 30 days | **6,162** | 14,240 |
| 31 to 90 days | **16,271** | 17,439 |
| 91 to 365 days | **3,372** | 666 |
| Over 1 year | **10,285** | 13,956 |
| | **202,689** | 219,518 |
| *Less*: Allowance for doubtful debts | **(10,285)** | (12,933) |
| | **192,404** | 206,585 |
| Bills receivables *(note b)* | **27,074** | 2,488 |
| | **219,478** | 209,073 |

*Notes:*

(a) Aged within 120 days.

(b) Aged within 90 days.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 23. TRADE AND BILLS RECEIVABLES (Continued)

The balance of trade receivables included debtors (see below for ageing analysis) who are past due as at the reporting date for which the Group has not provided for impairment due to no significant change in the creditworthiness of these debtors and, hence, the amounts are still considered recoverable. Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. The management of the Group have assessed the expected credit losses of all trade and bills receivables and made impairment when they considered as appropriate.

Ageing of trade receivables which are past due but not impaired

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Overdue by: | | |
| 1 to 90 days | **22,433** | 31,679 |
| 91 to 365 days | **3,372** | 666 |
| Over 1 year | **–** | 1,023 |
| Total | **25,805** | 33,368 |

### Movement in the allowance for doubtful debts

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| At 1 April | **12,933** | 13,398 |
| Impairment of trade receivables | **726** | – |
| Bad debt written off | **(3,242)** | – |
| Reversal of impairment of trade receivables | **–** | (39) |
| Exchange differences | **(132)** | (426) |
| At 31 March | **10,285** | 12,933 |

In determining the recoverability of a trade receivable, management considers any change in the creditworthiness of trade receivable from the date when credit was initially granted up to the end of the reporting period. Concentration of credit risk is limited due to the customer base being large and unrelated.

The allowance for doubtful debts included individually impaired trade receivables with an aggregate balance of approximately HK$10,285,000 (2019: approximately HK$12,933,000) which are either being placed under liquidation or in severe financial difficulties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Prepayments | **1,122** | 1,512 |
| Deposits | **5,184** | 4,465 |
| Other receivables | **7,749** | 9,293 |
| Profit guarantee receivable (note) | **14,560** | 14,560 |
| | **28,615** | 29,830 |
| Less: Impairment loss recognised | **(14,560)** | (14,560) |
| | **14,055** | 15,270 |

Note:
As at 31 March 2015, the profit guarantee contract for Think Speed Group Limited ("**TSGL**") has lapsed. As the audited consolidated net profit of TSGL for the two years ended on 31 March 2014 was less than HK$20,000,000 in aggregate, the TSGL's vendor and the certain guarantors are jointly and severally liable to pay HK$14,560,000 to the Group. During the year ended 31 March 2016, the profit guarantee receivable was fully impaired due to its recoverability is remote.

### Movement on the impairment of prepayments, deposits and other receivables

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| At 1 April and 31 March | **14,560** | 14,560 |

No movement was noted during the year ended 31 March 2020 and 2019.

At the end of the reporting period, the Group's prepayments, deposits and other receivables were individually determined to be impaired. The individually impaired receivables are recognised based on credit history of its debtors and current business relationship. The Group does not hold any collateral over these balances.

## 25. EQUITY SECURITIES AT FVTPL

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Equity securities listed in Hong Kong | **2,298** | 2,868 |
| Equity securities listed in the PRC | **26,231** | 26,679 |
| | **28,529** | 29,547 |

All equity securities at FVTPL were stated at fair value based on quoted market prices.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 26. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

Pledged bank deposits represent deposits pledged to banks with original maturity of more than three months to secure banking facilities granted to the Group (note 36). Deposits amounting to approximately HK$24,008,000 (2019: approximately HK$94,658,000) have been pledged to secure short-term bank loans and undrawn facilities and are therefore classified as current assets. These pledged bank deposits are arranged at fixed rates; carried average interest rates of 2.50% (2019: 2.50%) per annum; and, therefore, subject to fair value interest rate risk, which the Directors considered not significant.

The remaining bank and cash balances carried interest at average market rates from 0.01% to 3.40% (2019: 0.01% to 3.40%) per annum and therefore exposed to cash flow interest rate risk.

As at 31 March 2020, bank and cash balances and pledged bank deposits of the Group amounting to approximately HK$178,463,000 (2019: approximately HK$289,686,000) were denominated in RMB. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations. These regulations imposed restrictions on exporting capital from PRC, other than through normal dividends.

As at 31 March 2020, bank and cash balances and pledged bank deposits of the Group amounting to approximately HK$507,000 (2019: approximately HK$637,000) were denominated in US$.

## 27. TRADE AND BILLS PAYABLES

The aging analysis of trade payables, based on due date for settlement, is as follows:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade payables: | | |
| 0 to 30 days | **60,959** | 63,176 |
| 31 days to 90 days | **416** | 258 |
| Over 90 days | **681** | 396 |
| | **62,056** | 63,830 |
| Bills payables (note) | **43,249** | 45,686 |
| | **105,305** | 109,516 |

Note:
All bills payables are due within 90 days based on due date for settlement.

Payment terms granted by suppliers are mainly on credit and on cash on delivery. Credit periods range from 15 days to 90 days after invoice date when the relevant purchase occurred. The Group has financial risk management policies in place to ensure that all payables are settled within the credit term.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 28. ACCRUALS AND OTHER PAYABLES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| VAT and other tax payables | **1,928** | 9,398 |
| Accruals and other payables | **34,620** | 30,794 |
| | **36,548** | 40,192 |

## 29. CONTRACT LIABILITIES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Receipts in advance from customers and tenants | **12,114** | 13,673 |

The balance of contract liabilities as at 31 March 2019 was HK$13,673,000 of which HK$12,306,000 was recognised as revenue during the year.

## 30. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS

The amount of approximately HK$36,783,000 (2019: approximately HK$20,196,000) due to a non-controlling interest of a subsidiary, Turbo Best Holdings Limited, is unsecured, non-interest bearing and repayable on demand.

## 31. SHORT-TERM BANK BORROWINGS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Trust receipts loans | **7,618** | 18,226 |
| Short-term bank loans (note) | **220,717** | 267,743 |
| | **228,335** | 285,969 |

The average interest rates at 31 March were as follows:

| | 2020 | 2019 |
|---|---|---|
| Trust receipts loans | **3.99%** | 3.94% |
| Short-term bank loans | **3.91%** | 3.89% |

Note:
At 31 March 2020 and 2019, all short-term bank borrowings were arranged at floating rates, thus exposing the Group to cash flow interest rate risk. These borrowings were secured by the followings:

(i) corporate guarantees given by certain subsidiaries and the Company;
(ii) personal guarantees given by a director of a subsidiary;
(iii) corporate guarantees given by a connected party of a subsidiary; and
(iv) bank deposits and leasehold land and buildings of the Group situated in Hong Kong.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 32. LONG-TERM BANK BORROWINGS

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Bank loans (note) | **32,410** | 90,497 |
| **Bank loans** | | |
| The bank loans are repayable (based on scheduled repayment dates set out in loan agreements) as follows: | | |
| On demand or within one year | **20,385** | 52,476 |
| More than one year, but not exceeding two years | **3,174** | 30,489 |
| More than two years, but not exceeding five years | **5,194** | 4,703 |
| More than five years | **3,657** | 2,829 |
| | **32,410** | 90,497 |
| Less: Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities) | **(9,697)** | (19,361) |
| Amounts due within one year (shown under current liabilities) | **(20,385)** | (52,477) |
| Current portion | **(30,082)** | (71,838) |
| Non-current portion | **2,328** | 18,659 |

Note:

The bank loans are arranged at floating rates and expose the Group to cash flow interest rate risk. The average interest rate was 4.11% (2019: 3.58%) per annum at 31 March 2020.

At 31 March 2020 and 2019, the bank loans were secured by the followings:

(i) corporate guarantees given by certain subsidiaries and the Company; and

(ii) bank deposits and leasehold land and buildings of the Group situated in Hong Kong (note 36).

All the long-term bank loans are denominated in HK$.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 33. LEASE LIABILITIES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Total minimum lease payments:** | | |
| Within one year | 9,502 | – |
| More than one year, but not exceeding two years | 8,482 | – |
| More than two years, but not exceeding five years | 25,246 | – |
| More than five years | 89,425 | – |
| | 132,655 | – |
| Future finance charges on lease liabilities | (42,857) | – |
| | 89,798 | – |

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within one year | 6,168 | – |
| Within a period of more than one year but not more than two year | 5,368 | – |
| Within a period of more than two years but not more than five years | 17,205 | – |
| Within a period of more than five years | 61,057 | – |
| | 89,798 | – |
| Less: Amount due for settlement within 12 months shown under current liabilities | (6,168) | – |
| Amount due for settlement more than 12 months shown under non-current liabilities | 83,630 | – |

Lease liabilities as at 31 March 2020 represented the lease of production plant and staff quarters in PRC and a motor vehicle.

Upon the application of "HKFRS 16 Lease" on 1 April 2019, the Group recorded a lease liabilities of approximately HK$107,108,000. As the Group adopted the modified retrospective approach on HKFRS 16 Lease accounting since 1 April 2019, no restatement was made to comparative figures as at 31 March 2019 in this regard. Please refer to note 2 for details.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 34. SHARE CAPITAL

| | Number of shares '000 | Amount HK$'000 |
|---|---|---|
| **Authorised:** | | |
| Ordinary shares of HK$0.01 each | | |
| **At 1 April 2018, 31 March 2019, 1 April 2019 and 31 March 2020** | **2,000,000** | **20,000** |
| **Issued and fully paid:** | | |
| Ordinary shares of HK$0.01 each | | |
| At 1 April 2018 | 362,300 | 3,623 |
| Buy-back of shares | (8,828) | (88) |
| At 31 March 2019 and 1 April 2019 | 353,472 | 3,535 |
| Buy-back of shares (note) | (5,094) | (51) |
| **At 31 March 2020** | **348,378** | **3,484** |

Note:

During the year ended 31 March 2020, the Company bought-back its own ordinary shares on the market, details of which are as follows:

| Month | Number of ordinary Shares bought-back | Highest price paid per Share HK$ | Lowest price paid per Share HK$ | Consideration HK$'000 |
|---|---|---|---|---|
| April 2019 | 742,000 | 0.80 | 0.79 | 597 |
| August 2019 | 1,558,000 | 0.57 | 0.54 | 888 |
| October 2019 | 546,000 | 0.60 | 0.57 | 325 |
| December 2019 | 1,626,000 | 0.60 | 0.58 | 979 |
| March 2020 | 622,000 | 0.51 | 0.50 | 315 |
| Total | 5,094,000 | 0.80 | 0.50 | 3,104 |

Approximately 4,472,000 ordinary shares were cancelled during the year ended 31 March 2020. Approximately 622,000 ordinary shares were subsequently cancelled in April 2020. Except for the above mentioned, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's share during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 35. SHARE-BASED PAYMENTS

The Company's share option scheme (the "**Scheme**") was adopted on 5 February 2009 for a period of 10 years. The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors of the Company, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners and service providers of the Group and to promote the success of the business of the Group. Under the Scheme, the Board may, at its absolute discretion and on such terms as it may think fit, grant an employee (full-time or part-time), a director, consultant and adviser of the Group, any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, options to subscribe for ordinary shares of the Company at the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer for the grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of offer for the grant of the option; and (iii) the nominal value of the Share on the date of offer for the grant of the option. The offer for a grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

The maximum number of Shares issuable upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of all the issued shares upon completion of the share offer and the capitalisation issue during the placing and public offer as described in the prospectus of the Company dated 16 February 2009.

The Company may seek approval of the shareholders in a general meeting for refreshing the 10% limit under the Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit as "refreshed". Options previously granted under the Scheme or any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the limit as "refreshed".

The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

No options may be granted under the Scheme or any other share option scheme of the Company if it will result in such 30% being exceed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 35. SHARE-BASED PAYMENTS (Continued)

The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

Share options granted are not transferable or assignable and should be personal to the grantee.

Share options may be exercised in accordance with the terms of the Scheme at any time during a period as the Board of Directors may determine which shall not exceed 10 years from the grant date subject to the provisions of early termination thereof. Share options will be lapsed if it remains unexercised within the expiry period. Share options granted to employees will be lapsed within a certain period of time if the grantee ceases to be an employee before the share options are vested.

Details of the specific categories of options are as follows:

| Grant date | 6 January 2010 | 6 January 2010 | 6 January 2010 | 17 May 2010 |
|---|---|---|---|---|
| Lot | 1 | 2 | 3 | 4 |
| Vesting period (note (a)) | 6 January 2010 to 5 January 2011 | 6 January 2010 to 5 January 2012 | 6 January 2010 to 5 January 2013 | 17 May 2010 to 12 November 2010 |
| Exercisable period | 6 January 2011 to 5 January 2020 | 6 January 2012 to 5 January 2020 | 6 January 2013 to 5 January 2020 | 13 November 2010 to 16 May 2020 |
| Exercise price (note (b)) | HK$1.18 | HK$1.18 | HK$1.18 | HK$1.05 |
| Price of the Company's shares at the date of grant (note (c)) | HK$1.18 | HK$1.18 | HK$1.18 | HK$1.05 |

Notes:

(a) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(b) The exercise price of the share options is subject to adjustment in the case of rights or bonus issue, share consolidation, share subdivision, or other similar changes in the Company's share capital.

(c) The price of the Company's share disclosed as at the date of the grant of the share options is the higher of the average of closing prices listed on the Stock Exchange of Hong Kong for the five business days immediately preceding the date of the grant of the share options or the closing price at the date of grant.

No share-based payment expense in relation to share options granted by the Company was recognised for the years ended 31 March 2020 and 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 35. SHARE-BASED PAYMENTS (Continued)

Details of the share options outstanding during the year are as follows:

| | Number of share options granted to directors | Weighted average exercise price HK$ | Number of share options granted to employees | Weighted average exercise price HK$ | Total number of share options | Weighted average exercise price HK$ |
|---|---|---|---|---|---|---|
| Outstanding at 1 April 2018, 31 March 2019 and 1 April 2019 | 5,000,000 | 1.16 | 4,800,000 | 1.10 | 9,800,000 | 1.13 |
| Share option lapsed | (4,100,000) | 1.18 | (1,800,000) | 1.18 | (5,900,000) | 1.18 |
| Exercisable at 31 March 2020 | 900,000 | 1.05 | 3,000,000 | 1.05 | 3,900,000 | 1.05 |

No share options have been granted or exercised during the two years ended 31 March 2020 and 2019 and no share option have been lapsed during year ended 31 March 2019. The options outstanding at 31 March 2020 have a weighted average remaining contractual life of 0.13 years (2019: 0.91 years) and the exercise price of HK$1.05 (2019: HK$1.13).

As at 1 April 2018 and 31 March 2019, the outstanding number of share option under Lot 1, Lot 2 and Lot 3 were 2,810,000, 1,545,000 and 1,545,000 respectively. During the year, all share options under Lot 1, Lot 2 and Lot 3 of total of 5,900,000 share options were lapsed.

As at 31 March 2020, the number of shares options granted and remained outstanding under the Scheme was 3,900,000 (2019: 9,800,000), representing 1.12% (2019: 2.77%) of the issued share capital of the Company.

Options shall be forfeited on the expiry of three months after the date of cessation of employment, but before the options vest. All the options forfeited before expiry of the options will be treated as cancelled option under the share option scheme.

The estimated fair value of the options granted during the years ended 31 March 2011 and 2010 calculated using the Black-Scholes option pricing model was approximately HK$6,285,000 and HK$3,315,000 respectively. The inputs into the model were as follows:

| Grant date | 6 January 2010 | 6 January 2010 | 6 January 2010 | 17 May 2010 |
|---|---|---|---|---|
| Lot | 1 | 2 | 3 | 4 |
| Option value | HK$0.3918 | HK$0.3959 | HK$0.3986 | HK$0.3207 |
| Total fair value | HK$1,563,000 | HK$873,000 | HK$879,000 | HK$6,285,000 |
| Share price at date of grant | HK$1.18 | HK$1.18 | HK$1.18 | HK$1.05 |
| Exercise price | HK$1.18 | HK$1.18 | HK$1.18 | HK$1.05 |
| Expected volatility | 50.45% | 49.61% | 49.02% | 52.08% |
| Risk-free interest rate | 2.01% | 2.10% | 2.20% | 1.75% |
| Dividend yield | 3.90% | 3.90% | 3.90% | 4.38% |

Expected volatility was determined by calculating the historical volatility of the listed share price of similar companies in the same industry over a period that is equal to the expected life of the options before the date of grant. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

Because the Black-Scholes option pricing model requires input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 36. PLEDGE OF ASSETS

At the end of the reporting period, the following assets of the Group were pledged to banks to secure the general banking facilities granted to the Group:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Property, plant and equipment (note 17) | **1,085** | 1,125 |
| Investment properties (note 19) | **241,600** | 227,200 |
| Bank deposits (note 26) | **24,008** | 94,658 |
| | **266,693** | 322,983 |

## 37. RETIREMENT BENEFITS SCHEMES

### Defined contribution plans

The Group operates a MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of HK$1,500 (2019: HK$1,500) per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

The subsidiaries of the Group incorporated in Macau make monthly contributions to the Central Provident Fund System managed by the relevant authority of the local government, which undertakes the retirement obligations of the Group's employees in Macau. The Group has no obligation for payment of retirement benefits beyond the monthly contributions. The contributions payable are recognised as an expense to profit or loss as and when incurred.

The total contributions incurred in this connection for the year ended 31 March 2020 were approximately HK$5,804,000 (2019: approximately HK$6,869,000). No forfeited contributions are available to reduce the contribution payable by the Group in the future years.

## 38. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 March 2020, deposits paid for acquisition of property, plant and equipment of approximately HK$1,668,000 (2019: approximately HK$2,850,000) was transferred to property, plant and equipment and deposits paid for acquisition of investment property of approximately HK$5,181,000 was transferred to investment property.

During the year, the Group had non-cash additions to motor vehicles under lease arrangement of approximately HK$1,069,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 39. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Capital expenditure contracted but not provided for: | | |
| Purchase of property, plant and equipment | **8,964** | 2,676 |
| Purchase of investment property | **–** | 24,640 |
| | **8,964** | 27,316 |

## 40. LEASE COMMITMENTS

### The Group as lessor

Property rental income earned during the year was approximately HK$5,342,000 (2019: approximately HK$4,665,000). The Group leases its investment properties under operating lease arrangements, with lease terms negotiated ranging from one to five years. The terms of the leases generally require tenants to pay upfront security deposits. The investment properties are expected to generate rental yield of 2.2% (2019: 2.1%) on an ongoing basis.

At the end of the reporting period, the Group had future minimum lease receivables under leasing arrangements as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Within one year | **6,196** | 4,813 |
| Between 1 and 2 years | **4,031** | 1,700 |
| Between 2 and 3 years | **2,480** | 675 |
| Between 3 and 4 years | **2,640** | - |
| Between 4 and 5 years | **1,760** | - |
| | **17,107** | 7,188 |

### The Group as lessee

As at 31 March 2019, the Group had commitments for future minimum lease payments under non-cancellable leasing arrangement which fall due as follows:

| | 2019<br>HK$'000 |
|---|---|
| Within one year | 18,967 |
| In the second to fifth year, inclusive | 22,355 |
| After the fifth year | 33,099 |
| | 74,421 |

Operating lease payments represent rentals payable by the Group for certain land and buildings. Leases are negotiated for terms ranging from 1 to 29 years and rentals are fixed over the lease terms and do not include contingent rentals.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 40. LEASE COMMITMENTS (Continued)

### The Group as lessee (Continued)

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to these leases. Please refer to note 2 for details. From 1 April 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 3, and the details regarding the Group's future lease payments are disclosed in note 33.

The lease commitment as at 31 March 2019 excluded the lease commitment which had a termination course option. For the adoption of HKFRS 16, the Group recognised the commitment amount throughout the lease term. Please refer to note 2 for details.

## 41. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the reporting period:

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Rental in respect of land and buildings paid to related companies (note a) | **2,151** | 1,098 |
| Purchase of goods from Nine Dragons Paper (Holdings) Limited (note b) | **350,918** | 448,477 |
| | **353,069** | 449,575 |

Note:

(a) Related companies owned by the director, Mr. CHONG Kam Chau, of the Company.

(b) Nine Dragons Paper (Holdings) Limited indirectly held 40% equity interest in a subsidiary of the Company.

(b) The emoluments of the Directors (representing key management personnel) during the year are set out in note 13(a).

## 42. CONTINGENT LIABILITIES

IRD issued estimated assessments and additional assessments for the year of assessment 2009/10 to 2013/14 to six subsidiaries of the Group amounting to HK$16,867,000. In the opinion of the Directors, there is no specific basis for adjusting the subsidiaries' tax position for the years of assessment 2009/10 to 2013/14 specified in the estimated assessment and additional assessment. The Directors are of the view that no tax provision for Hong Kong Profits Tax is required at this stage. The subsidiaries had raised objections to the IRD and will continue to monitor the progress and to defend the subsidiaries' tax position vigorously. Therefore, no tax provision was provided at 31 March 2020 in this regard (2019: Nil). Please also refer to note 11 for details.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 43. RECONCILIATION OF 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.

| | Bank Borrowings HK$'000 | Interest payables HK$'000 | Amount due to non-controlling shareholders HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2018 | 405,639 | 410 | 20,196 | 426,245 |
| **Changes from financing cash flows:** | | | | |
| Interest paid | – | (15,273) | – | (15,273) |
| Drawdown of new bank borrowings | 73,830 | – | – | 73,830 |
| Repayment of bank borrowings | (99,855) | – | – | (99,855) |
| **Other Changes:** | | | | |
| Interest expenses | – | 15,336 | – | 15,336 |
| Exchange difference | (3,148) | – | – | (3,148) |
| At 31 March 2019 | 376,466 | 473 | 20,196 | 397,135 |

| | **Lease liabilities HK$'000** | **Bank Borrowings HK$'000** | **Interest payables HK$'000** | **Amount due to non-controlling shareholders HK$'000** | **Total HK$'000** |
|---|---|---|---|---|---|
| At 31 March 2019 | – | 376,466 | 473 | 20,196 | 397,135 |
| Adjustment upon application of HKFRS 16 | 107,108 | – | – | – | 107,108 |
| As at 1 April 2019 (restated) | 107,108 | 376,466 | 473 | 20,196 | 504,243 |
| **Changes from financing cash flows:** | | | | | |
| Advance from non-controlling shareholder | – | – | – | 16,587 | 16,587 |
| Interest paid | – | – | (14,316) | – | (14,316) |
| Drawdown of new bank borrowings | – | 144,207 | – | – | 144,207 |
| Repayment of bank borrowings | – | (256,791) | – | – | (256,791) |
| Capital element of lease rentals paid | (12,438) | – | – | – | (12,438) |
| Interest element of lease rentals paid | (3,761) | – | – | – | (3,761) |
| **Other Changes:** | | | | | |
| Interest expenses | 3,761 | – | 14,140 | – | 17,901 |
| Increase in lease liabilities from entering into new leases during the period | 1,385 | – | – | – | 1,385 |
| Exchange difference | (6,257) | (3,137) | – | – | (9,394) |
| At 31 March 2020 | 89,798 | 260,745 | 297 | 36,783 | 387,623 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 44. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 March 2020 and 2019 are as follows:

| Name of subsidiary | Place of incorporation | Issued and fully paid up share capital/ registered capital | Proportion of ownership interest and voting power held by the Company 2020 | 2019 | Principal activities/ place of operation |
|---|---|---|---|---|---|
| **Directly held** | | | | | |
| Jumbo Match Limited | BVI | Ordinary USD1 | **100%** | 100% | Investment holding/ Hong Kong |
| **Indirectly held** | | | | | |
| Chance Bright Limited – Macao Commercial Offshore | Macau | Ordinary MOP100,000 | **100%** | 100% | Trading of raw paper and production supplies/Macau |
| Cheer Fame Holdings Limited | Hong Kong | Ordinary HK$10,000 | **100%** | 100% | Property holding/ Hong Kong |
| Come Sure Development Limited | Hong Kong | Ordinary HK$60,000,000 | **100%** | 100% | Investment and property holding/ Hong Kong |
| Come Sure Group Limited – Macao Commercial Offshore | Macau | Ordinary MOP100,000 | **100%** | 100% | Trading of corrugated paperboard and paper-based packaging products/Macau |
| Come Sure Holdings Limited | BVI | Ordinary US$13,500,000 | **100%** | 100% | Investment holding/ Hong Kong |
| 錦勝包裝(深圳)有限公司 Come Sure Packing Products (Shenzhen) Company Limited* | PRC wholly foreign owned enterprise | Registered and paid up capital HK$248,980,000 | **100%** | 100% | Trading and manufacturing of corrugated paperboard and paper-based packaging products/ PRC |
| 錦勝紙業(深圳)有限公司 Come Sure Paper Industrial (Shenzhen) Company Limited* | PRC wholly foreign owned enterprise | Registered and paid up capital HK$30,000,000 | **100%** | 100% | Trading of corrugated paperboard and paper-based packaging products/PRC |
| 惠州錦勝包裝有限公司 Huizhou Come Sure Packing Company Limited | PRC wholly foreign owned enterprise | Registered and paid up capital HK$47,000,000 | **100%** | 100% | Trading of corrugated paperboard and paper-based packaging products and investment holding/PRC |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 44. PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation | Issued and fully paid up share capital/ registered capital | Proportion of ownership interest and voting power held by the Company 2020 | 2019 | Principal activities/ place of operation |
|---|---|---|---|---|---|
| **Indirectly held (Continued)** | | | | | |
| 惠州錦勝紙業有限公司 Huizhou Come Sure Paper Industrial Company Limited* | PRC wholly foreign owned enterprise | Registered and paid up capital HK$20,000,000 | **100%** | 100% | Trading and manufacturing of corrugated paperboard and paper–based packaging products/ PRC |
| Joy Honest Holdings Limited | Hong Kong | Ordinary HK$10,000 | **100%** | 100% | Property holding/ Hong Kong |
| Keen Rise International Development Limited | Hong Kong | Ordinary HK$100 | **100%** | 100% | Trading of corrugated paper- based packaging products/Hong Kong |
| Luck Sea Investment Limited | Hong Kong | Ordinary HK$1,000,000 | **100%** | 100% | Provision of management service/Hong Kong |
| 華銘彩印(深圳)有限公司 Wah Ming Colour Printing (Shenzhen) Company Limited* | PRC wholly foreign owned enterprise | Registered and paid up capital HK$51,000,000 | **100%** | 100% | Trading and manufacturing of offset printed corrugated paper-based packaging products/PRC |
| Wah Ming International Limited | Hong Kong | Ordinary HK$2,000,000 | **100%** | 100% | Trading of offset printed corrugated paper-based packaging products/ Hong Kong |
| 錦勝包裝(泉州)有限公司 Come Sure Packing Products (Quanzhou) Company Limited* | PRC wholly foreign owned enterprise | Registered and paid up capital HK$55,000,000 | **60%** | 60% | Trading and manufacturing of corrugated paperboard/PRC |
| 江西錦勝包裝有限公司 Jiangxi Come Sure Packing Products Company Limited* | PRC wholly foreign owned enterprise | Registered capital HK$80,000,000 Paid up capital HK$22,000,000 | **100%** | 100% | Investment holding/PRC |
| Wise Luck International (HK) Limited | Hong Kong | Ordinary HK$10,000 | **100%** | 100% | Property holding/ Hong Kong |
| Smart Profit Capital Investment Limited | Hong Kong | Ordinary HK$10,000 | **100%** | 100% | Property holding/Hong Kong |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 44. PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiary | Place of incorporation | Issued and fully paid up share capital/ registered capital | Proportion of ownership interest and voting power held by the Company 2020 | 2019 | Principal activities/ place of operation |
|---|---|---|---|---|---|
| **Indirectly held (Continued)** | | | | | |
| 華銘紙業(深圳)有限公司 Wah Ming Paper Industrial (Shenzhen) Company Limited* | PRC wholly foreign owned enterprise | Registered and paid up capital HK$30,000,000 | **100%** | 100% | Trading and manufacturing of offset printed corrugated paper-based packaging products/PRC |
| Mass Linker Limited | Hong Kong | Ordinary HK$10,000 | **100%** | 100% | Property holding/Hong Kong |
| Sky Achiever Holdings Limited | Hong Kong | Ordinary HK$10,000 | **100%** | 100% | Trading of paper-based packaging products and molded pulp products/ Hong Kong |
| 中洲紙業(深圳)有限公司 Sky Achiever Paper Industrial (Shenzhen) Company Limited* | PRC wholly foreign owned enterprise | Registered and paid up capital HK$12,500,000 | **100%** | 100% | Trading and manufacturing of paper-based packaging products and molded pulp products/PRC |

* The English names of these companies represent management's best efforts in translating the Chinese names of these companies as no English names have been registered.

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

## 45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| **Non-current asset** | | |
| Investments in subsidiaries (note (a)) | **336,342** | 338,215 |
| **Current assets** | | |
| Prepayment | **187** | 188 |
| Amounts due from subsidiaries (note (b)) | **189,126** | 189,126 |
| Bank balances and cash | **405** | 314 |
| | **189,718** | 189,628 |
| **Current liabilities** | | |
| Accruals | **20** | 17 |
| Amount due to subsidiaries (note (b)) | **119,251** | 99,710 |
| Financial guarantee contracts (note (c)) | **41,838** | 16,340 |
| | **161,109** | 116,067 |
| **Net current assets** | **28,609** | 73,561 |
| **NET ASSETS** | **364,951** | 411,776 |
| **Capital and reserves** | | |
| Share capital | **3,484** | 3,535 |
| Reserves (note (d)) | **361,467** | 408,241 |
| **TOTAL EQUITY** | **364,951** | 411,776 |

Notes:

**(a) Investments in subsidiaries**

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Unlisted investment, at cost | **141,631** | 141,631 |
| Deemed capital contribution to subsidiaries | **194,711** | 196,584 |
| | **336,342** | 338,215 |

**(b) Amounts due from/to subsidiaries**

The amounts are unsecured, interest-free and repayable on demand.

**(c) Financial guarantee contracts**

At 31 March 2020, the Company has issued guarantees of approximately HK$1,072,676,000 (2019: approximately HK$1,152,284,000) and unlimited corporate guarantees to banks in respect of the banking facilities granted to fourteen (2019: thirteen) subsidiaries of the Group.

The Directors do not consider it is probable that a claim will be made against the Company under any of the above guarantees and the maximum liability of the Company at the end of the reporting period in respect of the above guarantees is the amount of bank loans drawn by its subsidiaries under the guarantees at that date of approximately HK$269,031,000 (2019: approximately HK$277,435,000).

The fair value of financial guarantee is determined by reference to a valuation report of an independent professional valuer. The fair value is deemed to be the expected credit losses derived mainly based on default rate of investment grade and recovery rates for credit ratings. At 31 March 2020, the fair value of the financial guarantee contracts was approximately HK$41,838,000 (2019: approximately HK$16,340,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes: (Continued)

**(d) Reserves**

| | Share premium HK$'000 | Special reserve HK$'000 | Share-based payment reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **At 1 April 2018** | **193,212** | **141,681** | **3,698** | **95,434** | **434,025** |
| Profit for the year | – | – | – | 6,395 | 6,395 |
| Buy-back of ordinary shares | (6,818) | – | – | – | (6,818) |
| Dividend paid | – | – | – | (25,361) | (25,361) |
| **At 31 March 2019 and 1 April 2019** | **186,394** | **141,681** | **3,698** | **76,468** | **408,241** |
| Loss for the year | – | – | – | (27,801) | (27,801) |
| Buy-back of ordinary shares | (3,053) | – | – | – | (3,053) |
| Share options lapsed | – | – | (2,447) | 574 | (1,873) |
| Dividend paid | – | – | – | (14,047) | (14,047) |
| **At 31 March 2020** | **183,341** | **141,681** | **1,251** | **35,194** | **361,467** |

## 46. EVENT AFTER THE REPORTING PERIOD

With effect from 6 April 2020, the Company's principal share registrar and transfer agent in the Cayman Islands changed its company name from Estera Trust (Cayman) Limited to Ocorian Trust (Cayman) Limited. The address of the principal share registrar and transfer agent of the Company in the Cayman Islands remains unchanged.

On 24 June 2020 (after trading hours), Come Sure Packaging Products (Shenzhen) Company Limited (錦勝包裝(深圳)有限公司), being an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") with Dongguan City Ruixing Paper Products Company Limited (東莞市瑞興紙製品有限公司), an independent third party, to purchase certain assets and machineries used for the production of corrugated paperboards and paper-based packaging products (the "**Assets**") at a total consideration of RMB21,880,000 (equivalent to approximately HK$23,849,200). The Assets to be acquired under the Sale and Purchase Agreement are mainly for the purpose of ensuring smooth operation and enhancing the production capacity. For further details, please refer to the Company's announcement dated 24 June 2020.

## 47. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm to the current year's presentation.

# LIST OF MAJOR PROPERTIES

Details of the Group's major properties as at 31 March 2020 are as follows:

## LAND AND BUILDINGS

| Location | Effective % held | Category of lease | Existing use | Approximate floor area | Categories |
|---|---|---|---|---|---|
| G/F., including yard at the rear thereof, Fook Wah Mansion, No.2 Tsing Fung Street, Hong Kong | 100 | Long term | Shop | 855 sq.ft. | Investment properties |
| Shop A-1 on G/F., Riviera Mansion, No. 2A Hoi Wan Street & Nos. 18, 20 & 22 Hoi Tai Street, Hong Kong | 100 | Long term | Shop | 449 sq.ft. | Investment properties |
| Shops B & C on G/F., Hoi Ning Building, Nos. 82-84 Sai Wan Ho Street, Nos. 1-5 Hoi Ning Street, Hong Kong | 100 | Long term | Shop | 2,869 sq.ft. | Investment properties |
| Shop No. 2 on Ground Floor, Ka Hing Building, Nos. 41-47 Java Road, Hong Kong | 100 | Long term | Shop | 591 sq.ft. | Investment properties |
| Whole Block of No. 76 Junction Road, Kowloon (New Kowloon Inland Lot No. 3969) | 100 | Long term | G/F-Shop<br>Uppers floor-Residential | 747 sq.ft.<br>3,278 sq.ft. | Investment properties |
| Car parking space No. 71 on Lower G/F., Ming Yuen Mansions, Nos. 1-31 Peacock Road, Hong Kong | 100 | Long term | Carpark | N/A | Investment properties |