



On Real International Holdings Limited
安悅國際控股有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 8245



CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

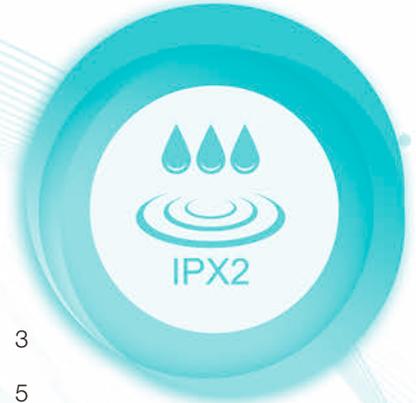
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DIRECTORS

Executive Directors:

Mr. Tam Wing Ki
(Chief Executive Officer, resigned on 25 October 2019)

Mr. Fu Yan Ming *(Resigned on 20 September 2019)*

Mr. Kwok Ming Fai *(Resigned on 20 September 2019)*

Mr. Chan Lung Ming
(Chairman, appointed on 27 November 2019)

Mr. Yeung Shing Wai
(Appointed on 21 September 2019)

Ms. Sin Pui Ying
(Appointed as Non-executive Director on 21 September 2019 and re-designated to Executive Director on 1 November 2019)

Non-executive Directors:

Mr. Chan Chung Yin Victor
(Resigned on 31 March 2020)

Mr. Tao Hong Ming
(Appointed on 25 October 2019)

Independent Non-executive Directors:

Mr. Chan Shiu Man

Mr. Fung Chan Man, Alex
(Resigned on 20 September 2019)

Mr. Wong Ching Wan

Mr. Cheng Chai Fu
(Appointed on 25 October 2019)

AUDIT COMMITTEE

Mr. Wong Ching Wan *(Chairman)*

Mr. Chan Shiu Man

Mr. Fung Chan Man, Alex
(Resigned on 20 September 2019)

Mr. Cheng Chai Fu
(Appointed on 25 October 2019)

REMUNERATION COMMITTEE

Mr. Fung Chan Man *(Chairman)*
(Resigned on 20 September 2019)

Mr. Chan Shiu Man *(Chairman)*
(Appointed as chairman on 25 October 2019)

Mr. Wong Ching Wan

Mr. Cheng Chai Fu
(Appointed on 25 October 2019)

NOMINATION COMMITTEE

Mr. Tam Wing Ki *(Chairman)*
(Resigned on 25 October 2019)

Mr. Cheng Chai Fu *(Chairman)*
(Appointed on 25 October 2019)

Mr. Chan Shiu Man

Mr. Wong Ching Wan

Mr. Fung Chan Man Alex
(Resigned on 20 September 2019)

COMPANY SECRETARY

Mr. Hui Man Ho Ivan

COMPLIANCE OFFICER

Mr. Kwok Ming Fai
(Resigned on 20 September 2019)

Mr. Yeung Shing Wai
(Appointed on 21 September 2019)

AUTHORISED REPRESENTATIVES

Mr. Kwok Ming Fai
(Resigned on 20 September 2019)

Mr. Yeung Shing Wai
(Appointed on 21 September 2019)

Mr. Hui Man Ho Ivan

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

G/F., 200 Hennessy Road,
Wan Chai, Hong Kong (Since 10 January 2020)

Office D, 27/F., Billion Plaza 2
10 Cheung Yue Street
Kowloon, Hong Kong (Up to 9 January 2020)

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
Room 2103B, 21/F.
148 Electric Road, North Point
Hong Kong

PRINCIPAL BANKERS

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

AUDITOR

Elite Partners CPA Limited
10/F., 8 Observatory Road
Tsim Sha Tsui, Kowloon
Hong Kong

STOCK CODE

8245

COMPANY'S WEBSITE

www.on-real.com

CHAIRMAN' STATEMENT

Dear shareholders,

On behalf of the board of Directors (the “**Board**”) of On Real International Holdings Limited (the “**Company**”) and its subsidiaries (together the “**Group**”), I am pleased to present to our shareholders the audited annual report of the Group for the financial year ended 31 March 2020 (hereafter referred as the “**Financial Year**”).

OVERVIEW

During the financial year, the trade war between People’s Republic of China (the “**PRC**”) and United States (“**US**”) put stronger pressure to the overall economic environment and also to our business. Although our sales recorded a slight growth of 3.4% due to increase of number of purchase orders from customers during the year, the overall performance of the Group is deteriorated during the year. We made an effort to reduce the impact of the trade war between PRC and US, the Group put additional cost in setting up the logistic and operation of subcontracting the manufacturing outside the PRC. Also, the Group increase the research and development fee to maintain our competitiveness in maintain our customer base, therefore, the administrative expenses significantly by 42% during the year. We remain cautious on the business outlook for the next year as the trade tension has no sign of ending at the moment.

The Directors have been continuously evaluating the current business strategies of the Group with an aim to streamline its business and improve its overall performance. The Group has continuously focusing on research and development of products and strength its products portfolio, to enhance the information and management system, and to strengthen its marketing efforts. The Group is proceeding cost migration of our fixed overhead in manufacturing into a variable costs in order to increase the flexibility of operation the business.

PROSPECT

Our business objectives are to grow our existing business by strengthening our product portfolio, enhancing our information management system and enhancing our marketing efforts. We will continue looking into opportunities to diversify our revenue stream. Also, we will continue to search for new product and to leverage our developed sales channels and network for distributing related products.

In coming year, the Group is expecting to deploy more subcontracting arrangement to enhance the flexibility in terms of fixed cost commitment. The subcontracting arrangement may shift outside the PRC such as Malaysia to diversify the production processes and fulfill the requirement from the customers. We will continue to put effort in developing new model of our products and diversify our revenue streams which are expected to bring growth potential for turnover to the Group and returns to the shareholders of the Company (the “**Shareholders**”). The Group looks for and considers potential investment business opportunities from time to time. The Group will also be looking at enhancing our business revenue and profitability by introducing new product categories and/or leverage our research and development capability to provide design engineering service to our customers.

We expect that the trade war between the PRC and the US will continue impacting our business. The revenue and gross margin will be affected due to the additional tariff of the two way radios and the additional cost in setting up the logistic and operation of subcontracting the manufacturing in Malaysia and Vietnam.

The recent outbreak of COVID-19 has spread to worldwide. It has a certain impact on the production of the Group since early 2020. Also, it has brought about additional uncertainties in the Group’s operating environment and may impact the Group’s operations and financial position. The Group will continue to pay close attention to the COVID-19 and to evaluate its impact on the financial position, cash flows and operating results of the Group.

CHAIRMAN' STATEMENT

APPRECIATION

I would like to take this opportunity to extend my sincere gratitude to all shareholders, investors and business partners for their continuous support to the Group. I would also like to express my appreciation to all fellow Directors, management and staff for their contributions to the Group.

Chan Lung Ming

Chairman and Executive Director

Hong Kong
29 June 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a two-way radio product designer and manufacturer established in 2001. We derive revenue principally from designing, manufacturing and selling two-way radios and baby monitor products on original design manufacturing basis.

The Group's revenue increased from approximately HK\$323.5 million for the year ended 31 March 2019 to approximately HK\$334.6 million for the year ended 31 March 2020, representing an increase of approximately 3.4%. Such increase was mainly due to increase of number of purchase orders from customers for two-way radio during the year ended 31 March 2020 and partially offset by decrease in demand of baby monitors and servicing business.

The Group's revenue of two-way radios increased by approximately 15.8% from approximately HK\$211.5 million for the year ended 31 March 2019 to approximately HK\$245.0 million for the year ended 31 March 2020 mainly due to the increase of number of purchase orders from customers.

The Group's revenue of baby monitor significantly decreased by approximately 77.4% from approximately HK\$17.1 million for the year ended 31 March 2019 to approximately HK\$3.9 million for the year ended 31 March 2020 mainly due to the decrease in demand of our audio baby monitor products.

The Group's revenue of servicing business decreased by approximately 95.9% from approximately HK\$9.7 million for the year ended 31 March 2019 to approximately HK\$0.4 million for the year ended 31 March 2020 mainly due to the decrease in provision of electronic manufacturing servicing business.

The Group's revenue of other products slightly increased by approximately 0.2% from approximately HK\$85.2 million for the year ended 31 March 2019 to approximately HK\$85.3 million for the year ended 31 March 2020 mainly due to the increase in demand and increase of number of purchase orders from our other products and partially offset the effect for the termination in trading of LCD display module during the year ended 31 March 2020.

The following table sets forth the breakdown of the revenue of the Group by product/service categories for each of the year ended 31 March 2020 and 2019:

	2020		For the year ended 31 March 2019		Increase (Decrease)	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Two-way radio	244,976	73.2	211,486	65.4	33,490	15.8
Baby monitors	3,876	1.2	17,141	5.3	(13,265)	(77.4)
Servicing business	402	0.1	9,692	3.0	(9,290)	(95.9)
Other products	85,332	25.5	85,187	26.3	145	0.2
Total	334,586	100	323,506	100	11,080	3.4

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Cost of Sales and Gross Profit

The majority of the Group's cost of sales comprised of raw material cost, direct labour costs and subcontracting fees. The cost of sales increased by approximately 1.6% from approximately HK\$299.1 million for the year ended 31 March 2019 to approximately HK\$303.7 million for the year ended 31 March 2020. The gross profit margin increased from approximately 7.5% for the year ended 31 March 2019 to approximately 9.2% for the year ended 31 March 2020, mainly due to the termination in trading of LCD display module which has lower profit margin during the year ended 31 March 2019 and partially offset by direct labour cost.

Selling and Distribution Expenses

The selling and distribution expenses increased from approximately HK\$4.1 million for the year ended 31 March 2019 to approximately HK\$5.4 million for the year ended 31 March 2020, which was mainly due to increase in logistic and relevant expenses which is in line with increase in revenue.

Administrative Expenses

The administrative expenses increased from approximately HK\$27.4 million for the year ended 31 March 2019 to approximately HK\$38.9 million for the year ended 31 March 2020, which was mainly due to increase in research and development fee and consulting fee to maintain their competitiveness and attractiveness under the dramatic change of industry environment and the additional cost in setting up the logistic and operation of subcontracting the manufacturing outside the PRC.

Loss attributable to owners of the Company

The Group recorded a loss of HK\$19.5 million for the year ended 31 March 2020, compared to loss of HK\$9.8 million for the year ended 31 March 2019 primarily due to the increase in administrative expenses for the reason mentioned above and an one-off loss on disposal of key management insurance.

Dividends

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

Significant Investments held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

On 20 June 2019, Mr. Tam Wing Ki ("**Mr. Tam**"), the executive directors of the Company and On Real Limited ("**the Vendor**"), an indirect wholly-owned subsidiary of the Company entered into the Agreement, pursuant to which Mr. Tam has conditionally agreed to purchase, and the Vendor has agreed to sell, the asset of the life insurance plan "Jade Global Select Universal Life Plan" insured by HSBC Life (International) Limited on the life of Mr. Tam at a consideration of HK\$9,500,000 to be settled by cash. The disposal was completed on 10 July 2019. Details of this transaction are set out in the Company's announcement dated on 20 June 2019 and 10 July 2019.

Apart from the transactions disclosed on the above, there is no plan for material investment or capital assets as at 31 March 2020.

Treasury policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial conditions of its clients and credit review of the Group's loan portfolio. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

Employees and remuneration policies

As at 31 March 2020, the Group had a total of 130 staff (2019: 284). Total staff costs (including Directors' emoluments) were approximately HK\$18.6 million for the year ended 31 March 2020 (2019: approximately HK\$27.5 million). Remuneration is determined with reference to market conditions and the performance, qualifications and experience of individual employee. Year-end bonus will be paid to employees as recognition of and reward for their contributions according to individual performance. Other benefits include share option scheme, contributions to statutory mandatory provident fund schemes and social insurance together with housing provident funds to its employees in Hong Kong and the PRC respectively.

Liquidity and financial resources

Historically, the Group has funded the liquidity and capital requirements primarily through operating cash flows and bank borrowings. As of 31 March 2020, we had various short term borrowings, bank borrowings and lease liabilities of approximately HK\$53.4 million (as at 31 March 2019: approximately HK\$54.2 million), including factoring loan for trade receivables representing a decrease of approximately HK\$1 million as compared to that as at 31 March 2019.

Net current assets increased from approximately HK\$42.8 million for the year ended 31 March 2019 to approximately HK\$60.4 million for the year ended 31 March 2020, which was mainly due to the fund raising activities of subscription of new shares and rights issue to increase in bank balances and cash during the year.

The Company requires cash primarily for working capital need. As of 31 March 2020, the Company had approximately HK\$46.8 million in bank balances and cash (as at 31 March 2019: approximately HK\$24.6 million), representing an increase of approximately HK\$22.2 million as compared to that as at 31 March 2019.

Gearing Ratio

As at 31 March 2020, the gearing ratio of the Group was approximately 84.1% (as at 31 March 2019: approximately 85.5%). The gearing ratio is calculated based on the total borrowings divided by the equity attributable to owners of the company at the end of the reporting period. The decrease of the gearing ratio was mainly attributable to the decrease in amount of borrowings for short-term loan to support the settlement to suppliers.

Contingent Liabilities

On 20 January 2020, the Company received a third-party notice with legal case no. HCA1643/2019 between the Barton Eagle Limited (the "**Plaintiff**"), Lam Tak Hung (the "**Defendant**") and the Company. The Plaintiff claimed against the Defendant approximately HK\$8 million under a guarantee for debts own by the Company. The Defendant claims against the Company to be indemnified against the plaintiff's claim and the cost of this action on the grounds that the Company are the principal debtor of the alleged debt. The management of the Company is seeking the legal opinion for the above case.

MANAGEMENT DISCUSSION AND ANALYSIS

Up to the date of this report, the outcome of the proceedings is still uncertain. As the directors considered it is premature and not practical to draw a conclusion of the outcome of the claims and that the ultimate liability, if any, will not have a material adverse impact on the Group's consolidated financial position, no provision was made as at 31 March 2020.

Apart from the contingent liabilities disclosed on the above, the company has no significant contingent liabilities.

Pledged of Assets

At the end of the reporting period, the Group's banking facilities were secured by:

- (i) certain of the Group's trade receivables (net of allowance for credit losses) with carrying amount of approximately HK\$32,869,000 (2019: HK\$32,400,000);
- (ii) pledged bank deposits with carrying amount of approximately HK\$1,085,000 (2019: HK\$1,128,000);
- (iii) a corporate guarantee from the Company with an aggregate amount of approximately HK\$65,000,000 (2019: HK\$65,000,000).

Capital Commitments

The Company had capital commitments on acquisition of property, plant and equipment of approximately HK\$9,000 (as at 31 March 2019: HK\$219,000).

Use of Proceeds from the Listing

On 30 September 2015, 120,000,000 ordinary shares of the Company were allotted at HK\$0.57 per placing share pursuant to the Placing (as defined in the Prospectus). The net proceeds from the Placing received by the Company were approximately HK\$30.9 million (after deduction of any related expenses). As at 31 March 2020, the net proceeds is fully utilized.

From the listing date of the Company to 31 March 2020, the net proceeds had been utilised as follows:

	Actual net proceeds allocated	Amount utilised up to 31 March 2020	Balance as at 31 March 2020
	HK\$ Million	HK\$ Million	HK\$ Million
Strengthen our product portfolio	21.7	21.7	—
Enhance our information management systems	2.4	2.4	—
Strengthen our marketing efforts	4.0	4.0	—
Working capital and other general corporate purposes	2.8	2.8	—
	30.9	30.9	—

FUND RAISING ACTIVITIES

Subscription of New Shares Under General mandate

On 22 August 2019, the Company entered into the subscription agreement (the “**Subscription Agreement**”) with the 馬梓欣女士 (the “**Subscriber**”), pursuant to which the Company has agreed to allot and issue and the Subscriber has agreed to subscribe for 150,000,000 subscription shares at the subscription price of HK\$0.022 per subscription share, which represent (i) approximately 3.91% of the existing issued share capital of the Company as at the date of Subscription Agreement; and (ii) approximately 3.76% of the issued share capital of the Company as enlarged by the allotment and issue of the subscription shares immediately after the completion. The closing price of the shares as quoted on the Stock Exchange on 22 August 2019, being the date of the Subscription Agreement, was HK\$0.027 per share. The maximum net proceeds from the subscription amounted to approximately HK\$3.3 million which was intended to use as general working capital of the Group. The net price subscription was approximately HK\$0.0219. Details of the subscription were set out in the announcements of the Company dated 22 August 2019 and 30 August 2019.

Share Consolidation, Change in Board Lot Size, Authorised Share Capital Increase and Rights Issue

Details of the Share Consolidation, Authorised Share Capital Increase and Right Issue was set out in the Company’s announcements dated 24 December 2019 and 4 February 2020 and the Company’s Circular dated on 15 January 2020. Unless otherwise defined, capitalised terms used herein shall bear the same meanings ascribed thereto in the announcements.

On 24 December 2019, the Board proposed to the Shareholders to effect the Share Consolidation which involves the consolidation of every ten (10) issued and unissued Existing Shares of par value HK\$0.00125 each into one (1) Consolidated Share of par value of HK\$0.0125. The Board also proposes to change the board lot size for trading on the Stock Exchange from 5,000 Existing Shares to 10,000 Consolidated Shares upon the Share Consolidation having become effective.

Also, the Company proposed to increase the Company’s authorised share capital (conditional on the Share Consolidation having become effective) from HK\$7,800,000 divided into 624,000,000 Consolidated Shares to HK\$39,000,000 divided into 3,120,000,000 Consolidated Shares by the creation of an additional 2,496,000,000 Consolidated Shares.

The Board proposes, subject to, amongst others, the Share Consolidation and the Authorised Share Capital Increase becoming effective, to implement the Rights Issue on the basis of one (1) Rights Share for every two (2) Consolidated Shares held on the Record Date at the Subscription Price of HK\$0.1 per Rights Share, to raise gross proceeds of approximately HK\$19.95 million before expenses (assuming no further issue or repurchase of Shares on or before the Record Date), by way of the Rights Issue of 199,500,000 Rights Shares to the Qualifying Shareholders.

The Company will provisionally allot to the Qualifying Shareholders one Rights Share in nil-paid form for every two Consolidated Shares in issue and held on the Record Date. The Rights Issue will not be available to the Excluded Shareholders.

The estimated net proceeds from the Rights Issue after deducting all necessary expenses are estimated to be approximately HK\$17.55 million (assuming no further issue or repurchase of Shares on or before the Record Date), which are intended to be applied in following manner: (i) as to approximately HK\$14.04 million, being approximately 80%, or more of the net proceeds, for expansion of existing business and/or acquisition of and/or investment in business(es) which leverage on the competitive advantage of the Group should suitable opportunities arise; and (ii) remaining net proceeds of approximately HK\$3.51 million, being approximately 20%, or less of the net proceeds, for general working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

On 4 February 2020, all the resolutions of Share Consolidation and Authorised Share Capital Increase were duly passed by the Shareholders by way of poll at the EGM. As all the conditions of the Share Consolidation have been fulfilled, the Share Consolidation and Authorised Share Capital Increased has taken effect on 6 February 2020.

On 6 March 2020, all conditions set out in the underwriting agreement relating to the Rights Issue have been fulfilled and the Rights Issue became unconditional. The gross proceeds raised from the Rights Issue are approximately HK\$19.95 million before expenses.

Details of the Rights Issue and Underwriting Agreement were set out in the Announcements, Circular and Prospectus.

As at 31 March 2020, the net proceeds of the Subscription and Rights Issue had been utilised as follows:

	Actual net proceeds allocated HK\$ Million	Amount utilised up to 31 March 2020 HK\$ Million	Balance as at 31 March 2020 HK\$ Million
Subscription of New Shares <i>(completion on 30 August 2019)</i>			
General working capital	3.3	3.3	—
Share Consolidation, Change in Board Lot Size, Authorised Share Capital Increase and Rights Issue (completion on 11 March 2020)			
Expansion of existing business and/or acquisition of and/or investment in business(es) which leverage on the competitive advantage of the Group	14.1	0.5	13.6
General working capital	3.7	0.5	3.2

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Chan Lung Ming (陳龍銘), aged 42, is appointed as our executive Director and Chairman of our Board on 27 November 2019. Mr. Chan obtained a Master of Science in Professional Accounting and Corporate Governance from City University of Hong Kong in 2014, a Master of Laws from Renmin University of China in 2007, a Master of Laws in International Economic Law from City University of Hong Kong in 2006, a Bachelor of Laws degree (Hons) from University of London in 2004 and a Bachelor of Business Administration degree from The Open University of Hong Kong in 2000. Mr. Chan is a responsible officer under the Securities and Futures Commission possessing the type 6 (advising on corporate finance) licence. Mr. Chan has several years of experience in the areas of corporate finance, regulatory and compliance. Mr. Chan is currently a director of investment banking at a corporation licensed to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Mr. Chan was an executive director and vice-chairman of EFT Solutions Holdings Limited (Stock code: 8062) from September 2017 to January 2019 and Mr. Chan re-designated as a non-executive director of EFT Solutions Holdings Limited from February 2019 to July 2019. Mr. Chan was also an executive director of China Oil Gangran Energy Group Holdings Limited (Stock code: 8132) from August 2013 to December 2016.

Mr. Yeung Shing Wai (楊成偉), aged 34, is appointed as our executive Director on 21 September 2019. Mr. Yeung had over ten years of working experience in power and data cord industry. He was an executive director of China Oil Gangran Energy Group Holdings Limited (stock code: 8132) from November 2010 to December 2014. Afterwards, he makes private investments in various industries. Mr. Yeung was re-appointed as an executive director of China Oil Gangran Energy Group Holdings Limited (stock code: 8132) on 16 February 2020.

Ms. Sin Pui Ying (洗佩瑩), aged 40, is appointed as our non-executive Director on 21 September 2019 and re-designated from non-executive Director to executive Director on 1 November 2019. Ms. Sin is a practising member of the Hong Kong Institute of Certified Public Accountants. She holds a bachelor's degree in Business Administration (Accounting and Finance) from the University of Hong Kong. Ms. Sin has over 17 years of experience in finance and accounting. Prior to joining the Company, she was responsible for accounting, internal audit, investment and corporate finance matters for several listed companies in Hong Kong. As at the date hereof, Ms. Sin is an executive director of Aurum Pacific (China) Group Limited (stock code: 8148), hmvod Limited (stock code: 8103) and HongDa Financial Holding Limited (stock code: 1822). Ms. Sin is also an executive director of KNK Holdings Limited (stock code: 8039) and she is performing the duties of chairman of the board of KNK Holdings Limited since 16 December 2019.

NON-EXECUTIVE DIRECTOR

Mr. Tao Hong Ming (陶康明), aged 52, is appointed as our non-executive Director on 25 October 2019. Mr. Tao obtained a bachelor of engineering degree in electronic engineering from Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) in November 1990. He has over 20 years of experience in sales and marketing, business development, and product development in the telecommunication product industry. Mr. Tao previously joined the Company between December 2014 to September 2017 as an executive Director and chief operating officer.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Shiu Man (陳劭民), aged 53, is appointed as our independent non-executive Director on 31 August 2016. He is also as the chairman of our remuneration committee, a member of our audit committee and a member of our nomination committee. Mr. Chan is a certified public accountant in Hong Kong. He holds a master degree in finance from University of Hawaii of US. Mr. Chan has over 25 years of experience in financial control and corporate restructuring. He has worked for various companies in the US, including a NASDAQ listed company to establish financial operation in Japan, Europe, and the PRC. Mr. Chan also has experience in consulting on corporate finance, project financing and accounting issues to companies in US, Europe and the PRC. From October 2011 to April 2019, Mr. Chan was an independent non-executive director of Zhongda International Holdings Limited (Stock code: 0909), whose shares delisted on the main board of the Stock Exchange on 8 March 2019. Mr. Chan was a non-executive Director of China Oil Gangran Energy Group Holdings Limited (Stock code: 8132) from July 2017 to August 2018.

Mr. Wong Ching Wan (王青雲), aged 54, is appointed as our independent non-executive Director on 31 March 2016. He is also as the chairman of our audit committee, a member of our remuneration committee and a member of our nomination committee. He is a member of the CPA Australia, the Hong Kong Institute of Certified Public Accountants, Chartered Professional Accountant of Canada and a fellow member of The Taxation Institute of Hong Kong. He has obtained a Bachelor of Business and Administration from the Chinese University of Hong Kong in 1989 and a Bachelor of Commerce from The University of Southern Queensland in 1992. Also, he has studied in the Professional Master of Business Administration course offered by the Troy State University, the US. Mr. Wong is the chief financial officer of Intelligent Living Application Group Inc. from 1 June 2020 and was the compliance officer of China Finance Investment Holdings Limited (stock code: 0875) from 1 November 2018 to 31 May 2020. He is an independent non-executive director of Top Standard Corporation (stock code: 8510) and was an independent non-executive director of Huge China Holdings Limited (now known as Cocoon Holdings Limited) (stock code: 0428), which shares are listed on main board of the Stock Exchange from May 2015 to June 2018. He served as the company secretary and authorised representative of China Oil Gangran Energy Group Holdings Limited (stock code: 8132) from 15 December 2015 to 31 October 2016 and from 15 December 2015 to 23 January 2017 respectively, which shares are listed on GEM board of the Stock Exchange. He was also a director of Network CN, Inc. (stock code: NWCN) from 28 August 2015 to 1 July 2017, which shares are duly traded in the US. Mr. Wong has more than 25 years of experience in audit, internal control, financial control and capital market. He has held various positions in different companies in the PRC, the USA and Hong Kong including senior position in multinational companies.

Mr. Cheng Chai Fu (鄭濟富), aged 58, is appointed as our independent non-executive Director on 25 October 2019. He is also as the chairman of our nomination committee, a member of our audit committee and a member of our remuneration committee. Mr. Cheng graduated from Victoria University of Wellington, New Zealand with a bachelor degree in commerce and administration in 1990 and obtained a Master of Business Administration from Murray State University, Kentucky of the United States of America in 2000. Mr. Cheng has been an associate member of The Hong Kong Institute of Chartered Secretaries, Hong Kong Institute of Certified Public Accountants and Institute of Chartered Accountants of New Zealand. Mr. Cheng has extensive experience in the areas of auditing, accounting and company secretarial work. Mr. Cheng worked as the company secretary and financial controller of Bingo Group Holdings Limited (Stock Code: 8220) from August 2008 to October 2009. Mr. Cheng worked as the company secretary of Hanergy Thin Film Power Group Limited (Stock Code: 566) from March 2010 to January 2015. He also worked as an in-house company secretary of HongDa Financial Holding Limited (Stock Code: 1822) from January 2015 to December 2015 and the company secretary of China Regenerative Medicine International Limited (Stock Code: 8158) from January 2016 to January 2019 respectively. He also served as an independent non-executive director of Legend Strategy International Holdings Group Company Limited (Stock Code: 1355) from March 2017 to September 2018. As at the date hereof, Mr. Cheng is a non-executive Director of HongDa Financial Holding Limited (stock code: 1822).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Wong Kin Fan (黃健勳), aged 53, is the financial controller and is primarily responsible for the financial reporting and financial and accounting management of our Group's operation in PRC. He joined our Group in May 2018.

Mr. Wong received the bachelor's degree in business from University of Southern Queensland in March 1994, the post graduate diploma of information technology from Central Queensland University in 2001 and the Master of business administration from University of Ballarat in 2007. He is a member of the CPA Australia since March 2003. Mr. Wong has more than 20 years of experience in auditing, internal control and financial control. He worked for various international institutions and listed companies.

Mr. Hui Man Ho, Ivan (許文浩), is the company secretary of our Group since February 2019. Mr. Hui holds a Master degree in Practising Accounting, a Master degree in Applied Finance and a Bachelor degree in Business (Banking & Finance) from Monash University, Australia. He is also a member of CPA Australia. Mr. Hui has over 15 years of working experience in auditing, accounting, financial management, corporate finance and company secretarial matters. Prior to joining our Group, Mr. Hui also served as company secretary and chief financial officer of various companies listed on the GEM and the Main Board of the Stock Exchange.

* *The English translation of the Chinese name is for information only, and should not be regarded as the official English translation of such name. Please refer to the Chinese version of this annual report for the Chinese name.*

CORPORATE GOVERNANCE REPORT

The Company is committed to ensure a high standard of corporate governance in the interests of the shareholders and devote considerable effort to maintain high level of business ethics and corporate governance practices.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 15 to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “**GEM Listing Rules**”) throughout the year. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code during the year ended 31 March 2020, except for certain deviations as specified with considered reasons for such deviations as explained below. The Board of the Company will keep reviewing and updating such practices from time to time to ensure compliance with legal and commercial standards.

CORPORATE GOVERNANCE STRUCTURE

The Board is primarily responsible for formulating strategies, monitoring performance and managing risks of the Group. At the same time, it also has the duty to enhance the effectiveness of the corporate governance practices of the Group. Under the Board, there are 3 board committees, namely the audit committee (the “**Audit Committee**”), the remuneration committee (the “**Remuneration Committee**”) and the nomination committee (the “**Nomination Committee**”). All these committees perform their distinct roles in accordance with their respective terms of reference (available on the Company’s website) and assist the Board in supervising certain functions of the senior management.

DIRECTORS’ SECURITIES TRANSACTIONS

The Group had adopted Rules 5.46 to 5.67 of the GEM Listing Rules (the “**Model Code**”) as its own code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard of dealings.

Having made specific enquiry with all the Directors, all the Directors of the Company had confirmed compliance with the required standard of dealings set out in the Model Code and the code of conduct for Directors’ securities transactions during the year ended 31 March 2020.

BOARD OF DIRECTORS

At present, the Board comprises seven directors (“**Directors**”) as follows:

Executive Directors:

Mr. Tam Wing Ki (*Chief Executive Officer, resigned on 25 October 2019*)

Mr. Fu Yan Ming (*Resigned on 20 September 2019*)

Mr. Kwok Ming Fai (*Resigned on 20 September 2019*)

Chan Lung Ming (*Chairman, appointed on 27 November 2019*)

Yeung Shing Wai (*Appointed on 21 September 2019*)

Sin Pui Ying (*Appointed as Non-executive Director on 21 September 2019 and re-designated to Executive Director on 1 November 2019*)

Non-executive Directors:

Mr. Chan Chung Yin Victor (*Resigned on 31 March 2019*)

Mr. Tao Hong Ming (*Appointed on 25 October 2019*)

Independent Non-executive Directors:

Mr. Chan Shiu Man

Mr. Fung Chan Man Alex (*Resigned on 20 September 2019*)

Mr. Wong Ching Wan

Mr. Cheng Chai Fu (*Appointed on 25 October 2019*)

Biographical details of the Directors are set out in the section of “Biographical Details of Directors and Senior Management” on pages 13 to 15. There are no family or other material relationships among members of the Board.

The Board has the responsibility for leadership and control of the Company. They are collectively responsible for promoting the success of the Group by directing and supervising the Group’s affairs. The Board is accountable to the shareholders for the strategic development of the Group with the goal of maximising long-term shareholder value, while balancing broader stakeholder interests.

Pursuant to Code Provision A.1.1 of the CG Code, the Board is expected to meet regularly and Board meeting should be held at least four times a year at approximately quarterly intervals. 15 Board meetings and 2 general meeting were held during the year ended 31 March 2020.

The attendance record of each Director at Board meetings, Audit Committee meetings, Remuneration Committee meeting, Nomination Committee meeting and general meeting during the year ended 31 March 2019 is set out in the following table:

Name of Directors	Board Meetings (attendance/ total no. of meeting held)	Audit Committee Meetings (attendance/ total no. of meeting held)	Remuneration Committee Meetings (attendance/ total no. of meeting held)	Nomination Committee Meetings (attendance/ total no. of meeting held)	General Meeting (attendance/ total no. of meeting held)
Executive Directors					
Mr. Tam Wing Ki <i>(Resigned on 25 October 2019)</i>	5/6	N/A	N/A	1/1	0/1
Mr. Fu Yan Ming <i>(Resigned on 20 September 2019)</i>	5/5	N/A	N/A	N/A	N/A
Mr. Kwok Ming Fai <i>(Resigned on 20 September 2019)</i>	4/5	N/A	N/A	N/A	N/A
Mr. Chan Lung Ming <i>(Appointed on 27 November 2019)</i>	7/7	N/A	N/A	N/A	1/1
Mr. Yeung Shing Wai <i>(Appointed on 27 November 2019)</i>	10/10	N/A	N/A	N/A	1/1
Ms. Sin Pui Ying <i>(Appointed as Non-executive Director on 21 September 2019 and re-designated to Executive Director on 1 November 2019)</i>	10/10	N/A	N/A	N/A	1/1

CORPORATE GOVERNANCE REPORT

Name of Directors	Board Meetings (attendance/ total no. of meeting held)	Audit Committee Meetings (attendance/ total no. of meeting held)	Remuneration Committee Meetings (attendance/ total no. of meeting held)	Nomination Committee Meetings (attendance/ total no. of meeting held)	General Meeting (attendance/ total no. of meeting held)
Non-executive Directors					
Mr. Chan Chung Yin Victor (Resigned on 31 March 2020)	9/14	N/A	N/A	N/A	1/2
Mr. Tao Hong Ming (Appointed on 25 October 2019)	8/8	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Chan Shiu Man	14/15	5/5	2/2	2/2	2/2
Mr. Fung Chan Man Alex	4/5	2/2	1/1	1/1	N/A
Mr. Wong Ching Wan	15/15	5/5	2/2	2/2	2/2
Mr. Cheng Chai Fu (Appointed on 25 October 2019)	8/8	3/3	N/A	N/A	1/1

Code Provision A.1.3 of the CG Code stipulates that at least 14 days' notice should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are generally given. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or audit committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All Directors are provided with details of agenda items for decisions making with reasonable notice and welcome to include matters in the agenda of each Board meeting. Directors have access to the advice and services of the company secretary of the Company ("**Company Secretary**") who is responsible for ensuring that the Board procedures are complied with and advising the Board on compliance matters.

Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are opened for inspection as request by Directors. During the year, the Board was given sufficient time to review and approve the minutes of Board meetings and meetings of Board committees. Directors are also provided with access to independent professional advice, where necessary, in carrying out their obligations as Directors of the Company, at the expense of the Company.

If potential conflict of interest involving a substantial shareholder or a Director arises which the Board has determined to be material, the matter will be dealt with by a physical Board meeting rather than a written resolution. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting. The Directors attend meetings in persons or through other means of electronic communication in accordance with the Bye-laws of the Company.

The day-to-day management, administration and operation of the Company are delegated to the Executive Directors and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the Executive Directors and senior management.

All Directors assume the responsibilities owed to the shareholders of the Company for the well-being and success of the Company. They are aware of their duties to act in good faith and in the best interests of the Company.

The Board is responsible for maintaining proper accounting records so as to enable the Directors to monitor the Company's overall financial position. The Board updates shareholders on the operations and financial position of the Group through quarterly, half yearly and annual results announcements as well as the publication of timely announcements of other matters as prescribed by the relevant rules and regulations.

The Company has three Independent Non-executive Directors, at least one of whom has appropriate financial management expertise, in compliance with the GEM Listing Rules. Each of the Independent Non-executive Director has made an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the Independence Guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

According to the Company's articles of association, newly appointed Directors shall hold office until the next following general meeting and shall be eligible for re-election at that meeting. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under Code Provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

During the year ended 31 March 2020, Mr. Tam has resigned from his position as the Chairman of the Board of the Company on 1 April 2019 and position as chief executive officer of the Company on 27 November 2019. The position of Chairman of the Board of the Company has been vacant until the appointment of Mr. Chan Lung Ming as the Chairman of the Board of the Company on 27 November 2019. The position of chief executive office of the Company was vacant since 27 November 2019. The executive directors of the Company oversaw the day-to-day management of the business and operations of the Group until the suitable candidate to fill the vacancy of the Chairman of the Board.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the Code.

APPOINTMENT, RE-ELECTION AND REMOVAL

During the year, the Directors provided the Company and its subsidiaries with a wide range of expertise and experience. Their active participation in the Board and committee meetings brought independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders of the Company. Under Code Provision A.4.1 of the CG Code, each of the Non-Executive Directors and Independent Non-Executive Directors ("**INED**") has entered into a service contract with the Company for three years but subject to termination in certain circumstance as stimulated in the relevant service contracts. At each annual general meeting, one third of the Directors for the time being (of if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his/her appointment and be eligible for re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing corporate governance duties and has adopted written terms of reference on its corporate governance functions.

The duties of the Board in respect of the corporate governance functions include:

- (i) developing and reviewing the Company's policies and practices on corporate governance;
- (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management;
- (iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (v) reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year ended 31 March 2020 and up to the date of this report, the Board has performed the corporate governance duties in accordance with its terms of reference.

BOARD DIVERSITY POLICY

The Company has adopted the board diversity policy. The policy sets out the approach to achieve diversity in the Board that should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Group's business and compliance with policies. The composition and diversity policies of the Board is reviewed annually and regularly. The Board should ensure that its changes in composition will not result in any undue interference. The Board members should possess appropriate professionalism, experience and trustworthiness in performing duties and functions. The Board would diversify its members according to the Company's situations and need. While participating in nomination and recommendation of director candidates during the year, each member of the Board may consider a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, or professional experience in achieving diversity for the benefit of the Company's various business development and management. The Board has to review the policy concerning diversity of Board members and to disclose the policy or a summary of the policy in the corporate governance report, including any quantitative targets and standards and its progress with policy implementation.

BOARD COMMITTEES

The Board has established three board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.

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

AUDIT COMMITTEE

The Company has established an audit committee on 16 September 2015 with written terms of reference that set out the authorities and duties of the Audit Committee. The terms of reference of the Audit Committee are available at the Company's website and on the website of the Stock Exchange. The Audit Committee performs, amongst others, the following functions:

- To review the financial information of the Group.
- To review the relationship with and terms of appointment of the external auditor.
- To review the effectiveness and adequacy of the Company's financial reporting system, internal control system and risk management system.

During the year, the Audit Committee held 5 meetings. The Audit Committee oversaw the internal control system of the Group, reviewed the consolidated financial statements of the Group for the year ended 31 March 2020, quarterly and half yearly results, the accounting principles and practices adopted by the Group, selection and appointment of the external auditor, reports to the Board on any material issues, and made recommendations to the Board. There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 March 2020.

As at 31 March 2020, the Audit Committee comprises three members namely:

Mr. Wong Ching Wan (*Chairman*)
Mr. Chan Shiu Man
Mr. Cheng Chai Fu (*Appointed on 25 October 2019*)

All the members are Independent Non-Executive Directors (including three Independent Non-Executive Directors who possess the appropriate professional qualifications, accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

REMUNERATION COMMITTEE

A remuneration committee was set up on 16 September 2015, with written terms of reference in compliance with the code provisions of the CG Code, which have been reviewed from time to time by the Board to keep them in line with the most up-to-date requirements to oversee the remuneration policy and structure for all Directors and senior management. The most up-to-date written terms of reference of the Remuneration Committee are available on the Company's website and on the website of the Stock Exchange.

The primary objectives of the Remuneration Committee include making recommendations to the Board on the remuneration policy and structure of the Directors and the senior management and determining the remuneration packages of all Executive Directors and senior management. The Remuneration Committee is also responsible to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance based remuneration. The Remuneration Committee has reviewed the remuneration packages and emoluments of Directors and senior management and considered that they are fair and reasonable during the year ended 31 March 2020.

The Remuneration Committee held 2 meetings during the year. The members reviewed the remuneration package of Directors and the senior management of the Company.

As at 31 March 2020, the Remuneration Committee comprises three members namely:

Mr. Chan Shiu Man (*Chairman*)
Mr. Wong Ching Wan
Mr. Cheng Chai Fu (*Appointed on 25 October 2019*)

Majority of the members are Independent Non-executive Directors.

In addition, pursuant to Code Provision B.1.5 of the CG Code, the number of non-director senior management whose annual remuneration by band during the year ended 31 March 2020 is set out below, details of the Directors remuneration are set out in note 14:

2020

Nil to HK\$1,000,000

2

NOMINATION COMMITTEE

The Company has established a nomination committee on 16 September 2015 for making recommendations to the Board on appointment of Directors and succession planning for the directors.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of Directors, reviewing and recommending for the Board's approval of the proposed resolution for re-election of the retiring Directors at 2020 AGM, reviewing the structure, size, composition and diversity of the Board and assessing the independence of each INED.

In considering the appointment of new directors, the Nomination Committee assessed the relevant candidates on criteria such as integrity, independent mindedness, experience, skill and ability to commit time and effort to carry out their duties and responsibilities effectively etc., and made recommendation to the Board for approval.

In accordance with the Company's Articles of Association, Mr. Chan Lung Ming, Mr. Yeung Shing Wai, Ms. Sin Pui Ying, Mr. Tao Hong Ming, Mr. Cheng Chai Fu, Mr. Chan Shiu Man and Mr. Wong Ching Wan shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Nomination Committee will meet as and when necessary in accordance with its terms of reference and may also deal with matters by way of circulation. The Nomination Committee held 2 meetings during the year. The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the forthcoming annual general meeting of the Company.

As at 31 March 2020, the Nomination Committee comprises four members namely:

Mr. Cheng Chai Fu (*Chairman*) (*Appointed on 25 October 2019*)

Mr. Chan Shiu Man

Mr. Wong Ching Wan

Majority of the members are Independent Non-executive Directors.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements for each financial year which gives a true and fair view. In preparing the consolidated financial statements, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance were complied with. The Directors believe that they have selected suitable accounting policies and applied them consistently, and made judgments and estimates that are prudent and reasonable and have ensured that the consolidated financial statements are prepared on a going concern basis.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for maintaining sound and effective internal control systems in order to safeguard the Group's assets and shareholders' interests and review and monitor the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that internal control and risk management systems in place are adequate. The Company has established written policies and procedures applicable to all operating units to ensure the effectiveness of internal controls. The Company also has a process for identifying, evaluating and managing the significant risks to the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout the year and up to the date of this report. The day-to-day operation is entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board. The Company carries out reviews on the effectiveness of the internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

To control risks in relation to sanctions laws under the US, the European Union and Australia, the Company endeavours to continuously monitor and evaluate the business and take measures to protect the interest of the Group and shareholders. In particular, the Company have adopted the policies as stated in the section headed "Risk Factors" in the Prospectus.

Russia is one of our shipment destinations of our products. Our revenue generated from the sales of our products shipped to Russia represented less than 0.2% in terms of our total revenue for the year ended 31 March 2020. Following Russia's military intervention in Ukraine in 2014, the United States, the European Union and Australia have put in place certain economic or trade sanctions against, among others, certain named Russian individuals and entities. To control and monitor our business exposure to sanction risk, the Company endeavors to continuously monitor and evaluate our business and take measure to protect the interest of the Group and Shareholders. In particular, the Company has adopted the following policies during the year ended 31 March 2020:

- (i) the Company has maintained an updated log on the publicly available sanction lists maintained by the United States, the European Union and Australia (the "**Sanction Lists**") and has disseminated the updated Sanction Lists to all its relevant staff on a regular basis to promote staff awareness in general and to facilitate effective monitoring of sanction laws;
- (ii) any existing and/or potential business dealings that become suspected of sanctions risks exposure had been ceased and reported to the Directors immediately, whereupon the Directors has investigated and consulted with legal advisers with necessary expertise and experience in international sanction law matters and taken appropriate actions;
- (iii) Mr. Yeung Shing Wai, an executive Director of the Company, has been overseeing our compliance with sanctions laws and has consulted legal advisers with necessary expertise and experience in international sanctions law matters as and when required in respect of our compliance with sanction laws;
- (iv) the Company has evaluated the sanctions risks prior to determining whether the Company should embark on new business opportunities. The senior management has conducted relevant customer due diligence including, without limitation, identity and background of customers and their principal business activities and check against the Sanction Lists to identify any possible exposure to sanction risks. Whenever potential sanctions risk is identified, the Company had sought advice from legal advisers with necessary expertise and experience in international sanctions law matters. The Company has also conducted semi-annual review of active customers against the Sanction Lists to ascertain our active customers do not fall under any named entities or individuals under the Sanction Lists; and
- (v) the senior management of the Company has reviewed on a semi-annual basis our internal control policies and procedures with respect to sanctions law matters.

With regard to the above policies adopted, the Directors are of the view that such policies have provided a reasonably adequate and effective framework to assist the Company in identifying and monitoring any material risk relating to sanctions laws.

The Company confirms that it has not entered and will not enter into any transaction in Russia that the Company believed would put itself or its investors and Shareholders to risks of being sanctioned.

The Company has not established an internal audit department and the Directors are of the view that given the size, nature and complexity of the business of the Group, it would be more cost effective to appoint an independent internal control review advisor ("**Internal Control Advisor**"), which is independent of the Group's daily operation and consists of professional staff with relevant expertise, to perform the review on risk management and internal control systems of the Group in order to meet its needs.

During the year, the Board itself and through the Audit Committee and the Internal Control Advisor have conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management. External independent internal control consulting company was engaged to assist the Board to perform high-level review of the internal control systems for its business operations and processes. Such review covered the financial, compliance and operational controls as well as risk management mechanisms and assessment which was made by discussions with the management of the Company and its external auditor. The Board believes that the existing internal control system is adequate and effective.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

Elite Partners CPA Limited ("Elite") was re-appointed as the external auditor for the financial year ending 31 March 2020. The statement of Elite in respect of its reporting responsibilities and opinion on the Group's consolidated financial statements for the year ended 31 March 2020 is set out in the section headed "Independent Auditor's Report" in this annual report.

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company.

The fees paid/payable to Elite during the year ended 31 March 2020 are set out as follows:

	Fee paid/payable HK\$'000
Audit services	538

COMPANY SECRETARY

The Company Secretary is responsible for ensuring that Board procedures are followed and facilitating communications among Directors as well as with shareholders and management.

Mr. Hui Man Ho Ivan was appointed as the Company Secretary of the Company since 28 February 2019. During the year ended 31 March 2019, Mr. Hui Man Ho Ivan had undertaken no less than 15 hours of relevant professional training to update his skill and knowledge.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhance investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public.

The Company updates its shareholders on its latest business developments and financial performance through its quarterly, interim and annual reports. The corporate website of the Company (www.on-real.com) has provided an effective communication platform to the public and the shareholders.

INDUCTION AND CONTINUING PROFESSIONAL DEVELOPMENT

Each newly appointed director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has continuously provided relevant training materials to the Directors. Directors participated in courses relating to roles, functions and duties of a listed company director or further enhancement of their professional development by the way of attending training courses or reading relevant materials. All Directors had provided the Company their training records for the year under review and the Company will continue to arrange the training in accordance with Code Provision A.6.5 of the CG Code. The Directors and officers are indemnified under a directors' and officers' liability insurance against any liability incurred by them in discharge of their duties while holding office as the Directors and officers of the Company. The Directors and officers shall not be indemnified where there is any fraud, breach of duty or breach of trust proven against them.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. The annual general meeting and other general meetings of the Company are primary forums for communication between the Company and its shareholders. The Company provides shareholders with relevant information on the resolution(s) proposed at general meetings in a timely manner in accordance with the GEM Listing Rules. The information provided is reasonably necessary to enable shareholders to make an informed decision on the proposed resolution(s). All the resolutions proposed to be approved at the general meetings will be taken by poll and poll voting results will be published on the websites of the Stock Exchange and the Company after the meetings.

CONSTITUTIONAL DOCUMENTS

The Company has no significant changes in the Company's constitutional documents during the year. A consolidated version of the Company's constitutional documents is available on the Company's website and the website of the Stock Exchange.

MANAGEMENT OF INSIDE INFORMATION

In order to promote transparency, accountability and responsibility in respect of the operation of a listed company, and for the maintenance of good corporate governance, the Company would notify the Stock Exchange and make relevant disclosure to the public as soon as practicable of any inside information of the Company pursuant to the GEM Listing Rules and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, shareholders are requested to follow article 58 of the Articles of Association of the Company which provides that extraordinary general meetings should be convened on the requisition of one or more Shareholders holding, 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 meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If the Board fails to proceed to convene an extraordinary general meeting within 21 days of the deposit of the requisition, the requisitioner(s) may convene an extraordinary general meeting himself/themselves, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(s) by the Company.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

The provisions for a shareholder to propose a person for election as a director of the Company are laid down in Article 85 of the Company's Articles of Association. No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the principal place of business in Hong Kong or at the Hong Kong Branch Share Registrar. The period for lodgment of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

PROCEDURES FOR SENDING ENQUIRIES TO THE BOARD

Shareholders may send written enquiries to the Company, for the attention of company secretary, by email: enquiry@on-real.com, or by post to G/F., 200 Hennessy Road, Wan Chai, Hong Kong.

INFORMATION DISCLOSURE

The Company discloses information in compliance with the GEM Listing Rules and publishes periodic reports and announcements to the public in accordance with the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling shareholders, investors as well as the public to make rational and informed decisions.

CONCLUSION

The Company believes that good corporate governance could ensure an effective distribution of the resources and shareholders' interests. The senior management will continue endeavors in maintaining, enhancing and increasing the Group's corporate governance level and quality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This Environmental, Social and Governance (“**ESG**”) Report published by On Real International Holdings Limited (the “**Company**”) highlights the sustainable development initiatives and ESG performance of the Company and its subsidiaries (collectively the “**Group**” or “**we**”) from 1 April 2019 to 31 March 2020 (the “**Year**”).

Scope of the Report

The ESG report focuses on the Group’s production plant (the “**Yunfu Factory**”) in Xincheng Industrial Park in Yunfu, the People’s Republic of China (the “**PRC**”) and its performance in environmental and social aspects during the Year, and discloses the key performance indicators of the Yunfu Factory for the Year. For details of our corporate governance, please refer to the Corporate Governance Report on pages 16 to 27 of the Company’s annual report.

Reporting Framework

The ESG Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 20 to the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited.

Information and Feedback

For more information on the Company’s environmental, social and corporate governance, please refer to its official website (<http://www.on-real.com/>) and the annual report of On Real International Holdings Limited. If you have any opinions or suggestions about this ESG report, please feel free to contact us via email at enquiry@on-real.com.

MANAGEMENT OF ESG RESPONSIBILITIES

To implement sustainable development strategies in an effective manner and offer long-term returns to the stakeholders, the board of directors of the Group (the “**Board**”) is responsible for ESG management. It is the responsibility of the Board to oversee the Group’s formulation of ESG strategies and ESG reporting matters, as well as to evaluate and determine the Group’s ESG risks so as to establish suitable and effective ESG risk management measures and internal control systems. Assisted by internal auditing procedures, the Board arranges regular independent evaluation and analyses of the effectiveness and adequacy of the aforementioned systems in order to perfect the Group’s ESG governance.

STAKEHOLDER ENGAGEMENT

The compilation of the ESG report represents the joint effort of the employees from various departments and gives us a better understanding of the Group’s current level of development in environmental and social aspects. The information we have collected not only summarizes the Group’s environmental and social efforts during the Year, but also lays the groundwork for the formulation of short- and long-term sustainable development strategies.

To enhance the relevancy of the ESG report, the Group engaged an independent third-party consultant to help us gather ESG opinions from internal stakeholders for the preparation of the ESG report for the Year. All opinions received by us can help us improve our internal management while enhancing the quality of the ESG report. Therefore, the Group attaches great importance to stakeholders’ opinions. To communicate with the stakeholders effectively, we listen and respond to the expectations and requirements of different stakeholders through a wide range of channels.

The Group will continue to strive for higher stakeholder engagement and collect valuable opinions about the Group’s business and ESG performance from different stakeholders in a more comprehensive manner.

ENVIRONMENTAL PROTECTION

The Group continues to strictly abide by the relevant laws and regulations, such as the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on the Prevention and Control of Atmospheric Pollution, the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste and the Environmental Protection Law of the PRC. For better management and control of the environment and compliance with national emission standards, the Group has formulated relevant procedures to involve all departments and units in environmental protection. The Yunfu Factory has obtained GB/T 24001-2016/ISO14001:2015 environmental management system certification.

Although the Group is not a highly-polluting enterprise, we still work with the environmental monitoring authorities to regularly monitor the exhaust gas, wastewater and other pollutants generated from the factory. If any problems are found during the monitoring process, we will take timely corrective actions to ensure that the emissions meet the relevant emission standards. We have also formulated greening plan for the production and living areas, to make good use of the open space and roadside space in the production and living areas to plant flowers, lawn and trees for the greening of environment. In order to enhance the staff's environmental awareness, the Yunfu Factory continued to conduct environmental protection training for our staff during the Year.

Emission Treatment

The Group's waste falls into three categories, namely recyclable waste, non-recyclable waste and regulated waste. For the recyclable waste, the Group has put forward the notion of effective use of resources. For example, substandard products identified in any production procedure are broken down and reused to the fullest extent until further reuse is impossible, after which the waste will be collected by recyclers. During the Year, the Yunfu Factory recycled 0.15 tonne of non-hazardous waste in aggregate, including waste lead-free solder residue. Non-reusable materials and hazardous waste (such as electronic waste) are transferred to qualified companies for recycling to reduce the pollution caused by waste disposal. The Yunfu Factory generated 18 waste light tubes during the Year. As for the non-recyclable waste, it is segregated at designated locations for central disposal by the environmental hygiene department.

The Group's wastewater includes wastewater discharged from cooling towers and domestic sewage. Cooling water from cooling towers will be recycled for use. Therefore, the amount of effluent from cooling towers is minimal. During the recycling process, the cooling water comes into contact with air and some of the water evaporates. In order to maintain the quality of circulating water, wastewater in the cooling tower is regularly discharged into septic tanks and the water is replenished. Domestic sewage generated by employees and greasy sewage from kitchens constitute the major part of our sewage. Domestic sewage from employees' activities must pass through the septic tanks for basic treatment before being discharged. Regular cleaning of septic tanks is also arranged to ensure the normal operation of the tanks. Greasy sewage from kitchens, on the other hand, must pass through grease traps and filters for basic treatment. After such basic treatments, the domestic sewage from employees' activities and greasy sewage from kitchen are transferred to the sewage plant of the industrial park through sewage pipe for subsequent treatment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In the Year, the Yunfu Factory engaged a third-party service provider to conduct tests on its domestic sewage, and the results have met the discharge standards under the Standards of Sewage Treatment and Inlet Water Technology for Xincheng Industrial Park in Xinxing County. Detailed data on the discharged domestic sewage are as follows:

Name of pollutants	Discharge concentration	Discharge limit of the standard
pH Value	7.24	6–9
Total suspended solid (TSS)	64mg/L	90mg/L
Chemical Oxygen Demand (COD)	145mg/L	250mg/L
Biochemical Oxygen Demand (BOD)	43.4mg/L	110mg/L
Ammonia nitrogen	7.25mg/L	25mg/L

Regarding the exhaust gas and dust generated during the production process, the Group reduces dust emitted from the filling of vessel to the utmost in order to mitigate the adverse environmental impact. All production departments have the responsibilities to ensure that their ventilation systems operate normally and provide a safe working environment for the employees. We also require the installation, regular inspection and maintenance of fumes purification equipment in the canteen to reduce fumes emission. The Group continues to strictly abide by the national provisions on vehicle tailpipe emissions and performs regular maintenance on the vehicles to ensure that their tailpipe emissions meet required standards.

In the Year, the Yunfu Factory engaged a third-party service provider to conduct tests on the air emissions from its production, and the results have met the emission standard under the Emission Limits of Air Pollutants (DB44/27–2001) of Guangdong Province. Detailed data on the air emissions from our production are as follows:

Name of pollutants	Discharge concentration	Discharge limit of the standard
Non-methane hydrocarbons	0mg/m ³	120mg/m ³
Tin and its compounds	8.5mg/m ³	8.5mg/m ³

Resource Conservation

The Group has taken various resource conservation measures to improve its resource efficiency. To monitor the use of resources effectively, the Yunfu Factory collects statistics of its electricity, water and paper consumption as well as the amount of waste recycled on a monthly basis to formulate corresponding consumption control measures.

In respect of the materials used in the production process, procurements are made strictly in accordance to our production plans, and regular inventory checks are conducted in order to effectively control the consumption of materials. We also store the materials in a proper manner and check the materials from time to time so as to avoid material being wasted due to improper storage. To maximise the use of every material, the Yunfu Factory even recycled the scraps and wastes generated from the production process.

For efficient use of electricity, we use T5 fluorescent lamps, light-emitting diodes and other energy-efficient lighting fixtures as well as sectional lighting system, and install motion sensors in areas not frequently in use. We also put up notices for energy conservation in offices, encourage employees to turn off unused electronic equipment, air conditioners and lights, and set indoor temperature at 25.5 degrees Celsius to reduce power consumption. Furthermore, the Yunfu Factory minimises the use of, and avoids frequently turning on, production equipment with larger power consumption as far as possible with the aim of reducing wastage of electricity.

In order to avoid wastage of water, notices about water conservation are displayed in toilets to remind employees to turn off the faucet tightly after use. We also regularly check the water pipes and run leakage tests so as to ensure the good condition of our water pipes and prevent leakage. Dripping facilities are repaired in a prompt manner.

To save paper, we encourage employees to reuse or use both sides of paper, and resort to electronic platforms for information dissemination. We have recycling bins to collect paper, such as waste paper, posters and envelopes, which will be sent to a waste paper recycling company for recycling. During the Year, the Yunfu Factory recycled 24 kg of waste paper in total, representing a reduction in greenhouse gas emissions of 116 kg in terms of CO² equivalent. As part of its effort in environmental protection, the Group selects printing and tissue paper made of recycled materials, and encourages employees to use video conferencing instead of unnecessary overseas business trip while direct flights are chosen for inevitable business travel to reduce carbon emissions.

VALUE OUR EMPLOYEES

Through our persistent and strict conformity to employment-related laws and regulations, such as the Labour Law of the PRC and the Labour Contract Law of the PRC, and adamant adherence to the “People-oriented” business philosophy, our employees are entitled to equal treatment at workplace and fair chance of promotion, a transparent remuneration and benefit system, as well as adequate rest time. In order to promote the physical and mental well-being of its employees, the Yunfu Factory continued to hold the annual gala dinner, at which gifts were distributed to the staff, in the Year in recognition of the employees’ contributions and in order to strengthen the sense of belonging across the enterprise.

Employees’ Rights

Annual human resources plans are in place to align manpower with the development need of our business. Following the principles of openness, equal opportunities and fair competition, the Group assigns the Personnel Administration Department to carry out recruitment based on the position requirements of various departments. Candidates who meet the job requirements have equal interview opportunities and are not discriminated on the basis of gender, race, religious belief, age, disability or any other factors. Every staff has the right to work in a working environment free from any harassment. When complaints in relation to harassment and discrimination are received, we will keep the information confidential for the relevant staff and conduct thorough investigation and handling procedures. To prevent the accidental use of child labour, newly recruited employees are required to provide us with the copy of their identity cards to ensure that they have reached the legal age of employment. As part of our commitment against forced labour, we and our employees enter into labour contracts, in which the relevant information of the posts is clearly specified. Acting in accordance with national laws and regulations, the Group provides the employees with social insurance, including retirement insurance, medical insurance, unemployment insurance, maternity insurance and work injury insurance, and ensures that the working hours of the employees complies with local laws and regulations. In principle, the Group does not encourage overtime work. If any employee voluntarily works overtime due to our production and business needs, the Yunfu Factory will offer overtime payment or time off in lieu of payment in accordance with the law. In addition to statutory leaves, employees are also entitled to marriage leave, compassionate leave, maternity leave, paternity leave and annual leave. We regularly assess the employees’ performance as a basis for remuneration adjustment, promotion and year-end bonuses. For resigned employees, payments of outstanding salaries are made on time in accordance with national laws and regulations after the handover of their duties. We also value the opinions and requests of our staff. Therefore, the Yunfu Factory has placed a mailbox for complaint letters at the office. After receiving any complaints, we will conduct investigation and adopt relevant improvement measures.

Training and Development

To build a competent team that can accomplish the business development objectives of the Group, a staff training plan is implemented and subject to annual adjustment to improve the quality and efficiency of our employees. To facilitate a quick adaptation to the working environment, all new employees must attend induction courses organised by the Personnel Administration Department to understand and get acquainted with the rules and regulations, history and overview of the Group. New employees must pass an on-board examination upon completion of the induction courses before they can be formally employed. It is also compulsory for them to participate in the training provided by the relevant departments, which covers the work and responsibilities of their posts. We also provide on-the-job training for our employees. Each department organises relevant training activities in accordance with the annual training plan. For example, the Engineering Department organises annual training on the production technologies, products and technology updates of the Group's products. In addition, the Group also provides relevant professional training for employees according to its business needs. Professional training and seminars conducted by experts and scholars are also available to outstanding employees for the sake of skill enhancement.

Health and Safety

The Group has given much care to the physical and mental health of the employees, insists on the "safety first, prevention-oriented and comprehensive management" safety production approach, and continues to strictly abide by the laws and regulations concerning occupational safety and health, such as the Safe Production Law of the PRC, the Law of the PRC on the Prevention and Control of Occupational Diseases and the Regulations on the Safety Management of Hazardous Chemicals. Keeping the working environment tidy and clean at all times, the Yunfu Factory has completely executed the "7S" management to provide its employees with a safe and comfortable working environment.

According to the safety production management system, we regularly develop safety production targets, identify, assess and control the safety risks in the production process, and ensure the personal safety of our employees. Production safety meetings are held regularly to deal with any major problems in the production safety aspect and monitor the implementation of the production safety targets. In addition, our employees are provided with pre-employment and pre-departure health checks, as well as protective gears, such as protective gloves, earplugs and anti-virus masks to reduce their susceptibility to occupational diseases. We have also established relevant systems for the management of hazardous chemicals in accordance with the requirements of laws and regulations. Designated employees are also assigned to take charge of the management of hazardous chemicals and to inspect the storage and safety conditions of the chemicals to avoid leakage.

For a better understanding of the Group's occupational safety policy and higher occupational health and safety awareness, safety skills and self-protection ability among our employees, we provide safety training for them, launch regular "three-tier" production safety education and promote production safety among them. The contents of safety training include laws and regulations related to safety production, safety management policies, rules and regulations of the Group, safety knowledge for machinery operation and how to use personal protective gears.

No substantial incidents resulted in any work-related deaths or injuries among the employees were recorded by the Yunfu Factory during the Year.

COVID-19 Pandemic

As the COVID-19 pandemic swept across China and the globe, the most critical focus for every organization is to keep employees safe in an environment where repeated outbreaks are a persistent threat. To achieve this, the Group has set up a pandemic prevention committee and deployed a comprehensive set of policies and guidelines, including enhanced hygiene measures, provision of additional personal protective equipment, and modifications to existing governance and behaviors. These include formalizing and standardizing operating procedures and processes that help keep staff safe, and increasing the purchase of hygiene products such as masks, sanitizers and thermometers.

OPERATING PRACTICES

The Group is committed to a client-oriented philosophy during the operation processes ranging from supplier selection, production to the delivery of products to clients. Devoting ourselves to the provision of high quality products to clients flawlessly has always been our goal. For all promotional information available to the public, we place high importance to their truthfulness and therefore thoroughly verify all their contents with the aim of prohibiting the dissemination of fraudulent information and strictly standardising promotional works.

Supplier Management

To make sure that all raw materials procured complies with the Group's requirements, we have developed a supplier management system for a more effective management of our suppliers at source. Lists of qualified suppliers for different major raw materials, components and parts needed in our production process are compiled and regularly reviewed. The supplier selection process involves the consideration of the scale of production, manufacturing capabilities, industry reputation, product quality and possession of any licenses and certificates, such as the Restriction of Hazardous Substances Directive (the "RoHS") certification, of the suppliers. Before entering into cooperation with any new supplier, the new supplier has to provide samples of their raw materials, components and parts for our Product Research and Development Department and Production Department to jointly decide whether the samples provided meet our manufacturing and production requirements. Upon confirmation of cooperation, the new suppliers will be added to the lists of qualified suppliers.

Protection of Customers' Interests

The Group believes that the quality of its products and high satisfaction of the customers are essential for its business to grow sustainably. Therefore, the Group emphasises product quality and endeavours to provide the customers with high quality products. To this end, we have taken a number of testing procedures to ensure our product quality, and the Yunfu Factory has also obtained IATF16949:2016 international automotive industry quality management system certification. We continue to strictly abide by the relevant laws and regulations, such as the Product Quality Law of the PRC, to ensure that the products meet quality requirements. Also, we comply with laws and regulations in relation to intellectual properties, such as the Copyright Law of the PRC, the Patent Law of the PRC and the Trademark Law of the PRC.

In order to ensure that the raw materials procured meet the requirements of the Group and to prevent any adverse impact of the raw materials on the Group's products, our inspectors conduct random sampling tests before the receipt of raw materials. The raw materials that passed the sampling tests are then transferred to the warehouses; those unqualified raw materials identified in the sampling tests will be returned to the suppliers. During the production process, we also conduct a number of quality control checks. For example, injection molded plastic parts and welded circuit boards need to pass the quality control inspection before being put into use. Contractors who are in charge of certain casing assembly processes are also required to comply with the Group's quality requirements. The assembled products need to pass functional tests to ensure their normal operation. Customers can also send inspectors to inspect our products if necessary according to their needs. Any unqualified products will be sent back to the production line for comprehensive screening or re-processing to ensure that the product specifications are in line with the customer's product requirements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group also provides high quality after-sales service to maintain the quality and sustainability of the products. We are committed to maintaining close relationship with our customers, adjusting and developing products to meet market needs with reference to the customer's preferences and demands. After delivery of the finished products, the customers are responsible for the complaints and product returns from the final consumers. After receiving any complaints, we will consider remedial measures for individual cases in which the damage to the product is related to the product design or manufacturing.

Data Confidentiality

The Group has always respected the privacy of its customers and spared no effort to protect customer information and internal confidential documents against leakage. Therefore, employees are required to sign confidentiality agreements and maintain the privacy and confidentiality of all the business information of the Group. Employees are provided with a code of conduct on the use of computers and are required to keep their computers and materials properly to avoid loss of data. Employees also have to use copyrighted software to respect intellectual property. In addition, since some of the casing assembly processes are handled by contractors, the contractors need to comply with the outsourcing agreement and strictly refrain from disclosing any confidential information of the Group's or the customers' products to ensure information security.

Anti-Corruption

The Group strictly abides by the relevant laws and regulations, such as the Criminal Law of the PRC, and prohibits all kinds of bribery, corruption and money-laundering. We adopt a "zero tolerant" approach towards abuse of power, corruption, embezzlement or misappropriation of the Group's assets, and engagement in malpractice or bribery are not tolerated. We also require our employees to sign a statement of conflict of interest and undertake to inform us of any potential conflicts of interest with the Group. The Yunfu Factory also stresses workplace integrity through organising anti-corruption and anti-bribery related training to its employees. Committed to the highest standard of openness, integrity and accountability, we encourage employees to report any suspected misconduct or malpractice. Upon receipt of a report, we will conduct an investigation to take follow-up actions. The identity of the whistle-blower will be kept strictly confidential to avoid unfair treatment.

No cases of corruption were recorded and no internal reports were received by the Yunfu Factory during the Year.

COMMUNITY ENGAGEMENT

In the pursuit of business development, the Group also encourages its employees to actively participate in charitable activities to help the disadvantaged and make contribution to the community.

In the Year, the Yunfu Factory engaged in "Entrepreneurship-Innovation (雙創)" works in Xinxing County, Yunfu, which targets at creating a hygienic and civilized city. It took up the responsibility to ensure and monitor the hygiene, produce promotional posters and maintain daily order in one of the residential areas in the county. Meanwhile, the Yunfu Factory sent children-specified donations to schools in the region where it locates on Children's Day to subsidise the purchase of learning materials by children at school.

MAJOR KEY PERFORMANCE INDICATORS

The data of the Yunfu Factory's key performance indicators for the Year are listed below.

Environmental Indicators	2020	2019
Emission from vehicles		
Nitrogen Oxide (in Kg)	200	499
Sulphur Dioxide (in Kg)	1	1
Particulate matters (in Kg)	40	40
Greenhouse gas		
Greenhouse gas emissions in total (in tonnes of CO ² equivalent)	306	760
Scope 1: Direct emissions (in tonnes of CO ² equivalent)	50	115
Scope 2: Energy indirect emissions (in tonnes of CO ² equivalent)	251	630
Scope 3: Other indirect emissions (in tonnes of CO ² equivalent)	5	15
Greenhouse gas emissions per production line (in tonnes of CO ² equivalent/production line)	77	127
Waste		
Non-hazardous waste produced (in tonnes)	22	16
Non-hazardous waste produced per production line (in tonnes/production line)	5.5	2.75
Use of resource		
Energy consumption in total (in MWh)	1,311	1,629
Energy consumption from the use of gasoline (in MWh)	145	65
Energy consumption from the use of diesel oil (in MWh)	133	368
Energy consumption from the use of electricity (in MWh)	1,033	1,196
Energy consumption per production line (in MWh/production line)	283.98	271.47
Water consumption in total (in m ³)	6,182	10,291
Water consumption per production line (in m ³ /production line)	1,137	1,715
Packaging material used		
Paper product consumption (in tonnes)	276	433
Paper product consumption per production line (in tonnes/production line)	92.5	72.09
Plastic product consumption (in tonnes)	18	42
Plastic product consumption per production line (in tonnes/production line)	4.5	6.99

REPORT OF THE DIRECTORS

The Board has the pleasure in presenting the annual report of the Company together with the audited consolidated financial statements of the Group for the year ended 31 March 2020.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 41 to the consolidated financial statements. An analysis of the Group's performance for the year by operating segment is set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2020 are set out in the consolidated financial statements on pages 46 to 119 of this annual report.

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

BUSINESS REVIEW

A review of the Group's business during the year and analysis of the Group's performance using financial key performance indicators and prospects of the Group's business are provided in the sections headed "Chairman Statement" on pages 5 to 6 and "Management Discussion and Analysis" on pages 7 to 12 of the annual report. The discussion forms part of this Director's report.

SHARE CAPITAL

Details of the shares capital of the Company for the year ended 31 March 2020 are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 March 2020, calculated under Companies Law, Cap. 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands, amounted to approximately HK\$29,992,000 (2019: approximately HK\$15,212,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four years is set out on page 120 of the annual report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

EQUITY-LINKED AGREEMENTS

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

SHARE OPTION SCHEME

The share option scheme of the Company (the “**Scheme**”) was adopted pursuant to a resolution passed by the Company’s shareholders on 16 September 2015 for the primary purpose is to attract, retain and motivate talented participants, to strive for future developments and expansion of the Group. Eligible participants of the Scheme include any employees, any executives, Non-executive Directors (including Independent Non-executive Directors), advisors, consultants of the Company or any of its subsidiaries.

The Scheme will remain valid and effective for a period of 10 years commencing on the date on which the Scheme is adopted, after which period no further share options will be granted but the provisions of the Scheme shall in all other respects remain in full force and effect and share options which are granted during the life of the Scheme may continue to be exercisable in accordance with their terms of issue. The principal terms of which were summarised in the paragraph headed “Share Option Scheme” in Appendix IV to the Prospectus.

On 2 October 2018, the Company granted 115,200,000 Share options (the “**Options**”) to three eligible participants who are independent third parties not connected with the connected persons of the Company and their associates (collectively, the “**Grantees**”) to subscribe, in aggregate, for up to 115,200,000 ordinary shares of HK\$0.00125 each in the share capital of the Company subject to acceptance of the Grantees and subject to the vesting conditions. All the share options granted by the Company has been lapsed for the year ended 31 March 2019.

Details of the grant of the Options were set out in the Company’s announcement dated 2 October 2018. Save as mentioned above, no share options were granted by the Company during the year ended 31 March 2019. Details of the movement of the share options of the Company under the Scheme for year ended 31 March 2019 are set out below:

Grantees	Date of grant of share	Expiry date of share options	Exercise price (HK\$)	Share options held		Share option held as at	
				as at 01.04.2018	Granted	Lapsed	31.03.2019, 01.04.2019 and 31.03.2020
Consultants	02.10.2018	02.10.2018	0.0470	—	115,200,000	(115,200,000)	—
				—	115,200,000	(115,200,000)	—

As at 31 March 2020, the remaining share options pursuant the Scheme was 268,800,000 shares may be allotted and issued.

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled for the year ended 31 March 2020.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 16 to the consolidated financial statement.

BORROWINGS

Details of movements during the year in borrowings regarding bank borrowings and lease liabilities of the Group are set out in notes 25 and 27 to the consolidated financial statements respectively.

DIRECTORS

The directors of the Company (the “**Director(s)**”) during the year and up to the date of this report were:

Executive Directors:

Mr. Tam Wing Ki (*Chief Executive Officer, resigned on 25 October 2019*)

Mr. Fu Yan Ming (*Resigned on 20 September 2019*)

Mr. Kwok Ming Fai (*Resigned on 20 September 2019*)

Mr. Chan Lung Ming (*Chairman, appointed on 27 November 2019*)

Mr. Yeung Shing Wai (*Appointed on 21 September 2019*)

Ms. Sin Pui Ying (*Appointed as Non-executive Director on 21 September 2019 and re-designated to Executive Director on 1 November 2019*)

Non-executive Directors:

Mr. Chan Chung Yin Victor (*Resigned on 31 March 2020*)

Mr. Tao Hong Ming (*Appointed on 25 October 2019*)

Independent Non-executive Directors:

Mr. Chan Shiu Man

Mr. Fung Chan Man Alex (*Resigned on 25 October 2019*)

Mr. Wong Ching Wan

Mr. Cheng Chai Fu (*Appointed on 25 October 2019*)

In accordance with Article 84 of the Company’s Articles of Association, Mr. Chan Lung Ming, Mr. Yeung Shing Wai, Ms. Sin Pui Ying, Mr. Tao Hong Ming, Mr. Chan Shiu Man and Mr. Cheng Chai Fu retire by rotation at the forthcoming Annual General Meeting but, being eligible, offer themselves for re-election.

Mr. Kwok Ming Fai and Mr. Fu Yan Ming resigned on 20 September 2019 as Executive Directors of the Company. Mr. Tam Wing Ki resigned on 25 October 2019 as Executive Director and Chief Executive Officer of the Company. Mr. Fung Chan Man Alex resigned on 20 September 2019. Mr. Chan Chung Yin Victor resigned on 31 March 2019. Mr. Kwok Ming Fai, Mr. Fu Yan Ming, Mr. Tam Wing Ki, Mr. Fung Chan Man and Mr. Chan Chung Yin Victor have confirmed that they have no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the shareholders of the Company.

Mr. Wong Ching Wan was re-appointed as Independent Non-Executive Director on 31 March 2019 for a three-year term expiring on 30 March 2022. Mr. Chan Shiu Man was appointed as Independent Non-Executive Director on 31 August 2019 for a three-year term expiring on 30 August 2022. Mr. Cheng Chai Fu is Independent Non-Executive Directors and was appointed for a three-year term expiring on 30 July 2020. Mr. Cheng Chai Fu was appointed as Independent Non-Executive Director on 25 October 2019 for a three-year term expiring on 24 October 2022.

DIRECTORS' SERVICE CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS' AND SENIOR MANAGEMENT

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 13 to 15 of this annual report.

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 March 2020, none of the directors or the chief executive of the Company had, nor were they taken to or deemed to have under Part XV of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

At no time during the year ended 31 March 2020 was the Company or any of its subsidiaries, a party to any arrangements to enable the directors or chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporates.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

At 31 March 2020, so far as known to the Directors, the following substantial shareholders had, or were deemed to have, interests or short positions, in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of shares	Percentage of shareholding
Solution Smart Holdings Limited ("Solution Smart") (Note 1)	Beneficial owner	112,589,600	18.81%
Mr. Chung Wai Sum ("Mr. Chung") (Note 1)	Interest in a controlled corporation	112,589,600	18.81%
SMK Investment Company Limited ("SMK") (Note 2)	Beneficial owner	90,997,600	15.20%
Mr. Kor Sing Mung Michael (Note 2)	Interest in a controlled corporation	90,997,600	15.20%

Notes:

1. Mr. Chung Wai Sum is the sole beneficial shareholder of Solution Smart. Therefore, Mr. Chung is deemed to be interested in 112,589,600 shares of the Company held by Solution Smart under the SFO.

REPORT OF THE DIRECTORS

- Mr. Kor Sing Mung Michael, is the sole beneficial shareholder of SMK. Therefore, Mr. Kor Sing Mung Michael is deemed to be interested in 90,997,600 shares of the Company held by SMK under the SFO.
- All interests stated above represent long positions.

Save as disclosed above, the Directors are not aware of any other person who has an interest or short position in the shares or underlying shares (including interest in options, if any) of the Company as recorded in the register required to be kept under section 336 of the SFO as at 31 March 2020.

MANAGEMENT CONTRACTS

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

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

	Percentage of the Group's total purchases
The largest supplier	19.3%
Five largest suppliers in aggregate	37.8%

	Percentage of the Group's total sales
The largest customer	58.5%
Five largest customers in aggregate	83.5%

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in these major supplier and customers.

DONATIONS

No charitable donations and other donation during the year.

PRINCIPAL RISKS AND UNCERTAINTIES

The possible business risks and uncertainties, interest rate risk and foreign exchange rate risk facing by the Group are set out in section headed "Management Discussion and Analysis" on pages 7 to 12. The financial risk management objectives and policies of the Group are set out in note 33 to the consolidated financial statement.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Board has pleased to present the Environmental, Social and Governance ("ESG") report for the year ended 31 March 2020. This report has been prepared with reference to ESG Reporting Guide issued by the Stock Exchange and is set out in the section headed "Environmental, Social and Governance report" in this annual report.

CONNECTED TRANSACTIONS

A summary of the related transactions entered into by the Group during the year ended 31 March 2020 is contained in note 37 to the consolidated financial statements. Certain related party transactions also constituted continuing connected transactions, but are exempted from the reporting, announcement or independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that there is a sufficient public float of at least 25% of the Company's issued shares at the latest practicable date prior to issue of this report under the GEM Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS

Apart from the transactions disclosed under the heading "Related Party Transactions" as set out in note 37 of this annual report, there were no other contracts of significance in relation to the Group's business to which the Group was a party and which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year and up to the date of this report, the Directors are not aware of any business or interest of the Directors, the management of the Company and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Company's Articles of Association 164(1) provides that every Director, Company Secretary and other officers of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against any actions, cost, charges, losses, damages and expenses, as a result of any act done, concurred in or omitted in or about the execution of their duty. The Company has also maintained the Directors and officers liability insurance during the year.

AUDITOR

The consolidated financial statements have been audited by Elite and a resolution for the re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Yeung Shing Wai
Executive Director

29 June 2020

INDEPENDENT AUDITOR'S REPORT



TO THE MEMBERS OF ON REAL INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of On Real International Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 46 to 119, 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, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 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 (the “**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

IMPAIRMENT ASSESSMENT ON TRADE AND OTHER RECEIVABLES AND LOAN RECEIVABLE

Refer to notes 21 and 22 to the consolidated financial statements respectively.

The key audit matter

As at 31 March 2020, the carrying amounts of trade and other receivables (excluded prepayment and value-added tax receivables) and loan receivable, net of allowance for credit losses of HK\$6,244,000 and HK\$3,000,000, are approximately HK\$87,270,000 and nil respectively. Management judgment was required in assessing and determining the recoverability of trade and other receivables (excluded prepayment and value-added tax receivables) and loan receivable, and evaluated the adequacy of allowance made.

In determining whether there was objective evidence of impairment loss, the Group took into consideration the credit history of the customers and the current market condition which may require management judgment.

We focused on this area due to the assessment of allowance for credit losses of trade and other receivables and loan receivable involved the use of significant management judgments and estimates.

How the matter was addressed in our audit

Our audit procedures in relation to the management's impairment assessment of trade and other receivables and loan receivable included:

- discussing the Group's procedures on credit period given to customers with the management;
- checking, on a sample basis, the ageing profile of the trade and other receivables and loan receivable as at 31 March 2020 to the underlying financial records and post year-end settlements to bank receipts;
- inquiring of management for the status of each of the material trade and other receivables and loan receivable past due as at 31 March 2020 and corroborating explanations from management with supporting evidence, such as understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and
- assessing the appropriateness of the expected credit loss provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses.

We considered the management conclusion to be consistent with the available information.

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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Siu Jimmy with Practising Certificate Number P05898.

Elite Partners CPA Limited

Certified Public Accountants

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

29 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	5	334,586	323,506
Cost of sales		(303,720)	(299,090)
Gross profit		30,866	24,416
Other income	7	8,212	6,587
Other gains and losses	8	(4,115)	(1,637)
Impairment losses under expected credit loss model, net of reversal	9	(4,524)	(4,257)
Selling and distribution expenses		(5,432)	(4,118)
Administrative expenses		(38,906)	(27,397)
Finance costs	10	(4,445)	(1,921)
Loss before tax		(18,344)	(8,327)
Income tax expense	11	(1,133)	(1,386)
Loss for the year	12	(19,477)	(9,713)
Other comprehensive (expense)/income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(2,892)	(375)
Reclassification adjustment for a foreign operation deregistration of		1,388	—
Reclassification adjustment for a foreign operation disposed of		37	—
Other comprehensive expense for the year		(1,467)	(375)
Total comprehensive expense for the year		(20,944)	(10,088)
(Loss)/profit for the year attributable to:			
Owners of the Company		(19,474)	(9,789)
Non-controlling interests		(3)	76
		(19,477)	(9,713)
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		(20,941)	(10,164)
Non-controlling interests		(3)	76
		(20,944)	(10,088)
Loss per share (HK cents)	13		(restated)
Basic and diluted		(4.75)	(2.51)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment	16	1,990	3,583
Right-of-use assets	17	151	—
Intangible assets	18	627	4,015
Financial asset at fair value through profit or loss	19	—	12,597
Prepayment	21	355	318
		3,123	20,513
Current assets			
Inventories	20	24,380	42,466
Trade and other receivables	21	107,974	108,493
Loan receivable	22	—	1,041
Tax recoverable		1,180	5,928
Pledged bank deposits	23	1,085	1,128
Bank balances and cash	23	46,811	24,619
		181,430	183,675
Current liabilities			
Trade and other payables	24	66,318	84,070
Borrowings	25	53,243	54,207
Amount due to a related company	26	1,188	499
Lease liabilities	27	155	—
Income tax payables		131	2,060
		121,035	140,836
Net current assets		60,395	42,839
Net assets		63,518	63,352

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	<i>Note</i>	2020 HK\$'000	2019 HK\$'000
Capital and reserves			
Share capital	29	7,481	4,800
Reserves		55,969	58,481
Equity attributable to owners of the Company		63,450	63,281
Non-controlling interests		68	71
Total equity		63,518	63,352

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 June 2020 and are signed on its behalf by:

Ms. Sin Pui Ying
Director

Mr. Yeung Shing Wai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Attributable to owners of the Company						Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	PRC statutory reserve	Exchange reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note (a))	HK\$'000 (Note (b))	HK\$'000	HK\$'000	HK\$'000	
As at 1 April 2018	4,800	75,468	(5,826)	5,190	2,751	(8,401)	73,982	(5)	73,977
Effect on initial application of HKFRS 9	–	–	–	–	–	(537)	(537)	–	(537)
Adjusted balance as at 1 April 2018	4,800	75,468	(5,826)	5,190	2,751	(8,938)	73,445	(5)	73,440
Loss for the year	–	–	–	–	–	(9,789)	(9,789)	76	(9,713)
Other comprehensive expense for the year									
Exchange difference arising on translation of foreign operations	–	–	–	–	(375)	–	(375)	–	(375)
Total comprehensive expense for the year	–	–	–	–	(375)	(9,789)	(10,164)	76	(10,088)
Appropriation to statutory reserve	–	–	–	156	–	(156)	–	–	–
As at 31 March 2019 and as at 1 April 2019	4,800	75,468	(5,826)	5,346	2,376	(18,883)	63,281	71	63,352
Loss for the year	–	–	–	–	–	(19,474)	(19,474)	(3)	(19,477)
Other comprehensive expense for the year									
Exchange difference arising on translation of foreign operations	–	–	–	–	(2,892)	–	(2,892)	–	(2,892)
Reclassification adjustment for a foreign operation deregistration of	–	–	–	–	1,388	–	1,388	–	1,388
Reclassification adjustment for a foreign operation disposed of	–	–	–	–	37	–	37	–	37
Total comprehensive expense for the year	–	–	–	–	(1,467)	(19,474)	(20,941)	(3)	(20,944)
Issue of new shares under general mandate	188	3,112	–	–	–	–	3,300	–	3,300
Issue of new shares under rights issue	2,493	17,457	–	–	–	–	19,950	–	19,950
Share issuing expenses	–	(2,140)	–	–	–	–	(2,140)	–	(2,140)
Transfer to accumulated losses upon deregistration of a subsidiary	–	–	7,291	(2,676)	–	(4,615)	–	–	–
As at 31 March 2020	7,481	93,897	1,465	2,670	909	(42,972)	63,450	68	63,518

Notes:

- (a) According to the People's Republic of China (the "PRC") Company Law, companies in the PRC are required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The statutory reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.
- (b) Exchange reserve represents exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollar) are recognised directly in other comprehensive income and accumulated in the exchange reserve. Such exchange differences accumulated in the exchange reserve are reclassified to profit or loss on the disposal of the foreign operations.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	2020 HK\$'000	2019 HK\$'000
OPERATING ACTIVITIES		
Loss before tax	(18,344)	(8,327)
Adjustments for:		
Bank interest income	(134)	(120)
Gain on disposal of a subsidiary	(645)	—
Finance costs	4,445	1,921
Depreciation of property, plant and equipment	1,554	6,446
Depreciation of right-of-use assets	181	—
Amortisation of intangible assets	1,571	2,654
Gain on disposal of property, plant and equipment	(3,277)	(626)
Loss arising on change in fair value of financial asset at fair value through profit or loss	3,097	1,535
Loss on deregistration of a subsidiary	1,388	—
Gain on early repayment of bond payables	—	(514)
Impairment losses under expected credit loss model, net of reversal	4,524	4,257
Loan interest income	(67)	(233)
Operating cash flows before movements in working capital	(5,707)	6,993
Decrease in inventories	12,406	3,939
Increase in trade and other receivables	(6,415)	(16,065)
(Decrease)/increase in trade and other payables	(1,704)	3,422
Cash used in operation	(1,420)	(1,711)
Tax paid	(3,837)	(5,027)
NET CASH USED IN OPERATING ACTIVITIES	(5,257)	(6,738)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	2020 HK\$'000	2019 HK\$'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(607)	(8,084)
Additions of intangible asset	—	(1,901)
Proceed from disposal of financial asset at fair value through profit or loss	9,500	—
Proceed from disposal of property, plant and equipment	3,648	2,305
Grant of loan receivable	—	(3,000)
Net cash outflow from disposal of a subsidiary	(2,902)	—
Interest received	134	120
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	9,773	(10,560)
FINANCING ACTIVITIES		
Interest paid	(3,922)	(1,219)
Proceeds from borrowings	233,029	204,767
Repayment of borrowings	(233,993)	(187,111)
Repayment of lease liabilities	(177)	—
Proceeds from bond payables	—	12,301
Repayment of bond payables	—	(20,560)
Advance from a related company	766	106
Decrease in pledged bank deposits	43	1,253
Proceed from issue of new shares under general mandate	3,300	—
Proceed from issue of new shares under rights issue	19,950	—
Share issuing expenses	(2,140)	—
NET CASH GENERATED FROM FINANCING ACTIVITIES	16,856	9,537
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	21,372	(7,761)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD	24,619	29,734
EFFECT ON FOREIGN EXCHANGE RATES CHANGES	820	2,646
CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD, REPRESENTED BY BANK BALANCES AND CASH	46,811	24,619

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

On Real International Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of Cayman Islands and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The address of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The Company acts as an investment holding company and the principal activities of its subsidiaries are engaged in designing, trading and manufacturing of two-way radios, baby monitors, other communication devices and servicing business of the above products.

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“**the functional currency**”). The functional currency of the Company is Hong Kong dollar (“**HK\$**”). The consolidated financial statements are presented in HK\$ as the directors consider that HK\$ is appropriate presentation currency for the users of the Group’s consolidated financial statements.

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

In the current year, the Group has applied, for the first time, the following new and amendments to standards and interpretations (collectively referred to as the “**new and amendments to HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which are effective for the Group’s financial year beginning from 1 April 2019. A summary of the new and amendments to HKFRSs application by the Group is set out as follows:

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 other new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and financial positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases

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

Definition of a lease

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

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

As a lessee

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

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

- (i) relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- (ii) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and
- (iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied at 5.64%.

	As at 1 April 2019 HK\$'000
Operating lease commitments disclosed as at 31 March 2019	1,077
Less: recognition exemption – short-term lease	(608)
	469
Lease liabilities discounted at incremental borrowing rate as at 1 April 2019	332
Analysed as:	
Current	177
Non-current	155
	332

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

	Right-of-use assets HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	332
By class:	
Lease properties	332

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

New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

HKFRS 16 Leases (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position as 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 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 as at 1 April 2019 HK\$'000
Non-current assets			
Right-of-use assets	—	332	332
Current liabilities			
Lease liabilities	—	177	177
Non-current liability			
Lease liabilities	—	155	155

New and amendments to HKFRSs in issue 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 ³
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKFRS 16	Covid-19 Related Rent Concessions ⁴
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

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

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

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

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after a date to be determined.

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 new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equal the transaction price.

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

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss 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 are attributed to owners of the Company and to non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Company and to 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 a subsidiary is presented separately from the Group's equity therein, which represent ownership interests entitling their holders to a proportionate share of net assets of the subsidiary upon liquidation.

Changes in the Group's interests in existing subsidiaries

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary 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 (ii) the carrying amount of the assets, and liabilities of the subsidiary attributable to 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).

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods and services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulate impairment losses, if any.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

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.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Inventories

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

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.

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 at fair value through profit or loss (“**FVTPL**”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

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

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

All other financial assets are subsequently measured at 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 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 are required to be measured at the amortised cost or fair value through other comprehensive income (“**FVTOCI**”) as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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 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 other receivables (excluded prepayment and value-added tax receivables), loan receivable, pledged bank deposits and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at the end of each reporting period 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 end of the reporting period. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the end of the reporting period as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (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 end of the reporting period 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; or
- 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

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.

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets (Continued)

- (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) Write-off policy

The gross carrying amount of a financial assets is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(v) Measurement and recognition of ECL

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL (Continued)

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

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

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities including trade and other payables (excluded provision and contract liabilities), borrowings, amount due to a related company and lease liabilities are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at bank 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 bank balances and cash as defined above.

Impairment on property, plant and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these 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).

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

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 CGUs, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) 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 CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. 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 CGUs. 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 CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) 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 CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (Continued)

Principal versus agent

When another party is involved in providing goods to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods itself (i.e. the Group is a principal) or to arrange for those goods to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good before that good is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good by another party. In this case, the Group does not control the specified good provided by another party before that good is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods to be provided by the other party.

Revenue from sales of goods

Revenue from sales of goods is recognised at a point in time when control of the goods has been transferred, being when the goods have been delivered to the customers. The normal credit term is up to 90 days upon delivery.

Revenue from servicing income

The Group provides various services to the customers mainly comprised of assembly services and testing services. Servicing income is recognised at a point in time when such service is completed. The normal credit term is up to 90 days upon service rendered.

Leasing

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

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

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

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

Allocation of consideration to components of a contract

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

Non-lease components are separated from lease component on the basis of their relative standalone prices.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases 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.

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 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 as a separate line item on the consolidated statement of financial position.

Lease liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Continued)

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

Lease liabilities (Continued)

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

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

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

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

Leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

Employee benefits

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme (the “**MPF Scheme**”) and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

The Group operates MPF Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, with the employers’ contributions subject to a cap of monthly relevant income of HK\$30,000. The Group’s contributions to the scheme are expensed as incurred and are vested in accordance with the scheme’s vesting scales. Where employees leave the scheme prior to the full vesting of the employer’s contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

The employees employed by the Group’s subsidiaries in the PRC are members of state-managed retirement benefit schemes operated by the government of the PRC. The subsidiaries are required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes operated by the government of the PRC is to make the specified contributions under the schemes.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

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 end of the reporting period. 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.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "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 assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax (Continued)

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 is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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 for the year

Current and deferred tax is recognised in profit or loss.

Provisions

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Contingent liabilities and contingent assets

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

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. When inflow is virtually certain, an asset is recognised.

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 at 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 at 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 translation of monetary items, are recognised in profit or loss in the period in which they arise.

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. HK\$) 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 exchange reserve.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related party transactions

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 over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); 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.

A related party transaction is a transfer of resources, services or obligations between the Group and a related party, regardless of whether a price is charged.

Close family members 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.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3 to the consolidated financial statements, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following is the critical judgments, apart from those involving estimations, that the directors has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Principal versus agent consideration

The Group engages in sales of two-way radios, baby monitors and other products. The Group concluded that the Group acts as the principal for such transactions as it controls the specified good before it is transferred to the customer after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods. The Group has inventory risk. When the Group satisfies the performance obligation, the Group recognises trading revenue in the gross amount of consideration to which the Group expects to be entitled as specified in the contracts.

During the year ended 31 March 2020, the Group recognised revenue relating to sales of two-way radios, baby monitors and other products amounted to approximately HK\$334,184,000 (2019: HK\$313,814,000).

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.

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

Property, plant and equipment, right-of-use assets and intangible assets are stated at costs less accumulated depreciation and amortisation and accumulated impairment losses, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying amount of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the CGU to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

Provision of ECL for trade and other receivables and loan receivable

Trade and other receivables and loan receivable with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the trade receivables which are individually insignificant. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At the end of each reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

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

Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises tax liabilities based on estimates 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 income tax and deferred tax provisions in the year in which such determination is made.

Fair value measurement of financial instruments

As at 31 March 2019, the Group's key-management insurance classified as FVTPL amounting to approximately HK\$12,597,000 are measured at fair value with fair value being determined based on significant unobservable inputs using valuation techniques. Judgment and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair value of these instruments. See note 19 to the consolidated financial statements for further disclosures.

Estimated allowance for inventories

The management of the Group reviews an aging analysis of inventories at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. REVENUE

Revenue represents revenue from sales of two-way radios, sales of baby monitors, servicing business and sales of other products, net of sales related tax where applicable. An analysis of the Group's revenue for the year is as follows:

	2020 HK\$'000	2019 HK\$'000
Revenue comprises:		
Two-way radios	244,976	211,486
Baby monitors	3,876	17,141
Other products	85,332	85,187
Servicing business	402	9,692
Revenue from contracts with customers	334,586	323,506

All of the Group's revenue are recognised at a point in time.

Transaction allocated to the remaining performance obligation for contracts with customers

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contract for two-way radios, baby monitors and other products and servicing contract for the above products such that the Group does not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contract for sales of two-way radios, baby monitors and other products and servicing contract for the above products that had an original expected duration of one year or less.

6. SEGMENT INFORMATION

Information reported to the executive directors and senior management of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Operating segments are reported in a manner consistent with the internal reporting periods to the CODM who is responsible to allocating resources and assessing performance of the operating segments. Information relating to segment assets and liability is not disclosed as such information is not regularly reported to the CODM.

The Group is principally engaged in the trading and manufacturing of two-way radios, baby monitors, other communicating devices and servicing business of the above products.

The CODM have determined the operating segments based on the reports reviewed by them that are used to make strategic decisions.

Management considers the business from a product perspective whereby management assesses the performance of two-way radios, baby monitors, servicing business and other products based on gross profit arising in the course of the ordinary activities of a recurring nature.

The CODM makes decisions according to operating results of each segment. No analysis of segment assets and segment liabilities is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended 31 March 2020

	Two-way radios HK\$'000	Baby monitors HK\$'000	Servicing business HK\$'000	Other products HK\$'000	Total HK\$'000
Revenue from contracts with customers	244,976	3,876	402	85,332	334,586
Segment profit/(loss)	20,828	(471)	(21)	10,530	30,866
Unallocated operating income and other gains and losses					4,097
Impairment losses under expected credit loss model, net of reversal					(4,524)
Selling and distribution expenses					(5,432)
Administrative expenses					(38,906)
Finance costs					(4,445)
Loss before tax					(18,344)

For the year ended 31 March 2019

	Two-way radios HK\$'000	Baby monitors HK\$'000	Servicing business HK\$'000	Other products HK\$'000	Total HK\$'000
Revenue from contracts with customers	211,486	17,141	9,692	85,187	323,506
Segment profit/(loss)	19,496	(716)	1,699	3,937	24,416
Unallocated operating income and other gains and losses					4,950
Impairment losses under expected credit loss model, net of reversal					(4,257)
Selling and distribution expenses					(4,118)
Administrative expenses					(27,397)
Finance costs					(1,921)
Loss before tax					(8,327)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenues and results (Continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit/(loss) represents the profit earned/(loss suffered) from each segment without allocation of selling and distribution expenses, administrative expenses, impairment losses under expected credit loss models, net of reversal, other income, other gains and losses and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

(b) Geographic segment

All analysis of the Group's revenue presented by geographical location is detailed below:

	Revenue from external customers	
	2020 HK\$'000	2019 HK\$'000
The United States of America	153,459	101,753
Germany	71,586	80,760
Europe (Note (i))	15,924	75,817
Asia (Note (ii))	52,487	25,450
The Netherlands	11,370	7,597
The United Kingdom ("UK")	7,921	10,696
Others (Note (iii))	21,839	21,433
	334,586	323,506

Notes:

- (i) Europe includes but is not limited to France, Italy and Belgium but excludes the UK, Germany and the Netherlands.
- (ii) Asia includes but is not limited to the PRC and Hong Kong.
- (iii) Others include but is not limited to Brazil, Canada and Russia. Revenue is allocated based on the shipping destination.

Since over 90% of the Group's non-current assets were located in the PRC, no geographical location of non-current assets is presented.

6. SEGMENT INFORMATION (CONTINUED)

(c) Information about major customers

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

	2020 HK\$'000	2019 HK\$'000
Customer A ¹	195,809	150,076
Customer B ²	38,361	39,907
Customer C ² (Note)	34,649	N/A

¹ Revenue from two-way radios segment.

² Revenue from other products segment.

Except disclosed above, no other customer contributed 10% or more to the Group's revenue for both years.

Note:

Revenue derived from customer C did not contribute over 10% of total revenue of the Group during the year ended 31 March 2019.

7. OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Bank interest income	134	120
Loan interest income	67	233
Gain on disposals of property, plant and equipment	3,277	626
Gain on early repayment of bond payables (Note 38)	—	514
Gain on disposal of a subsidiary (Note 39)	645	—
Rental income	167	799
Repair and maintenance income	327	181
Sales of scrap materials	851	791
Sundry income	2,744	3,323
	8,212	6,587

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. OTHER GAINS AND LOSSES

	2020 HK\$'000	2019 HK\$'000
Exchange loss, net	(1,018)	(102)
Loss arising on change in fair value of financial asset at fair value through profit or loss (<i>Note 19</i>)	(3,097)	(1,535)
	(4,115)	(1,637)

9. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2020 HK\$'000	2019 HK\$'000
Impairment loss recognised on:		
– trade receivables (<i>Note 21</i>)	3,302	2,129
– other receivables (<i>Note 21</i>)	181	169
– loan receivable (<i>Note 22</i>)	1,041	1,959
	4,524	4,257

10. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on:		
– borrowings	4,431	1,909
– lease liabilities	14	–
– amount due to a related company	–	12
	4,445	1,921

11. INCOME TAX EXPENSE

	2020 HK\$'000	2019 HK\$'000
Current tax:		
PRC Enterprise Income Tax (the "EIT")	1,133	192
Deferred tax (Note 28)	—	1,194
	1,133	1,386

- (i) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for Hong Kong Profits Tax has been made for both years as the Group's did not have any assessable profits arising in or derived from Hong Kong.

- (ii) Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

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

	2020 HK\$'000	2019 HK\$'000
Loss before tax	(18,344)	(8,327)
Tax at domestic income tax rate	(4,323)	(1,217)
Tax effect of expense not deductible for tax purposes	3,975	957
Tax effect of income not taxable for tax purpose	(163)	(291)
Tax effect of temporary differences not recognised	—	(26)
Tax effect of estimated tax loss not recognised	1,644	1,963
Income tax expense for the year	1,133	1,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. LOSS FOR THE YEAR

	2020 HK\$'000	2019 HK\$'000
Loss for the year has been arrived at after charging:		
Directors' emoluments (<i>Note 14</i>)	1,829	2,388
Salaries and allowances	13,522	19,883
Retirement benefit schemes contributions (excluding directors)	3,209	5,265
Total staff costs	18,560	27,536
Auditor's remuneration — audit services	629	950
Amortisation of intangible assets (included in cost of sales)	1,571	2,654
Depreciation of property, plant and equipment	1,554	6,446
Depreciation of right-of-use assets	181	—
Cost of inventories sold recognised as an expense	253,305	229,026
Research and development costs recognised as an expense	10,466	2,385
Loss on deregistration of a subsidiary	1,388	—
Expenses relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	3,053	—
Minimum lease payments in respect of operating lease for office premises, staff quarters and factories	—	3,878

13. LOSS PER SHARE

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

	2020 HK\$'000	2019 HK\$'000
Loss		
Loss for the purpose of basic and diluted loss per share (loss for the year attributable to owners of the Company)	(19,474)	(9,789)
	2020 '000	2019 '000 (restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	410,225	390,194

The weighted average number of ordinary shares for the year ended 31 March 2019 for the purposes of calculating basic loss per share have been adjusted for the share consolidation and issue of new shares under rights issue which took place on 6 February 2020 and 11 March 2020 respectively.

The diluted loss per share for both years were the same as basic loss per share as there were no potential outstanding shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 12 (2019: 8) directors and the chief executive were as follows:

	Year ended 31 March 2020				Total HK\$'000
	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	
Executive directors:					
Mr. Chan Lung Ming <i>(appointed on 27 November 2019)</i>	–	83	–	4	87
Mr. Tam Wing Ki <i>(resigned on 25 October 2019)</i>	–	555	–	10	565
Ms. Sin Pui Ying <i>(re-designated from non-executive director on 1 November 2019)</i>	–	100	–	5	105
Mr. Kwok Ming Fai <i>(resigned on 20 September 2019)</i>	–	169	–	8	177
Mr. Fu Yan Ming <i>(resigned on 20 September 2019)</i>	–	169	–	8	177
Mr. Yeung Shing Wai <i>(appointed on 21 September 2019)</i>	–	126	–	6	132
Non-executive directors:					
Mr. Tao Hong Ming <i>(appointed on 25 October 2019)</i>	105	–	–	–	105
Ms. Sin Pui Ying <i>(appointed on 21 September 2019 and re-designated to executive director on 1 November 2019)</i>	13	–	–	–	13
Mr. Chan Chung Yin Victor <i>(resigned on 31 March 2020)</i>	120	–	–	–	120
Independent non-executive directors:					
Mr. Cheng Chai Fu <i>(appointed on 25 October 2019)</i>	52	–	–	–	52
Mr. Chan Shiu Man	120	–	–	–	120
Mr. Wong Ching Wan	120	–	–	–	120
Mr. Fung Chan Man, Alex <i>(resigned on 20 September 2019)</i>	56	–	–	–	56
	586	1,202	–	41	1,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

	Year ended 31 March 2019				Total HK\$'000
	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	
Executive directors:					
Mr. Tam Wing Ki <i>(resigned on 25 October 2019)</i>	—	974	140	18	1,132
Mr. Kwok Ming Fai <i>(resigned on 20 September 2019)</i>	—	360	—	18	378
Mr. Fu Yan Ming <i>(resigned on 20 September 2019)</i>	—	360	—	18	378
Mr. Gao Hong <i>(retired on 27 July 2018)</i>	—	115	—	—	115
Non-executive director:					
Mr. Chan Chung Yin Victor <i>(resigned on 31 March 2020)</i>	25	—	—	—	25
Independent non-executive directors:					
Mr. Chan Shiu Man	120	—	—	—	120
Mr. Wong Ching Wan	120	—	—	—	120
Mr. Fung Chan Man, Alex <i>(resigned on 20 September 2019)</i>	120	—	—	—	120
	385	1,809	140	54	2,388

Mr. Tam Wing Ki is also the chief executive of the Company up to 25 October 2019 and his emoluments disclosed above include those for services rendered by him as the chief executive.

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

Except for disclosed in note 37, no other transactions, arrangements and contracts in relation to the Group's business to which the Company or any subsidiaries of the Company was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the reporting period or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2019: three) were directors for the year ended 31 March 2020, in which two of them resigned during the year ended 31 March 2020. The emoluments of the directors are included in the disclosures in note 14(a) above. The emoluments of the remaining three (2019: two) individuals, in which one of them is a director of the Company who resigned during the year ended 31 March 2020 and remain as director of certain subsidiaries and one of the key management personnel of the Group were as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other allowances	2,880	910
Retirement benefit scheme contributions	67	28
	2,947	938

The aggregated emoluments of each of the remaining highest paid individuals fell within the following band:

	Number of individuals	
	2020	2019
Nil to HK\$1,000,000	3	2

During the years ended 31 March 2020 and 2019, no emoluments were paid or payable by the Group to the five highest paid individuals as inducements to join or upon joining the Group or as a compensation for loss of office. None of the five highest paid individuals waived or agreed to waive any emoluments in both years.

15. DIVIDENDS

No final dividend was paid or proposed during the year, nor any dividend has been proposed by the board of directors subsequent to the end of the reporting period (2019: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST						
As at 1 April 2018	3,028	33	2,456	47,925	2,014	55,456
Additions	305	—	769	6,424	586	8,084
Disposal and written off	—	—	—	(1,877)	(90)	(1,967)
Exchange realignment	(220)	(4)	(211)	(4,765)	(192)	(5,392)
As at 31 March 2019 and as at 1 April 2019	3,113	29	3,014	47,707	2,318	56,181
Additions	—	—	—	607	—	607
Disposal and written off	(2,438)	(9)	(2,056)	(35,595)	(829)	(40,927)
Disposal of a subsidiary (<i>Note 39</i>)	(263)	(9)	(747)	(123)	(217)	(1,359)
Exchange realignment	(25)	(1)	(8)	(1,069)	(40)	(1,143)
As at 31 March 2020	387	10	203	11,527	1,232	13,359
ACCUMULATED DEPRECIATION						
As at 1 April 2018	2,467	32	2,143	43,109	1,318	49,069
Charged for the year	352	1	754	4,720	619	6,446
Eliminated on disposal and written off	—	—	—	(220)	(68)	(288)
Exchange realignment	(139)	(4)	(133)	(2,292)	(61)	(2,629)
As at 31 March 2019 and as at 1 April 2019	2,680	29	2,764	45,317	1,808	52,598
Charged for the year	83	—	55	1,223	193	1,554
Eliminated on disposal and written off	(2,209)	(9)	(1,950)	(35,559)	(829)	(40,556)
Eliminated upon disposal of a subsidiary (<i>Note 39</i>)	(253)	(9)	(720)	(123)	(101)	(1,206)
Exchange realignment	(18)	(1)	(5)	(965)	(32)	(1,021)
As at 31 March 2020	283	10	144	9,893	1,039	11,369
CARRYING AMOUNTS						
As at 31 March 2020	104	—	59	1,634	193	1,990
As at 31 March 2019	433	—	250	2,390	510	3,583

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

Leasehold improvement	Over the shorter of term of the lease or 5 years
Furniture and fixtures	20%
Office equipment	20%
Plant and machinery	20% to 33%
Motor vehicles	20%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. RIGHT-OF-USE ASSETS

	Leased properties HK\$'000
Carrying amounts as at 1 April 2019	332
Depreciation charge for the year	(181)
Carrying amounts as at 31 March 2020	151
Total cash outflow for leases	3,244

The Group leases office for its operations. Lease contracts are entered into for fixed term 2 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of lease liabilities are set out in notes 27 and 33.

18. INTANGIBLE ASSETS

	Product development costs HK\$'000
COST	
As at 1 April 2018	14,758
Additions	1,901
Exchange realignment	(337)
	<hr/>
As at 31 March 2019 and as at 1 April 2019	16,322
Disposal of a subsidiary (<i>Note 39</i>)	(3,930)
Written-off upon deregistration of a subsidiary	(1,356)
Exchange realignment	(85)
	<hr/>
As at 31 March 2020	10,951
ACCUMULATED AMORTISATION	
As at 1 April 2018	9,738
Provided for the year	2,654
Exchange realignment	(85)
	<hr/>
As at 31 March 2019 and as at 1 April 2019	12,307
Provided for the year	1,571
Elimination upon disposal of a subsidiary (<i>Note 39</i>)	(2,171)
Written-off upon deregistration of a subsidiary	(1,356)
Exchange realignment	(27)
	<hr/>
As at 31 March 2020	10,324
CARRYING AMOUNT	
As at 31 March 2020	627
	<hr/>
As at 31 March 2019	4,015
	<hr/>

Product development costs are internally generated.

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over three years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 HK\$'000	2019 HK\$'000
Key-management insurance, at fair value	—	12,597

Financial asset at FVTPL represents key-management insurance purchased for a director, which is denominated in United States dollars (“**USD**”). The premium of the insurance is approximately HK\$7,740,000. The sum insured is approximately HK\$41,693,000.

On 10 July 2019, the Group disposed key-management insurance classified as financial asset at FVTPL to Mr. Tam Wing Ki, who is a director and resigned on 25 October 2019, with the consideration of HK\$9,500,000. The disposal constitutes as connected transaction under Chapter 20 of GEM Listing Rules. Details of the transaction are set out in the Company’s announcement date 20 June 2019.

As at 31 March 2019, the valuation of key-management insurance is determined and provided by an independent qualified professional valuer, using the discounted cash flow approach. The discounted cash flow approach focuses on the economic benefits generated by the income producing capability of an asset. The underlying theory of this approach is that the value of an asset can be measured by the present worth of the economic benefits to be received over its economic life. This approach needs to estimate the future cash flows and then discounts these cash flows to its present value using a discount rate appropriate for the risks associated with realising those cash flows.

Management has assessed the credit quality of the financial institution and considered the credit risk to be not significant.

The fair value gains or losses is included in “other gains and losses” in the consolidated statement of profit or loss and other comprehensive income (Note 8).

As at 31 March 2019, the valuation was determined using discounted cash flow projections based on unobservable inputs. These inputs include:

Future cash inflows:	Based on the interest income derived from the first premium paid under the insurance policy, interest credited into the account and the expected death benefit based on mortality
Future cash outflows:	Based on policy expense charge, policy premium charge and cost of insurance
Discount rates:	Reflecting current market assessments of the uncertainty in the amount and timing of cash flows
Future crediting rate:	Based on the current rate of interest credit to the insurance policy

There were no changes to the valuation techniques during the year ended 31 March 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The valuation technique and inputs used in the fair value measurements of the financial instruments on a recurring basis is set out below:

Description	Fair value hierarchy	Significant unobservable inputs	Significant unobservable inputs as at 31 March 2019	Relationship of significant unobservable inputs to fair value
Financial asset at fair value through profit or loss	Level 3	Discount rate	3.97%	The higher the discount rate, the lower the fair value
		Future crediting rate	4.60%	The higher the future crediting rate, the higher the fair value

There was no transfer of fair value hierarchy during the reporting period.

The sensitivity of the financial asset at FVTPL to changes in the weighted principal assumption is:

As at 31 March 2019	Impact on financial asset at FVTPL		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.1%	Decrease by HK\$204,000	Increase by HK\$208,000
Future crediting rate	0.1%	Increase by HK\$744,000	Decrease by HK\$690,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the financial asset at FVTPL to significant actuarial assumptions, the same method (present value of the financial asset at FVTPL calculated with discounted cash flow approach at the end of the reporting period) has been applied.

Reconciliation of Level 3 fair value measurements of financial asset on recurring basis:

	HK\$'000
As at 1 April 2018	14,132
Loss arising on change in fair value	(1,535)
As at 31 March 2019 and as at 1 April 2019	12,597
Loss arising on change in fair value (Note 8)	(3,097)
Disposal during the year	(9,500)
As at 31 March 2020	—

20. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	13,318	30,506
Work in progress	8,865	10,556
Finished goods	2,197	1,404
	24,380	42,466

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. TRADE AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables from contracts with customers	91,751	74,656
Less: Allowance for credit losses	(5,883)	(2,632)
	85,868	72,024
Prepayment	3,755	8,965
Value-added tax receivables	17,304	23,457
Deposits	133	941
Other receivables	1,630	3,627
Less: Allowance for credit losses	(361)	(203)
	22,461	36,787
Total trade and other receivables	108,329	108,811
Less: Non-current portion prepayment	(355)	(318)
Current portion	107,974	108,493

As at 1 April 2018, trade receivables from contracts with customers amounted to approximately HK\$58,504,000.

The Group generally allows a credit period of 30 days to 90 days to its trade customers. The Group does not hold any collateral over these balances.

During the year ended 31 March 2020, the Company entered into assignment of debt agreement with the lender to factor trade receivable with the gross carrying amount of USD1,008,900 (equivalent to approximately HK\$7,809,000) to lender with recourse associated with secured other borrowings.

The ageing analysis of the trade receivables based on invoice date which approximates the respective revenue recognition dates were as follows:

	2020 HK\$'000	2019 HK\$'000
1 to 30 days	49,845	20,201
31 to 60 days	11,888	24,735
61 to 90 days	3,158	9,122
91 to 180 days	487	47
Over 180 days	20,490	17,919
	85,868	72,024

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 March 2020, included in the Group's trade receivables (net of allowance for credit losses) balance are debtors with aggregates carrying amounts of approximately HK\$42,642,000 (2019: HK\$26,014,000) which are past due at the end of the reporting period. Out of the past due balances, HK\$16,565,000 (2019: HK\$17,559,000) (net of allowance for credit losses) has been past due 90 days or more and is not considered as in default because of no recent history of default and the directors are in opinion of these balances are still considered as collectible.

The following table shows the movement in lifetime ECL (not credit-impaired) that has been recognised under the simplified approach:

	Lifetime ECL (not credit-impaired) HK\$'000	Lifetime ECL (credit-impaired) HK\$'000	Total HK\$'000
As at 1 April 2018	—	—	—
Adjustment upon application of HKFRS 9	503	—	503
Impairment loss recognised	2,129	—	2,129
As at 31 March 2019 and as at 1 April 2019	2,632	—	2,632
Impairment loss recognised	3,251	51	3,302
Amounts written-off as uncollectible	—	(51)	(51)
As at 31 March 2020	5,883	—	5,883

The following table show reconciliation of loss allowance of other receivables under general approach is as follow:

	12m ECL HK\$'000	Lifetime ECL (credit-impaired) HK\$'000	Total HK\$'000
As at 1 April 2018	—	—	—
Adjustment upon application of HKFRS 9	34	—	34
Impairment loss recognised	169	—	169
As at 31 March 2019 and as at 1 April 2019	203	—	203
Impairment loss recognised	—	300	300
Impairment loss reversed	(119)	—	(119)
Written-off upon deregistration of a subsidiary	(23)	—	(23)
As at 31 March 2020	61	300	361

Included in trade and other receivables (excluded prepayment and value-add tax receivables) are the following amounts denominated in a currency other than the functional currency of relevant group entities:

	2020 HK\$'000	2019 HK\$'000
USD	69,308	64,766

As at 31 March 2020, the carrying amounts of trade receivables (net of allowance for credit losses) of approximately HK\$40,177,000 (2019: HK\$47,670,000) have been pledged as security for the borrowings. Details are shown in note 25.

Details of impairment assessment are set out in note 33.

22. LOAN RECEIVABLE

	2020 HK\$'000	2019 HK\$'000
Unsecured fixed-rate loan receivable	3,000	3,000
Less: Allowance for credit losses	(3,000)	(1,959)
	—	1,041

The loan receivable had contractual maturity date with one year. The interest rate for the fixed-rate loan receivable was 10% per annum.

The following table show reconciliation of loss allowance of loan receivable under general approach is as follow:

	12m ECL HK\$'000	Lifetime ECL (credit-impaired) HK\$'000	Total HK\$'000
As at 1 April 2018	—	—	—
Impairment loss recognised	1,959	—	1,959
As at 31 March 2019 and as at 1 April 2019	1,959	—	1,959
Impairment loss recognised	—	1,041	1,041
Transfer to lifetime ECL (credit-impaired)	(1,959)	1,959	—
As at 31 March 2020	—	3,000	3,000

During the year ended 31 March 2020, allowance for credit loss with the amount of HK\$1,041,000 (2019: HK\$1,959,000) was recognised. The directors classified the entire loan receivable as credit-impaired as a result of default payment of principal amount of loan receivable and loan interest receivables.

Details of impairment assessment are set out in note 33.

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances represented short-term deposits with a maturity of three months or less. As at 31 March 2020, bank balances carried at interest at floating rates and placed with creditworthy banks with no recent history of default. As at 31 March 2020, the pledged bank deposits carry fixed interest rate at 0.55% per annum (2019: 0.55% per annum) and mature within 93 days (2019: 93 days) from the placement dates.

Pledged bank deposits have been pledged to secure banking facilities granted to the Group. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

As at 31 March 2020, the Group's pledged bank deposits and bank balances and cash denominated in USD, Renminbi ("RMB") and Euro ("EUR") other than the functional currency of relevant group entities: are approximately HK\$15,857,000 (2019: HK\$11,482,000), HK\$1,100,000 (2019: HK\$1,191,000) and HK\$9,000 (2019: HK\$9,000) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH (CONTINUED)

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the foreign exchange control promulgated imposed by the government of the PRC. The Group's pledged bank deposits and bank balances and cash denominated in RMB which located in Hong Kong are not subject to the foreign exchange control.

The Group performed impairment assessment on pledged bank deposits and bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided for both years.

24. TRADE AND OTHER PAYABLES

	2020 HK\$'000	2019 HK\$'000
Trade payables	51,327	57,037
Accrued expenses	6,697	10,637
Other payables	8,034	11,461
Contract liabilities	260	4,935
	14,991	27,033
	66,318	84,070

Contract liabilities represented advance payments of related sales of goods from customers pursuant to the respective sales contracts.

As at 1 April 2018, contract liabilities amounted to approximately HK\$4,596,000, the entire balances were recognised as revenue during the year ended 31 March 2019.

For the contract liabilities as at 31 March 2019, the entire balances were recognised as revenue during the year ended 31 March 2020.

The following is an ageing analysis of trade payables presented based on invoice dates at the end of the reporting period:

	2020 HK\$'000	2019 HK\$'000
Within 30 days	15,414	20,429
31 to 60 days	13,562	19,516
61 to 90 days	8,133	7,308
More than 90 days	14,218	9,784
	51,327	57,037

The credit period on purchases of goods is 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. TRADE AND OTHER PAYABLES (CONTINUED)

The Group's trade and other payables (excluded contract liabilities) that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	2020 HK\$'000	2019 HK\$'000
RMB	97	15
USD	28,059	14,953

25. BORROWINGS

	2020 HK\$'000	2019 HK\$'000
Secured bank borrowings	43,724	44,625
Secured other borrowings	5,600	5,663
Unsecured other borrowings	3,919	3,919
	53,243	54,207

Carrying amounts repayable (based on scheduled repayment dates set out in loan agreements):

	2020 HK\$'000	2019 HK\$'000
Within one year	53,243	54,207

- (a) Secured bank borrowings are interest bearing at London Interbank Offered Rate ("LIBOR") over a spread or minus a spread as appropriate as at 31 March 2020 and 2019 were secured by the Group's trade receivables, pledged bank deposits and guarantee provided by the Company as appropriate. Details are shown in note 35.
- (b) As at 31 March 2019, the secured other borrowings were secured by the Group's trade receivables with amount of approximately HK\$15,270,000 (net of allowance for credit losses) and interest bearing at 24% per annum.

On 16 July 2019, the Company entered into assignment of debt agreement with the lender to factor trade receivable with the gross carrying amount of approximately HK\$7,809,000 to lender with recourse. Subsequent to entered into assignment of debt agreement, the secured other borrowings were interest-free and will be settled upon settlement of factored trade receivable with the amounts of HK\$7,308,000 (net of allowance for credit losses).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. BORROWINGS (CONTINUED)

- (c) The unsecured other borrowings were interest bearing ranging from 4% to 12% per annum (2019: 4% to 12% per annum).

During the year ended 31 March 2020, the Company entered into an extension agreement with the lender to extend 1 year unsecured other borrowings with the amounts of HK\$3,919,000 from the respective date of the extension agreements. Except for the date of repayment, other terms are remain unchanged.

Subsequent to the end of the reporting period, the unsecured other borrowings are fully settled.

- (d) The weighted average effective interest rates (per annum) at the end of the respective reporting period are as follows:

	2020 HK\$'000	2019 HK\$'000
Variable-rate bank borrowings effective interest rate	3.04% to 4.96%	0.21% to 5.8%

- (e) The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2020 HK\$'000	2019 HK\$'000
Borrowings		
– USD	43,724	44,625

- (f) The Group has the following undrawn borrowings facilities:

	2020 HK\$'000	2019 HK\$'000
Variable-rate borrowings	35,752	33,375

26. AMOUNT DUE TO A RELATED COMPANY

Name of company	2020 HK\$'000	2019 HK\$'000
Xinxing On Time Electronics Limited (<i>Note</i>)	1,188	499

The amount is unsecured, interest-free and repayable on demand.

Note: Mr. Tam Wing Ki, the ex-director and ex-chairman of the Company, has direct interest in the relevant party. Subsequent to the resignation of the director and chairman of the Company, Mr. Tam Wing Ki is still acting as director of certain subsidiaries and one of the key management personnel of the Group.

27. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	As at 31 March 2020 HK\$'000	As at 1 April 2019 HK\$'000	As at 31 March 2020 HK\$'000	As at 1 April 2019 HK\$'000
Lease liabilities payable				
Within one year	159	191	155	177
In the second to fifth year, inclusive	—	159	—	155
	159	350	155	332
Less: future finance costs	(4)	(18)	—	—
Present value of lease liabilities	155	332	155	332
Less: amounts due for settlement within one year			(155)	(177)
Amounts due for settlement after one year			—	155

All lease liabilities are denominated in HK\$.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. DEFERRED TAXATION

The movement in deferred tax assets during the year are as follows:

	Decelerated/ (accelerated) tax depreciation HK\$'000	Provisions HK\$'000	Tax losses HK\$'000	Total HK\$'000
As at 1 April 2018	19	(45)	1,220	1,194
(Charged)/credited to profit or loss (Note 11)	(19)	45	(1,220)	(1,194)
As at 31 March 2019, as at 1 April 2019 and as at 31 March 2020	—	—	—	—

As at 31 March 2020, the Group has unused estimated tax losses of approximately HK\$26,287,000 (2019: HK\$31,034,000). No deferred tax asset had been recognised in respect of unrecognised due to the unpredictability of future profit streams. Except for unrecognised tax losses of the Group of approximately HK\$3,648,000 for the year ended 31 March 2019 which will be expired in 2023, other unrecognised tax losses will be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

29. SHARE CAPITAL

	Number of shares		Amount	
	2020 '000	2019 '000	2020 HK\$'000	2019 HK\$'000
Ordinary shares of HK\$0.0125 each (2019: HK\$0.00125)				
Authorised:				
At the beginning of the reporting period	6,240,000	6,240,000	7,800	7,800
Share consolidation (note b(i))	(5,616,000)	—	—	—
Increase in authorised share capital (note b(ii))	2,496,000	—	31,200	—
At the end of the reporting period	3,120,000	6,240,000	39,000	7,800
Issued and fully paid:				
At the beginning of the reporting period	3,840,000	3,840,000	4,800	4,800
Issue of new shares under general mandate (note a)	150,000	—	188	—
Share consolidation (note b(i))	(3,591,000)	—	—	—
Issue of new shares by way of rights issue (note c)	199,500	—	2,493	—
At the end of the reporting period	598,500	3,840,000	7,481	4,800

Notes:

- (a) On 30 August 2019, the Company allotted and issued 150,000,000 new ordinary shares at a subscription price of HK\$0.022 per share under general mandate. The net proceeds of HK\$3,275,000 from issue of new shares will be used for general working capital of the Group.
- (b) At extraordinary general meeting of the Company held on 4 February 2020, an ordinary resolution was passed to approve the following changes to the capital of the Company (the “**Capital Reorganisation**”):
- (i) Share consolidation: every ten existing issued and unissued shares of par value of HK\$0.00125 each be consolidated into one consolidated share of HK\$0.0125 each in the share capital of the Company (the “**Consolidated Share**”);
- (ii) Increase in authorised share capital: increase the authorised share capital of the Company from HK\$7,800,000 to HK\$39,000,000 by the creation of an additional of 2,496,000,000 shares, each ranking pari passu with the shares then in issue in all respects.

The Capital Reorganisation was effected on 6 February 2020.

- (c) On 11 March 2020, the Company allotted and issued 199,500,000 new ordinary shares at a subscription price of HK\$0.1 per share by way of rights shares to the qualifying shareholders of the Company on the basis of one right share for every two Consolidated Shares held on 17 February 2020 (the “**Rights Issue**”). The net proceeds from the Rights Issue of HK\$17,835,000 will be used for expansion of existing business and/or acquisition of and/or investment in business(es) which leverage on the competitive advantage of the Group should suitable opportunities arise and for general working capital of the Group.

All the ordinary shares issued during the year ended 31 March 2020 and 2019 rank pari passu with the then existing shares in all respects.

30. RETIREMENT BENEFIT SCHEMES

The Group participates in the MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution plan and the assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant costs to the scheme, which contribution is matched by employees, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the MPF Scheme vest immediately and there were no forfeited contributions of the MPF Scheme during both years.

The employees of the Group's subsidiary in the PRC are members of state-managed retirement benefit schemes operated by the government of the PRC. The subsidiary is required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes operated by the government of the PRC is made the specified contributions under the schemes. The contributions are charged to profit or loss as incurred.

The total expense recognised in consolidated profit or loss of approximately HK\$3,250,000 (2019: HK\$5,319,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans during the year ended 31 March 2020.

31. 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 net debts which include borrowings and lease liabilities, net of bank balances and cash and equity attributable to owners of the Company, comprising share capital and reserves.

The directors review the capital structure periodically. As part of the review, the directors consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to adjust the Group's capital structure. Based on the recommendations of the directors, the Group will balance its overall capital structure through issue of new shares or redemption of existing shares as well as issue of new debt or redemption of existing debts.

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

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2020 HK\$'000	2019 HK\$'000
Financial assets		
Financial asset at FVTPL	—	12,597
Financial assets at amortised cost	135,166	103,177
	135,166	115,774
Financial liabilities		
Financial liabilities at amortised cost	114,964	126,297

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include financial asset at FVTPL, trade and other receivables (excluded prepayment and value-added tax receivables), loan receivable, pledged bank deposits, bank balances and cash, trade and other payables (excluded provision and contract liabilities), borrowings and amount due to a related company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no material change to the Group's exposure to financial risk or the manner in which it manages and measures the risk.

Market risk

Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence, exposures to exchange rate fluctuation arise. The Group's assets are mainly HK\$ denominated assets. In addition, the Group has certain assets denominated in RMB, USD and EUR.

The HK\$ is pegged to USD and thus foreign currency exposure is considerate as minimal and is not hedged.

The carrying amounts of the Group's monetary assets and liabilities denominated in RMB and EUR at the end of the reporting period as follows:

	Assets		Liabilities	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
RMB	1,100	1,191	97	15
EUR	9	9	—	—

The transactions and monetary assets denominated in EUR is minimal, the Group considers there has no material foreign exchange risk exposure in respect of EUR. Therefore, EUR are excluded from the analysis below.

In this respect, the Group considers its exposure to foreign currency risk is primarily in the fluctuation of HK\$ against RMB.

The Group currently does not have a foreign currency hedging policy. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currency risk of RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in exchange rates of the relevant foreign currencies against the respective reporting entity's functional currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax loss/a decrease in post-tax loss where the respective functional currencies of the reporting entity strengthen 5% against the relevant foreign currencies. For a 5% weakening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss, and the balances below would be negative. The analysis is performed on the same basis for the years ended 31 March 2020 and 2019.

	2020 HK\$'000	2019 HK\$'000
RMB	(42)	(49)

Management considered the sensitivity analysis is unrepresentative of the inherent currency risk as the exposure at the end of each reporting period does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits (Note 23), fixed-rate borrowings (Note 25) and lease liabilities (Note 27). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 23) and variable-rate bank borrowings (Note 25). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and LIBOR arising from the Group's bank borrowings. The Group aims at keeping borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (Continued)

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease in variable-rate bank balances and variable-rate borrowings are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 March 2020 would increase/decrease by approximately HK\$183,000 (2019: decrease/increase in post-tax loss HK\$186,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

Credit risk and impairment assessment

The Group's credit risk is primarily attributable to trade receivables, other receivables, deposits, loan receivable, pledged bank deposits and bank balances. 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 arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group deposited pledged bank deposits and bank balances with approved and reputable banks. Bankruptcy or insolvency of the banks may cause the Group's right with respect to pledged bank deposits and bank balances held to be delayed or limited. The directors monitor the credit rating of these banks on an ongoing basis, and consider that the Group's exposure to credit risk as at 31 March 2020 and 2019 were minimal.

For other receivables and deposits, the directors make periodic individual assessment on the recoverability of other receivables and based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors believe that there is no significant increase in credit risk of the Group's outstanding balances of other receivables deposits since initial recognition and the Group provide impairment based on 12m ECL. Based on the assessment, impairment of other receivables (net of reversal) with the amounts of approximately HK\$181,000 (2019: HK\$169,000) was recognised in profit or loss during the year ended 31 March 2020.

For loan receivable, the directors make periodic individual assessment on the recoverability of loan receivable based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information.

The Group considers loan receivable as doubtful if the repayment of principal and/or interest has been overdue for more than 3 months and principal. The Group considers the loan and loan interest receivable as loss if the repayments of principal and/or interest have been overdue for more than 6 months for loan and loan interest receivable; and in cases the collection of principal and/or interest in full is improbable. The directors considered that credit quality classification of gross loan receivable is loss (2019: performing).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk and impairment assessment (Continued)

Based on the above assessment, impairment of loan receivable with the amount of approximately HK\$1,041,000 (2019: HK\$1,959,000) was recognised in profit or loss during the year ended 31 March 2020.

The Group has concentration of credit risk as 42% (2019: 50%) and 72% (2019: 88%) of the trade receivables was due from the Group's largest customer and five largest customers respectively.

The Group's policy to manage credit risk is to deal only with credit worthy counterparties. In order to minimise the credit risk, the management of the Group has formulated a credit policy and, delegated a team responsible for determination of credit limits credit approvals and other monitoring procedures to ensure that follow-up action is take.

Trade receivables are assessed based on provision matrix, except for trade receivables with gross carrying amounts of approximately HK\$51,000 (2019: nil), which are credit-impaired, that are assessed individually. The Group performed impairment assessment for the trade receivables equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk for trade receivables which are assessed collectively based on provision matrix except for those who are assessed individually or credit-impaired:

	Expected loss %	Gross carrying amounts HK\$'000	Loss allowance HK\$'000
As at 31 March 2020			
Current (not past due)	1.13	43,721	495
1 to 30 days past due	1.19	22,058	263
31 to 60 days past due	1.57	1,651	26
61 to 90 days past due	1.96	2,710	53
91 to 180 days past due	2.56	391	10
Over 180 days past due	23.73	21,220	5,036
		91,751	5,883
	Expected loss %	Gross carrying amounts HK\$'000	Loss allowance HK\$'000
As at 31 March 2019			
Current (not past due)	0.88	46,418	408
1 to 30 days past due	0.88	7,861	69
31 to 60 days past due	1.07	653	7
61 to 90 days past due	5.56	18	1
91 to 180 days past due	2.92	137	4
Over 180 days past due	10.95	19,569	2,143
		74,656	2,632

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk and impairment assessment (Continued)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 March 2020, the Group recognised impairment amounts of approximately HK\$3,302,000, HK\$181,000 and HK\$1,041,000 (2019: HK\$2,129,000, HK\$169,000 and HK\$1,959,000) for trade receivables, other receivables and loan receivable respectively.

Liquidity risk

In management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings and ensures compliance with loan covenants.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted cashflows on interest are estimated based on interest rates at the end of the reporting period, and therefore subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

	As at 31 March 2020					Carrying amount HK\$'000
	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	More than five years	Total contractual undiscounted cash flow	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Non-derivative financial liabilities						
Trade and other payables	60,378	—	—	—	60,378	60,378
Borrowings	53,654	—	—	—	53,654	53,243
Amount due to a related company	1,188	—	—	—	1,188	1,188
Lease liabilities	159	—	—	—	159	155
	115,379	—	—	—	115,379	114,964

	As at 31 March 2019					Carrying amounts HK\$'000
	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	More than five years	Total contractual undiscounted cash flow	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Non-derivative financial liabilities						
Trade and other payables	71,591	—	—	—	71,591	71,591
Borrowings	54,931	—	—	—	54,931	54,207
Amount due to a related company	499	—	—	—	499	499
	127,021	—	—	—	127,021	126,297

Fair value of financial assets and financial liabilities carried at other than fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements measured at amortised cost approximate to their fair values.

34. OPERATING LEASE COMMITMENT

The Group leases certain of its factory premises, offices and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years and rentals are fixed. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

At the end of the reporting period, the Group had future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2019 HK\$'000
Within one year	608
In the second to fifth year inclusive	469
	1,077

35. PLEDGE OF ASSETS

At the end of the reporting period, the Group's banking facilities were secured by:

- (i) certain of the Group's trade receivables (net of allowance for credit losses) with carrying amounts of approximately HK\$32,869,000 (2019: HK\$32,400,000);
- (ii) pledged bank deposits with carrying amount of approximately HK\$1,085,000 (2019: HK\$1,128,000); and
- (iii) a corporate guarantee provided by the Company with an aggregate amount of approximately HK\$65,000,000 (2019: HK\$65,000,000).

36. CAPITAL COMMITMENT

	2020 HK\$'000	2019 HK\$'000
Contracted but not provided for:		
– Property, plant and equipment	9	219

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. RELATED PARTY TRANSACTIONS

The Group has entered into the following significant transactions with related parties during the year.

(a) Compensation of key management personnel

The remuneration of key management personnel during the years ended 31 March 2020 and 2019 are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and allowances	4,326	5,458
Retirement benefit schemes contributions	138	190
	4,464	5,648

The remuneration of the directors and key management personnel is determined by the board of directors regarding to the performance of individuals and market trends.

(b) In addition to the balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

Name of company	Nature of transactions	Notes	2020 HK\$'000	2019 HK\$'000
Xinxing On Time Electronics Limited	Rental and utilities expenses Interest expense	(i)	1,890 —	1,614 12
Mr. Tam Wing Ki	Disposal of financial asset at fair value through profit or loss	(ii)	9,500	—

Notes:

- (i) Mr. Tam Wing Ki, the ex-director and ex-chairman of the Company, has direct interest in the relevant party. Subsequent to the resignation of the director and chairman of the Company, Mr. Tam Wing Ki is still acting as director of certain subsidiaries and as key management personnel of the Group. Rental and utilities expenses constitute as continuing connected transaction under Chapter 20 of GEM Listing Rules, but are exempted from the reporting, announcement or independent shareholders' approval requirement.
- (ii) The disposal constitute as connected transaction under Chapter 20 of GEM Listing Rules.

38. BOND PAYABLES

Bonds with total amount of approximately HK\$15,000,000 at par value were issued during the year ended 31 March 2019. The net amount of the bonds after deducting issuance fee of approximately HK\$2,699,000 was HK\$12,301,000. The bonds bear interest at a rate of 14% per annum for the first eight years and are paid annually after 1 year of issuance date. From the ninth year, the interest rate is changed to 0.001% per annum. The effective interest rate is 7.50%. The bonds have no fixed expiry date and may be redeemed by the Group after eight years from issuance date at HK\$1. The interest payments are deferred at the Group's discretion, if the Group does not (a) pay interest to the bondholders within 6 months prior to the scheduled interest payment date or (b) cancel or reduce their share capitals within 6 months period prior to the scheduled interest payment date. As a result of the holder's protection clause, the Group is required to repay the remaining interest in the first eight years if the majority of assets of any of the Company or major subsidiaries were held in custody for more than 10 days or there is a similar event. Therefore, the bonds are treated as liabilities.

During the year ended 31 March 2019, the Group has early repaid certain bonds at a discounted interest rate of 10% per annum for the first 8 years, totally 80% of the principal amount, amounting to approximately HK\$20,560,000 of bond with a total par value of HK\$25,700,000. The effective interest rate of those early repaid bonds is 7.5%. The net amount of the early repaid bonds after deducting issuance fee was approximately HK\$21,074,000. The early repayment of the bond payables for the first eight years incurred a gain on early repayment of approximately HK\$514,000 for the year ended 31 March 2019.

During the year ended 31 March 2019, issuance fee comprised brokerage fee and consultancy fee paid to the broker and two consultants of approximately HK\$750,000, HK\$750,000 and HK\$1,200,000 respectively. Both the broker and the consultants are independent third parties of the Group.

The movement of the bonds is as follow:

	HK\$'000
As at 1 April 2018	8,773
Principal	15,000
Issuance fee	(2,699)
Net amount	12,301
Early repayment	(20,560)
Gain on early repayment (<i>Note 7</i>)	(514)
As at 31 March 2019	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. DISPOSAL OF A SUBSIDIARY

On 1 December 2019, the Group completed to dispose the entire equity interest in Shenzhen On Real Innovate Electronics Technology Limited* (“ORIE”) which principally engaged in technology development at total consideration of RMB100,000 (equivalent to approximately HK\$111,000). The net liabilities of ORIE, at the date of disposal were as follow:

Analysis of assets and liabilities over which control was lost:

	HK\$'000
Property, plant and equipment (Note 16)	153
Intangible assets (Note 18)	1,759
Inventories	4,295
Trade and other receivables	6,694
Bank balances and cash	3,013
Trade and other payables	(7,204)
Amounts due to the Group companies	(9,281)
Net liabilities disposed of	(571)

Gain on disposal of ORIE:

	HK\$'000
Cash consideration received	111
Net liabilities disposed of	571
Release of exchange reserve upon disposal	(37)
Gain on disposal of ORIE	645

Net cash outflow arising on disposal of ORIE:

	HK\$'000
Cash consideration received	111
Less: cash and cash equivalents disposed of	(3,013)
Net cash outflow	(2,902)

* For identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Statement of financial position of the Company at the end of the reporting period is as follows:

	2020 HK\$'000	2019 HK\$'000
Non-current asset		
Investment in a subsidiary	22,126	22,126
Current assets		
Trade receivables	8,856	15,502
Prepayment and other receivables	1,215	195
Loan receivable	—	1,041
Amounts due from subsidiaries	3,645	3,256
Bank balances and cash	16,994	—
	30,710	19,994
Current liabilities		
Trade payables	—	10,287
Other payables and accruals	5,748	2,239
Amounts due to subsidiaries	96	—
Other borrowings	9,519	9,582
	15,363	22,108
Net current assets/(liabilities)	15,347	(2,114)
Net assets	37,473	20,012
Capital and reserves		
Share capital	7,481	4,800
Reserves (<i>Note</i>)	29,992	15,212
Total equity	37,473	20,012

Signed on its behalf by:

Ms. Sin Pui Ying
Director

Mr. Yeung Shing Wai
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

Reserves of the Company

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1 April 2018	75,468	(52,060)	23,408
Loss for the year and total comprehensive expense for the year	—	(8,196)	(8,196)
As at 31 March 2019 and as at 1 April 2019	75,468	(60,256)	15,212
Loss for the year and total comprehensive expense for the year	—	(3,649)	(3,649)
Issue of new shares under general mandate	3,112	—	3,112
Issue of new shares under rights issue	17,457	—	17,457
Share issuing expenses	(2,140)	—	(2,140)
As at 31 March 2020	93,897	(63,905)	29,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. SUBSIDIARIES OF THE COMPANY

At the end of the reporting period, the Company has the following subsidiaries:

Name of Company	Place/country of incorporation or establishment/operation	Issued and fully paid share capital/registered capital	Percentage of equity interest attributable to the Company				Principal activities
			Direct		Indirect		
			2020	2019	2020	2019	
On Real (BVI) Limited	BVI/BVI	Ordinary shares USD2	100%	100%	—	—	Investment holding
On Real Limited	Hong Kong/PRC	Ordinary shares HK\$2,000,000	—	—	100%	100%	Trading of two-way radios and servicing business
On Real Electronics (Shenzhen) Limited* (Note)	PRC/PRC	Paid up capital HK\$5,000,000	—	—	—	100%	Deregistered (2019: Design and manufacture of two-way radios and baby monitors)
Onward Technology Development Limited	Hong Kong/PRC	Ordinary shares HK\$10,000	—	—	100%	100%	Trading of plastic covers to On Real Limited and its subsidiaries
Ortech Company Limited (formerly known as Starian Caring Limited)	Hong Kong/PRC	Ordinary shares HK\$10,000	—	—	100%	100%	Trading of baby monitors
Xinxing Great Success Plastic Limited* (Note)	PRC/PRC	Paid up capital HK\$8,000,000	—	—	100%	100%	Design and manufacture of two-way radios and baby monitors
ORIE	PRC/PRC	Paid up capital HK\$1,000,000	—	—	—	100%	Technology development
On Real I.O.T Group Limited	Hong Kong/PRC	Paid up capital HK\$100	—	—	51%	51%	Technology development

All companies now comprising the Group, except for On Real Electronics (Shenzhen) Limited*, Xinxing Great Success Plastic Limited* and ORIE which have adopted 31 December as the financial year end date, have adopted 31 March as the financial year end date.

None of the subsidiaries had issued any debt securities subsisting at the end of both years or any time during both years.

All of the subsidiaries are private companies with limited liabilities.

The directors consider that the Group's non-controlling interests were insignificant to the Group and thus are not separately presented in these consolidated financial statements for both years. In addition, no separate financial information of this non-wholly owned subsidiary is required to be presented.

Note: Wholly foreign owned enterprise.

* For identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. 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 consolidated statement of cash flows as financing activities.

	Interest payables	Borrowings	Bond payables	Amount due to a related company	Lease liabilities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 April 2018	—	36,551	8,773	387	—	45,711
Financing cash flows	(1,219)	17,656	(8,259)	106	—	8,284
<i>Non-cash changes:</i>						
Gain on early repayment on bond payables (Note 8)	—	—	(514)	—	—	(514)
Interest expense recognised (Note 10)	1,921	—	—	—	—	1,921
Exchange realignment	—	—	—	6	—	6
As at 31 March 2019	702	54,207	—	499	—	55,408
Application of HKFRS 16 (Note 2)	—	—	—	—	332	332
As at 1 April 2019 (restated)	702	54,207	—	499	332	55,740
Financing cash flows	(3,922)	(964)	—	766	(177)	(4,297)
<i>Non-cash changes:</i>						
Interest expense recognised (Note 10)	4,445	—	—	—	—	4,445
Exchange realignment	—	—	—	(77)	—	(77)
As at 31 March 2020	1,225	53,243	—	1,188	155	55,811

43. SHARE OPTION SCHEME

The share option scheme (the “**Share Option Scheme**”) conditionally adopted by the resolutions in writing of all the shareholders passed on 16 September 2015 (the “**Adoption Date**”).

The major terms of the Share Option Scheme are summarised as follows:

- (i) The purpose of the Share Option Scheme is for the Group to attract, retain and motivate talented participants, to strive for future developments and expansion of the Group. The Share Option Scheme shall be an incentive to encourage the Participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their efforts and contributions.
- (ii) The board may, at its discretion, invite (collectively, the “**Participants**”): (i) any executive or non-executive director including any independent non-executive director or any employee (whether full-time or part-time) of any member of the Group; (ii) any trustee of a trust (whether family, discretionary or otherwise) whose beneficiaries or objects include any employee or business associate of the Group; (iii) any adviser or consultant (in the areas of legal, technical, financial or corporate management) to the Group; (iv) any provider of goods and/or services to the Group; or (v) any other person who the board considers, in its sole discretion, has contributed to the Group to take up the share options. In determining the basis of eligibility of each Participant, the board would take into account such factors as the board may at its discretion consider appropriate.
- (iii) The maximum number of shares in respect of which share options may be granted under the Share Option Scheme together with options which may be granted under any other share option scheme for the time being of the Company must not exceed 10% of the issued share capital of the Company as at the listing date and such limit might be refreshed by the shareholders in general meeting. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other share option scheme must not exceed 30% (or such higher percentage as may be allowed under the GEM Listing Rules) of the shares in issue from time to time. No Share Option may be granted under the Share Option Scheme or any other share option schemes of the Company if this will result in such limit being exceeded.
- (iv) The total number of shares issued and to be issued upon exercise of the share options granted to each eligible participant (including exercised, cancelled and outstanding share options) in any 12-month period must not exceed 1% of the shares in issue from time to time unless the same is approved by the shareholders.
- (v) The total number of shares issued and to be issued upon exercise of the share options granted to each substantial shareholder (as defined in the Listing Rules) of the Company or any of its respective associates or an independent non-executive director or any of his associates (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1 per cent. of the shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5,000,000, unless the same is approved by the shareholders.
- (vi) The exercisable period should be determined by the board of directors upon grant of the share option but in any event should not exceed 10 years from the date of offer for grant.
- (vii) Save as determined by the board of directors provided in the offer of the grant of the relevant share options, there is no general requirement that a share option must be held for any minimum period before it can be exercised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

43. SHARE OPTION SCHEME (CONTINUED)

- (viii) The acceptance of a share option, if accepted, must be made within 28 days from the date of grant with a non-refundable payment of HK\$1 from the grantee to the Company.
- (ix) The exercise price of a share option must be the highest of:
- the closing price of a share of the Company on the Stock Exchange on the date of share option is granted;
 - the average closing price of a share of the Company from the 5 business days (has the meaning stated in the GEM Listing Rules) immediately preceding the date of share option is granted; and
 - the nominal value of a share of the Company.
- (x) The Share Option Scheme is effective for 10 years from the date of adoption.

Grantees	Date of grant of share	Expiry date of share options	Exercise price (HK\$)	Share options held as at 01.04.2018	Granted	Lapsed	Share option held as at
							31.03.2019, 01.04.2019 and 31.03.2020
Consultants	02.10.2018	01.10.2028	0.0470	—	115,200,000	(115,200,000)	—
				—	115,200,000	(115,200,000)	—

No share options was granted, exercised, lapsed or cancelled during the year ended 31 March 2020. No shares options was exercised or cancelled during the year ended 31 March 2019.

44. TRANSFERS OF FINANCIAL ASSETS

The following was the Group's financial assets as at 31 March 2020 that were transferred to lender by endorsing these receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to this receivable, it continues to recognise the full carrying amounts of trade receivables and has recognised the relevant borrowings (Note 25). These financial assets are carried at amortised cost, net of allowance for credit losses, in the Group's consolidated statement of financial position.

	2020 HK\$'000	2019 HK\$'000
Carrying amounts of transferred assets — trade receivables (net of allowance for credit losses)	40,177	32,400
Carrying amounts of associated liabilities — borrowings	(37,307)	(30,339)
Net position	2,870	2,061

45. CONTINGENT LIABILITIES

On 20 January 2020, the Company received a third-party notice with legal case no. HCA1643/2019 between the Barton Eagle Limited (the “**Plaintiff**”), Lam Tak Hung (the “**Defendant**”) and the Company. The Plaintiff claimed against the Defendant approximately HK\$8 million under a guarantee for debts own by the Company. The Defendant claims against the Company to be indemnified against the plaintiff’s claim and the cost of this action on the grounds that the Company are the principal debtor of the alleged debt. The management of the Company is seeking the legal opinion for the above case.

Up to the date of this report, the outcome of the proceedings is still uncertain. As the directors considered it is premature and not practical to draw a conclusion of the outcome of the claims and that the ultimate liability, if any, will not have a material adverse impact on the Group’s consolidated statement of financial position, no provision was made as at 31 March 2020.

Apart from the contingent liabilities disclosed on the above, the Group has no other significant contingent liabilities.

46. EVENTS AFTER THE REPORTING PERIOD

Since January 2020, the outbreak of Novel Coronavirus (“**COVID-19**”) has impact on the global business environment. Pending the development and spread of COVID-19 subsequent to the date of this report, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this report. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

47. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 as at 1 April 2019. Under the transition methods, comparative information is not restated.

In addition, certain comparative figures have been reclassified to be consistent with the current period presentation.

48. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 June 2020.

FINANCIAL SUMMARY

The results, assets and liabilities of the Group for each of the last five financial years are as follows:

RESULTS

	Years ended 31 March				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	334,586	323,506	297,131	327,637	261,844
(Loss)/profit before tax	(18,344)	(8,327)	3,218	7,673	(16,462)
Income tax (expense)/credit	(1,133)	(1,386)	(2,333)	(3,390)	1,612
(Loss)/profit for the year	(19,477)	(9,713)	885	4,283	(14,850)
Attributable to:					
Owners of the Company	(19,474)	(9,789)	890	4,283	(14,850)
Non-controlling interest	(3)	76	(5)	—	—
	(19,477)	(9,713)	885	4,283	(14,850)

ASSETS, EQUITY AND LIABILITIES

	As at 31 March				
	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
ASSETS					
Non-current assets	3,123	20,513	27,687	27,069	35,402
Current assets	181,430	183,675	174,094	176,111	117,504
Total assets	184,553	204,188	201,781	203,180	152,906
EQUITY AND LIABILITIES					
Total equity	63,518	63,352	73,977	71,644	70,044
Non-current liabilities	—	—	7,934	—	—
Current liabilities	121,035	140,836	119,870	131,536	82,862
Total liabilities	121,035	140,836	127,804	131,536	82,862
Total equity and liabilities	184,553	204,188	201,781	203,180	152,906