STERLING GROUP
HOLDINGS LIMITED
美臻集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1825

# 2019
# ANNUAL REPORT

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# Corporate Information

## EXECUTIVE DIRECTORS

Ms. Wong Mei Wai Alice
Mr. Siu Yik Ming
Mr. Chung Sam Kwok Wai

## NON-EXECUTIVE DIRECTOR

Mr. Choi Siu Wai William *(Chairman)*

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Kee Huen Michael
Mr. Cheng King Hoi Andrew
Mr. Ko Ming Tung Edward

## COMPANY SECRETARY

Ms. Chan Yuet Kwai

## AUDIT COMMITTEE

Mr. Chan Kee Huen Michael *(Chairman)*
Mr. Cheng King Hoi Andrew
Mr. Ko Ming Tung Edward

## REMUNERATION COMMITTEE

Mr. Ko Ming Tung Edward *(Chairman)*
Ms. Wong Mei Wai Alice
Mr. Choi Siu Wai William
Mr. Chan Kee Huen Michael
Mr. Cheng King Hoi Andrew

## NOMINATION COMMITTEE

Mr. Choi Siu Wai William *(Chairman)*
Ms. Wong Mei Wai Alice
Mr. Chan Kee Huen Michael
Mr. Cheng King Hoi Andrew
Mr. Ko Ming Tung Edward

## AUTHORISED REPRESENTATIVES

Mr. Chung Sam Kwok Wai
Mr. Siu Yik Ming

## REGISTERED OFFICE

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

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18–20/F, Win Plaza
9 Sheung Hei Street
San Po Kong
Kowloon
Hong Kong

## COMPANY WEBSITE

http://www.sterlingapparel.com.hk

## AUDITORS

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

## COMPLIANCE ADVISOR

**Ample Capital Limited**
Unit A, 14th Floor
Two Chinachem Plaza
135 Des Voeux Road
Central
Hong Kong

## LEGAL ADVISOR

**Michael Li & Co.**
19th Floor, Prosperity Tower
No. 39 Queen's Road Central
Central
Hong Kong

## STOCK CODE

01825

# Corporate Information

## PRINCIPAL BANKS

**Standard Chartered Bank (Hong Kong) Limited**
12th Floor, Standard Chartered Bank Building
4–4A Des Voeux Road
Central
Hong Kong

**Hang Seng Bank**
83 Des Voeux Road
Central
Hong Kong

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

## 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

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

# Financial Highlights

| | For the year ended 31 March | |
|---|---|---|
| | 2019<br>HK$'000 | 2018<br>HK$'000 |
| Revenue | 641,733 | 676,856 |
| Gross profit | 92,899 | 124,827 |
| Gross profit margin | 14.5% | 18.4% |
| Loss/profit before income tax expense | (22,122) | 25,847 |
| Loss/profit attributable to owners of the Company | (22,670) | 20,012 |
| LOSS/EARNINGS PER SHARE<br>– Basic (HK cents) | (3.29) | 3.34 |
| | 2019 | 2018 |
| Net (loss)/profit margin | (3.5%) | 2.9% |
| Return on total assets | (5.9%) | 5.5% |
| Return on average total equity | (24.6%) | 29.1% |
| Interest coverage ratio | (1.8 times) | 5.4 times |
| EBITDA* | (1,942) | 43,605 |
| EBITDA net of listing expenses | 6,995 | 49,674 |

| | At 31 March | |
|---|---|---|
| | 2019<br>HK$'000 | 2018<br>HK$'000 |
| Total assets | 385,633 | 364,490 |
| Net assets attributable to owners | 115,544 | 68,534 |
| Cash and bank balances | 75,687 | 66,536 |
| Current ratio | 1.07 times | 0.87 times |
| Quick ratio | 0.93 times | 0.74 times |
| Gearing ratio | 164.8% | 287.7% |
| Debt-to-equity ratio | 99.3% | 190.6% |

* *EBITDA represents the profit before income tax expense, adding back finance costs, depreciation and amortisation of payment for leasehold land held for own use under operating lease. The use of EBITDA has certain limitations because it does not reflect all items of income and expenses that affect the operations. The term EBITDA is not defined under the Hong Kong Financial Reporting Standards ("HKFRS"), and EBITDA is not a measure of profit and total comprehensive income or liquidity presented in accordance with HKFRS.*

# Chairman's Statement

I am pleased to deliver my first statement as Chairman of the Board for Sterling Group Holdings Limited ("the Group") since its listing in October 2018. The Group is an OEM manufacturer of premium woven apparel serving large international brands in the UK and U.S. market, with the latter accounting for over 90% of our sales revenue. Apparel sales in the U.S. have shown steady growth in the last few years. But the increase in sales has been so uneven across different categories of apparel, different retail channels and value segments it could easily escape our notice. For instance, activewear has been the fastest growing category in apparel sales while mid-priced fashion may stagnate as consumers are increasingly polarized moving toward either the low-priced fast fashion or the absolute & affordable luxury segments. Online sales currently at about 27% of the U.S. apparel sales is set to increase at a rapid pace at the expense of sales from brick and mortar retailers such as department stores, except off-price retailers which are exhibiting strong growth. Meanwhile, consumers forever tethered to the internet or social media are becoming savvy with increased transparency in pricing, quality, convenience, and freshness. The upshot of these market trends and development is that a manufacturer is unlikely to be successful in raising prices while having to contend with rising costs in all factors of production. We feel fortunate that the Group is positioned in the mid to high-priced range of the woven apparel market, where business is determined on price as much as quality, fit and balance. To compete in this environment with increasing pricing pressure, the strategy for the Group must be to reduce costs, improve efficiency and seek diversification in its source of revenue.

To this end, the Group is planning to rationalize production at its Panyu, China factory in 2019 by relocating as much production as possible to its Sri Lanka factories. The critical technical and product development function providing back office support to the merchandising function will remain unchanged while any manufacturing that remains will be focused on only the premium-priced orders requiring the highest standard in sewing and workmanship. Save the one time redundancy costs, we expect significant annualized savings going forward.

To improve our manufacturing efficiency, we will embark on an expansion program of our Sri Lanka factories in 2019. With our smaller factory at Meegoda, we are conducting an engineering feasibility study and seeking regulatory approval to add a second storey to our main factory building, doubling our current output. With the larger factory at Katunayake near the Colombo airport, we are also in the planning stage for the construction of a new factory building for an expansion of our capacity including the setup of dedicated facilities and equipment for suiting production. Meanwhile, we will also be on the lookout for opportunities to add to our production capacity beyond the Group's two existing factories.

Our strategic focus to develop and expand our presence in Sri Lanka has proved prescient, in the face of the on-going trade dispute between U.S. and China. At the time of writing in early June 2019, there has been zero impact on the Group's business. Whether or not the next round of 25% increase in tariffs effectively on all U.S. imports from China will become reality remains to be seen. Notwithstanding our trade terms all being FOB, we have already positioned ourselves in reducing our exposure to any possible increase in tariffs to about 10% of our 2019 forecast sales volume. The simmering trade tension will likely not dissipate in the near future and is providing an impetus with renewed urgency for the Group's expansion in Sri Lanka.

The Group reported a net loss of approximately HK$22,670,000, and an EBITDA of approximately HK$6,995,000 net of listing expenses for the current reporting period, due to a confluence of factors as explained in the Financial Overview in the Management Discussion & Analysis. With the initiatives planned for the current year, we are optimistic of a significant improvement in our operating results in the year ending March 2020.

## APPRECIATION

I would like to take this opportunity to express our appreciation to our management and staff for their hard work and dedication throughout the year. And our special gratitude for our customers, suppliers, bankers and shareholders for their trust and support during this unusual time of market uncertainty. Last but not least, my sincere appreciation for the wisdom and professional guidance from our fellow independent directors.

**Choi Siu Wai, William**
*Chairman*

26 June 2019

# Management Discussion and Analysis

## COMPANY BACKGROUND

Sterling Group Holdings Limited ("the Company") together with its subsidiaries ("the Group") is an apparel manufacturer headquartered in Hong Kong providing a one-stop apparel manufacturing solution for its customers. The Group manufactures a wide range of apparel products such as outerwear, bottoms, tops and other products. The majority of the customers are international apparel brands that are headquartered in the U.S. and certain European countries such as the U.K. with their products sold around the world. In particular, the Group has established a long standing relationship with its largest customer who is an international apparel brand headquartered in the U.S. since the 1990s. In recent years, the Group has actively diversified its customer base and product portfolio. The Group secured two new major customers, including an American retailer of casual wear based in the mid-west of the U.S. in 2015 and a well-known U.K. luxury brand in 2016. Furthermore, since 2016/2017, the Group since collaborated with the above-mentioned American retailer in supplying flight crew uniforms for U.S. airlines.

## BUSINESS REVIEW

### Financial Overview

During the year ended 31 March 2019 (the "Year" or "current reporting period"), the Group's revenue decreased by approximately 5.2% to approximately HK$641,733,000 from approximately HK$676,856,000 for the year ended 31 March 2018. The decrease was mainly attributable to the timing of our large flight crews uniforms programs. For the year ended 31 March 2018, we completed the shipment of a substantial flight crews uniforms program, while shipment for another large new uniform program will not begin until about July 2019, much later than the fabric commitment date in August 2018. The capacity freed up from the uniform business was mostly taken up by orders from our two largest customers during the year, limiting the decrease in sales revenue to about approximately HK$35,123,000 for the year. The gross profit and gross profit margin for the Year was approximately HK$92,899,000 (2018: approximately HK$124,827,000) and approximately 14.5% (2018: approximately 18.4%). The reason for the decrease was mainly twofold. First, U.S. retailers in responding to the market trend for lower apparel prices have been pushing to lower their product sourcing costs, which translate into lower gross margin for manufacturers. Likewise, the Group faced the same kind of pricing pressure on our gross margin, especially when comparing with that of the airline uniform program in 2017/18. Second, to ensure full utilization of the capacity in the Group's own factories vacated by the completion of the large uniform program, the Group has accepted orders of more casual construction with a lower profit margin which were also not the best use of our factories' capability, being more adapted to making tailored fashion garments.

While the Group has made some progress in the current reporting period compared with the prior year, the Group incurred additional listing expenses of approximately HK$2,868,000, and additional general and administrative costs in the amount of about approximately HK$11,974,000, principally made up of office rental and people costs (absorbing management headcounts from factories and directors' fees).

The loss attributable to owners of the Company for the Year amounted to approximately HK$22,670,000 (2018: profit approximately HK$20,012,000), which included the remaining balance of approximately HK$8,937,000 in listing expenses charged in the current year. The net loss before tax expenses of approximately HK$22,122,000 would become approximately HK$13,185,000 from recurring operations excluding non-recurring listing expenses. Adding back total depreciation expenses and amortisation of payment for leasehold land totalling approximately HK$12,196,000 and interest charges of approximately HK$7,984,000 would yield an EBITDA* of approximately HK$6,995,000, which is a non-GAAP measure and a proxy for a company's operating performance.

* *EBITDA represents the profit before income tax expense, adding back finance costs, depreciation and amortisation of payment for leasehold land held for own use under operating lease. The use of EBITDA has certain limitations because it does not reflect all items of income and expenses that affect the operations. The term EBITDA is not defined under the Hong Kong Financial Reporting Standards ("HKFRS"), and EBITDA is not a measure of profit and total comprehensive income or liquidity presented in accordance with HKFRS.*

# Management Discussion and Analysis

## DIVIDEND

The Company did not recommend the declaration of final dividend for the year ended 31 March 2019 (2018: Nil).

### Sales by Product Categories

The Group's apparel products can generally be divided into four categories, namely (i) outerwear (include mainly jackets, coats and blazers and are chiefly made from wool and wool blend), (ii) bottoms (include pants, shorts and skirts, and are chiefly made from cotton, wool and wool blend), (iii) tops include mainly shirts, blouses and tank tops, and are chiefly made from cotton, polyester, triacetate and lyocell and (iv) other products (mainly dresses, suits, gown scarf, jumpsuits and vests, and are chiefly made of cotton, wool and wool blend). During the Year, the sales volume of the Group amounted to approximately 3,830,000 pieces of finished apparel products (2018: approximately 4,373,000 pieces). The decrease in sale volume is mainly attributable to the decrease in sale volume of bottom. The sales volume of bottoms decreased by approximately 17.4% from approximately 2,782,000 pieces for the year 31 March 2018 to approximately 2,297,000 pieces for the Year. The average selling price of the products was approximately HK$167.6 per piece of finished apparel products (2018: approximately HK$154.8 per piece). The average selling price per piece of outerwear, bottoms, tops and others amounted to approximately HK$334.3, HK$108.4, HK$180.3 and HK$191.4 respectively for the year ended 31 March 2019, and approximately HK$329.9, HK$102.9, HK$144.6 and HK$199.5 respectively for the year ended 31 March 2018.

### Selling and Distribution Costs

Selling and distribution costs for the Year decreased by 5.0% to approximately HK$41,048,000 (2018: approximately HK$43,194,000). The decrease was largely a result of reduced headcount in merchandising department in Hong Kong and sampling expenses, offset by an increase in logistics cost largely from late deliveries.

### General and Administrative expenses

General and administrative expenses for the Year was approximately HK$62,257,000, representing an increase of HK$11,974,000 from that of HK$50,283,000 for the year ended 31 March 2018. The higher expenses mainly stem from office rental, and people costs (absorbing management headcounts from factories and directors' fees).

### Finance Costs

The group's finance costs increased by approximately 35.5% from approximately HK$5,892,000 for the year ended 31 March 2018, to approximately HK$7,984,000 for the Year. The increase in finance costs was mainly due to increases in interest rate of the Group's borrowings during the Year.

### Income tax expenses

Income tax expenses primarily consist of current and deferred income tax at the applicable tax rate in accordance with the relevant laws and regulations in Hong Kong, the PRC and Sri Lanka. An income tax expense for the Year was approximately HK$548,000, representing a decrease of 90.6% from that of the year ended 31 March 2018, chiefly a result of the loss for the Year. In addition, a relatively large income tax expense for the year ended 31 March 2018 was partially due to the one off effect of over estimation on income tax refund in previous years.

### Financial Position

As at 31 March 2019, the Group's cash and cash equivalents amounted to approximately HK$75,687,000 (2018: approximately HK$66,536,000). The slight increase mainly came from the proceeds from the Share Offer in October 2018 net of some planned usage during the Year and the reduction of our interest-bearing borrowings.

Borrowing decreased by approximately HK$6,733,000 (approximately 3.4%) to approximately HK$190,443,000 as at 31 March 2019 (2018: approximately HK$197,176,000). The decrease was mainly due to the repayment of some bank borrowings by the proceeds from Share Offer in October 2018.

# Management Discussion and Analysis

## OUTLOOK

Looking ahead, barring major upheavals in the US – China trade front which could have unintended consequences such as disrupting our supply chain or tightening of bank credit, we have reasons to be confident of our return to profitability in the current year 2019/20. While the total sales revenue is forecast to be in the similar range as that of last year, one significant difference is the large order of flight crew uniforms which, because of the long lead time and order size, lends itself to better and more efficient production planning. There were a number of one-off expense items and incidents in last year which will not likely repeat in the current year. More importantly, our planned rationalization of Panyu factory's production should start to bear fruit starting in the second half of the year, although the benefits may be somewhat offset by the one-time redundancy costs. Sri Lanka production efficiency, expressed as greater value output per unit cost of input, is also set to increase in the current year as a result of certain capital improvements and production orders that are a better match with the factory's capability. All in all, given the level of sales in our forecast in the coming year, the management is focused on and committed to significantly improving our operating performance relative to the Year.

## LIQUIDITY, CAPITAL RESOURCES AND CAPITAL STRUCTURE

The Company manages its capital structure with the objectives of ensuring that the businesses of the Group can continue to maintain a sustainable growth and providing a long term reasonable return to its Shareholders. The Group's financial position remained healthy and stable. The Group generally finances its operations primarily through bank borrowings and internal resources. Following the completion of the Share Offer in October 2018, the net proceeds from the Share Offer has provided additional funds for the Group's business development and operating needs. It is anticipated that the Group has sufficient working capital to fund its future working capital, capital expenditure and other cash requirements. As at 31 March 2019, the Group had cash and bank balances amounting to approximately HK$75,687,000 (as at 31 March 2018: approximately HK$66,536,000), and current assets and current liabilities of approximately HK$286,084,000 (as at 31 March 2018: approximately HK$255,946,000) and HK$268,016,000 (as at 31 March 2018: approximately HK$293,704,000) respectively. It should be noted that the current liabilities balance as at March 31, 2019 included approximately HK$23,700,000 (2018: approximately HK$54,300,000), the total of amounts due after one year but were included as current liabilities because of the Payment on Demand clause in bank loan documents. Following the completion of Share Offer in October 2018, the Group turned from net current liabilities position as at 31 March 2018 to net current asset position as at 31 March 2019.

As at 31 March 2019, there were bank borrowings of approximately HK$190,443,000 (as at 31 March 2018: HK$197,176,000) and unutilized bank facilities of HK$57,706,000. These bank borrowings obtained and repaid are mainly denominated in Hong Kong dollar and US dollar. As at 31 March 2019, the Group's interest-bearing bank borrowings carried mainly variable rate borrowings with annual interest rate of 2.5% to 5.1% per annum and are repayable by installments over a period of one to three years.

## GEARING RATIO

As at 31 March 2019, the gearing ratio of the Group, based on total interest-bearing liabilities (primarily bank borrowings) to total equity (including all capital and reserves) of the Company was 164.8% (31 March 2018: 287.7%). The decrease in gearing ratio was mainly attributable to the completion of the Share Offer in October 2018.

## PLEDGE OF ASSETS

The bank borrowings of the Group are secured by (a) certain assets of the Group, (b) the asset of related companies which share common directors and shareholders of the Group, and (c) the personal guarantees of the two controlling shareholders, one of their spouses who's also a director, and a related party of the other controlling shareholder who together with that controlling shareholder jointly owns a related company. The carrying amounts of the pledge assets of the Group are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Prepaid insurance premium of a Key Person Insurance policy | 8,358 | 8,107 |

Prior to the Group's listing in October 2018, all the banks that the Group did business with had committed in writing to removing all the personal guarantees mentioned above. The said personal guarantees have all been removed as of 31 March 2019 with the exception of one bank which provides a large portion of our bank facilities and has taken longer than anticipated for the release because of the uncertain prevailing business conditions with respect to the trade dispute and its impact on the U.S. apparel market. Another bank agreed in February 2019 to release the personal guarantee after a retention period of normally six more months.

## SIGNIFICANT INVESTMENT

As at 31 March 2019, the Group did not hold any significant investment.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the year ended 31 March 2019, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2019, the Group employed 2,087 full-time employees (as at 31 March 2018: 1,895 full-time employees) in Hong Kong, the PRC and Sri Lanka. The Group recognises the importance of maintaining good relationship with its employees and retaining competent staff to ensure operational efficiency and effectiveness. The remuneration packages offered to the Group's employees are based on market condition and each employee's qualifications, relevant experience, position and seniority. The Group conducts review on salary increments, bonuses and promotions based on the performance of each employee. The Group provides on-the-job training to its new employees. During the year ended 31 March 2019, the Group had not experienced any strike, any significant problems with its employees or other material labour disputes which had materially disrupted its operation during such period, and has not experienced any difficulties in the recruitment of experienced and skilled staff.

## TREASURY POLICIES AND FOREIGN CURRENCY EXPOSURE

The business activities and operations of the Group are located mainly in Hong Kong, Mainland China and Sri Lanka. It carries out foreign currency transactions in United States Dollars ("US$"), Euro ("EUR"), Renminbi ("RMB") and Sri Lankan Rupees ("LKR"), which expose the Group to foreign currency risks. The Group currently does not have a foreign currency hedging policy but maintains a conservative approach to foreign currency management to ensure its exposure to fluctuations in foreign exchange rates is minimized.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

At 31 March 2019, the Group has no capital commitment and contingent liabilities.

## USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

On 19 October 2018 (the "Listing Date"), the shares of the Company (the "Shares") were listed on the Main Board of SEHK. The Group intends to apply the proceeds from the issuance 200,000,000 Shares at the offer price of HK$0.40 per Share (the "Share Offer") in accordance with the proposed applications set out in the section headed "Future Plans and Use of Proceeds", in the prospectus dated 29 September 2018 (the "Prospectus").

After deducting share issuance expense and professional fee regarding to the Share Offer, the net proceeds amounted to approximately HK$54,400,000.

| | Percentage of net proceeds | Planned usage of net proceeds | Utilised net proceeds up to 31 March 2019 HK$' million | Unutilised net proceeds up to 31 March 2019 HK$' million |
|---|---|---|---|---|
| Expanding and refurbishing production facilities located in Sri Lanka and the PRC | 30% | 16.3 | 0.5 | 15.8 |
| Repayment of bank borrowings | 25% | 13.6 | 13.6 | 0 |
| Acquisitions of production facilities | 25% | 13.6 | 0 | 13.6 |
| Upgrading information technology system, lean manufacturing and productivity improvement programs | 10% | 5.4 | 0 | 5.4 |
| General working capital | 10% | 5.5 | 5.5 | 0 |
| Net Proceeds | | 54.4 | 19.6 | 34.8 |

# Directors and Senior Management

## EXECUTIVE DIRECTORS

**Ms. Wong Mei Wai Alice** (王美慧), aged 62, is pivotal in developing the company's business since early 1990's and has been the Chief Executive Officer of Sterling Apparel Limited ("Sterling Apparel"), the wholly-owned operating subsidiary of the Company, since November 2012. She was further appointed as an executive Director of our Group on 6 June 2017. She is also a member of our Remuneration Committee and Nomination Committee of our Company. Ms. Alice Wong is primarily responsible for implementing corporate strategy, business development, product development, managing key client relationship and overall corporate performance. Ms. Alice Wong is the spouse of Mr. Siu Chi Wai ("CW Siu"), a Controlling Shareholder of our Company, and the mother of Mr. Siu Yik Ming ("YM Siu"), an executive Director of our Group. She is also the aunt of Mr. Wong Chi Wai Kelven, a member of our senior management.

Ms. Alice Wong has accumulated more than twenty-five years of experience in the apparel industry. She was the general manager of Sterling Possessions (H. K.) Limited ("SPHK") from 1 July 1994 to 31 October 2012, which was the predecessor company of Sterling Apparel.

**Mr. Siu Yik Ming** (蕭翊銘), aged 33, was appointed as a director of Zhi Wei (Guangzhou) Garment Manufacturing Co., Limited ("Zhi Wei"), a wholly owned Subsidiary of the Company, on 14 July 2017 and was further appointed as an executive Director of our Group on 31 July 2017. Mr. YM Siu has been the director of the Katunayake Factory and the Meegoda Factory in Sri Lanka for almost three years prior to them being acquired by our Group in 2017. He is now responsible for the management of our manufacturing facilities in Sri Lanka and the PRC.

Mr. YM Siu is the son of Mr. CW Siu, a Controlling Shareholder of our Company and Ms. Alice Wong, an executive Director of our Group. Mr. YM Siu is also the cousin of Mr. Wong Chi Wai Kelven, a member of our senior management.

Mr. YM Siu graduated from the Curtin University of Technology in Australia with a bachelor's degree in commerce in August 2009.

**Mr. Chung Sam Kwok Wai** (鍾國偉), aged 64, was appointed as a director of Elegant Maker Limited, a wholly owned Subsidiary of the Company, on 23 November 2016, and was further appointed as an executive Director of our Group on 31 July 2017. Mr. Chung has been the chief financial officer of Sterling Apparel since December 2013. Mr. Chung is responsible for monitoring the overall management and the finance operation of our Group.

Mr. Chung graduated from the University of British Columbia in Canada with a master of business administration in November 1982 and the Simon Fraser University in Canada with a bachelor of arts in June 1980. He obtained the qualification of Certified General Accountant of Canada in June 1984 (now redesignated as Chartered Professional Accountant of Canada). Mr. Chung has accumulated more than twenty-five years of experience in senior finance and operations roles in a number of industries in Hong Kong, U.S. and Canada, which include: (i) CFO of M&V International Manufacturing (HK) Limited, a knitwear manufacturer, from May 2010 to May 2012; (ii) CFO of Singpoli Pacifica LLC, a California real estate developer, from January 2009 to December 2009; (iii) CFO & Director of Yangtze Telecom Corp., a Canadian public company in telecom value-added services in China, from February 2004 to November 2008; (iv) President of EAS International (USA) Inc., an international freight forwarder, from June 1996 to May 2001; (v) President of Manchu NY Inc. from September 1994 to June 1996 and VP Finance/Administration of Manchu Inc., a garment trading and manufacturing company, from September 1989 to September 1994.

## Directors and Senior Management

### NON-EXECUTIVE DIRECTOR

**Mr. Choi Siu Wai William (蔡少偉) ("Mr. Choi")**, aged 67, is one of our Controlling Shareholders and was appointed as a director of Sterling Apparel and Chiefway International Limited on 19 September 2012 and 10 June 2014 respectively and was further appointed as our non-executive Director and chairman of our Board on 31 July 2017. Mr. Choi is also the chairman of our Nomination Committee and a member of our Remuneration Committee. His primary role as the Chairman of the Board is to provide leadership to the Board of Directors, ensuring its effectiveness in setting and implementing the company's strategy and corporate policies.

In addition to his experience in the apparel industry and directorship in a number of apparel trading companies, Mr. Choi also has interests in multiple businesses and non profit organizations. He currently also holds a number of roles such as the (i) managing director of the Federation of Hong Kong Chiu Chow Community Organisations; (ii) vice president of the Hong Kong Chiu Chow Chamber of Commerce; (iii) co-president of the Overseas Teo Chew Entrepreneurs Association; (iv) vice president of the Chiu Yang Residents Association of Hong Kong Ltd.; (v) director of the Federation of Hong Kong Garment Manufacturers; (vi) executive vice chairman of HK Bio-Med Innotech Association; (vii) president of the Hong Kong Food Safety Association; (viii) executive director of the Federation of Hong Kong Guangdong Community Organisations; (ix) president of Hong Kong Federation of Senior Citizen Industries; (x) honorary president of Central District Junior Police Call Honorary President Council; and (xi) honorary president of Central District Senior Police Call Honorary President Council. In addition, he is also the supervisor of the Chiu Yang Primary School of Hong Kong and director of Chiu Yang Por Yen Primary School and Yan Chai Hospital Choi Hin To Primary School.

Mr. Choi graduated from the University of California, Berkeley in the U.S. with a master of business administration in December 1975. In 2010, Mr. Choi was granted an honorary professorship from the Lincoln University in the USA and in 2011, he also received an honorary professorship from the Hong Kong Polytechnic University.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chan Kee Huen Michael** (陳記煊), aged 67, was appointed as an independent non-executive Director on 21 September 2018 and is the chairman of our Audit Committee. Mr. Chan is also a member of our Remuneration Committee and Nomination Committee. Mr. Chan is primarily responsible for providing independent advice on our Group's strategy, policy formulation, corporate accountability and resources allocation.

Mr. Chan graduated from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) with a higher diploma in accountancy in November 1976 and was awarded the postgraduate diploma from University of Surrey in the U.K. in March 1998. Mr. Chan is a fellow member of (i) the Hong Kong Institute of Certified Public Accountants, (ii) the Association of Chartered Certified Accountants; and (iii) the Hong Kong Institute of Directors; and a fellow member and specialist in Information Technology of CPA Australia and an associate of the Institute of Chartered Accountants in England and Wales. He was admitted as a certified information systems auditor of the Information Systems Audit and Control Association in 1985.

Mr. Chan is the chief executive of C&C Advisory Services Limited since January 2009. Prior to that, Mr. Chan was the deputy general manager of group compliance at Ping An Insurance (Group) Company of China, Limited, an insurance company listed on the Stock Exchange (stock code: 2318) from December 2006 to December 2009. Mr. Chan has over thirty years of working experience in auditing, financial management, internal audit and compliance in Hong Kong, the U.K., the PRC and Australia. He was an adjunct professor of the School of Accounting and Finance, Hong Kong Polytechnic University from September 2009 to August 2014.

Mr. Chan is currently an independent non-executive director of companies listed on the Stock Exchange, namely Lansen Pharmaceutical Holdings Limited (Stock Code: 0503), Huarong Investment Stock Corporation Limited (Stock Code: 2277) and China Baoli Technologies Holdings Limited (Stock Code: 164). He was also an independent non-executive director of K.H. Group Holdings Limited (Stock Code: 1557) from February 2016 to August 2018.

**Mr. Cheng King Hoi Andrew** (鄭敬凱), aged 61, was appointed as an independent non-executive Director on 21 September 2018. Mr. Cheng is also a member of our Audit, Remuneration and Nomination Committee. Mr. Cheng is primarily responsible for providing independent advice on our Group's strategy, policy formulation, corporate accountability and resources allocation. Mr. Cheng is a committee member of 中國人民政治協商會議四川省第十、十一屆委員會 (the tenth and eleventh committee of the Chinese Peoples' Political Consultative Conference of Sichuan Province of the PRC) since December 2007, the senior economic advisor of 哈爾濱利民經濟技術開發區 (Li Min-Harbin Economic and Technological Development Zone) since July 2012, the vice president of the Hong Kong Chiu Chow Chamber of Commerce (香港潮州商會) since September 2016 and the co-president of the Overseas Teo Chew Entrepreneurs Association Limited (海外潮人企業家協會有限公司) since January 2015. Mr. Cheng was also awarded as a 中國交通企業十大傑出管理人物 (China Public Transport Ten Outstanding Management Award) from the China Association of Communication Enterprise Management (中國交通企業管理協會) in June 2009 and a World Outstanding Chinese Award (世界傑出華人獎) from the World Chinese Business Investment Foundation (世界華商投資基金會) in May 2013.

Mr. Cheng was an executive director of Kwoon Chung Bus Holdings Limited (Stock Code: 0306) from July 1996 to December 2012. Mr. Cheng resigned as an executive director and now is the head of China business. Mr. Cheng is currently an independent non-executive director of Evergreen International Holdings Limited (Stock Code: 0238) since June 2012.

**Mr. Ko Ming Tung Edward** (高明東), aged 58, was appointed as an independent non-executive Director on 21 September 2018. Mr. Ko obtained a bachelor of laws degree as an external student from the University of London in U.K. in August 1986 and is a member of The Law Society of Hong Kong since March 1991. Mr. Ko is the principal of Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 28 years. Mr. Ko's role is primarily to provide independent advice on the Company's strategy, policy formulation, corporate accountability and allocation of resources.

Mr. Ko is also an independent non-executive director in the following companies listed on the Stock Exchange: (i) Sinofert Holdings Limited (Stock Code: 0297); (ii) Wai Chun Group Holdings Limited (Stock Code: 1013); (iii) EverChina International Holdings Company Limited (Stock Code: 0202); (iv) Chia Tai Enterprises International Limited (Stock Code: 3839) and (v) Zioncom Holdings Limited (Stock Code: 8287).

Mr. Ko was an independent non-executive director of Chinese Energy Holdings Limited (formerly known as iMerchants Limited) (Stock Code: 8009) from August 2015 to August 2017.

## SENIOR MANAGEMENT

**Mr. Wong Chi Wai Kelven** (王志威), aged 46, joined our Group as a general merchandising manager on 5 October 2015 and was promoted to vice-president merchandising on 1 February 2017. Mr. Wong is responsible for the management of merchandising function and our global client base, as well as leading the product development team. Mr. Wong is the nephew of Mr. CW Siu, a Controlling Shareholder of our Company and Ms. Alice Wong, an executive Director of our Group. He is also the cousin of Mr. YM Siu, an executive Director of our Group.

Mr. Wong has over twenty years of experience in merchandising. He worked in SPHK (the predecessor of Sterling Apparel) from March 1996 to April 2000, and subsequently developed his career with other companies.

**Mr. Kan Wai Sing** (簡偉成), aged 58, joined our Group as vice-president manufacturing on 10 May 2017 and is responsible for the management of Zhi Wei including production from all outsourced factories in China. He was appointed as a director of Zhi Wei on 14 July 2017. Mr. Kan obtained a master degree of business administration from the Hong Kong Polytechnic University in October 2008. He attended the professional course on supply chain management in the College of Lifelong Learning, Hong Kong University of Science and Technology from November 2001 to December 2001. Mr. Kan passed the qualifying examination in Six Sigma Green Belt and was awarded a certificate from Six Sigma Institute in August 2011.

**Mr. Chow wan, Jowan** (周雲), aged 58, joined our Group as General Manager –Sri Lanka in February 2019. Mr. Chow is responsible for the continuous growth and profitability of the Sri Lanka operations. Mr. Chow has over 20 years of experience in Production Management from the garment and accessories manufacturing industries. He previously worked as assistant general manager of a subsidiary of a listed company Crystal International Group Limited in Cambodia. Before that, he had worked for a children wear manufacturer at a green field factory in Da Nang, Vietnam. Besides, he had substantial and solid experience in overseeing factories producing lingerie, cotton-knit, sweater and woven items as well as handbags and shoes.

In addition to the numerous training programs with Hong Kong Productivity Council, Hong Kong Polytechnic University and Clothing Industry Trading Authority from 1984 to 2016, Mr. Chow obtained a bachelor of business administration degree and a master of business administration degree with Sherwood University in 2001 and 2004 respectively.

## COMPANY SECRETARY

**Ms. Chan Yuet Kwai** has been appointed as the company secretary of the Company since 20 May 2019. Ms. Chan is a fellow member of both Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants, and a certified public accountant of Washington State in the United States. She also holds a master degree in business administration from the Hong Kong Polytechnic University. Ms. Chan has extensive experience in accounting, finance and company secretarial. She has over 20 years' experience in serving Hong Kong listed companies. Ms. Chan joined the Group in April 2019.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICE

The Board of Directors (the "Board") of Sterling Group Holdings Limited (the "Company") is committed to designing and maintaining robust corporate governance and effective internal control system for the Company and its subsidiaries (collectively as the "Group"), which are essential to enhancing corporate value and accountability, formulating business strategies, developing sustainable operation, enhancing transparency and safeguarding shareholders' interests.

Throughout the period from 19 October 2018 (the "Listing Date") to 31 March 2019, the Company has adopted and complied with all the Code Provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 of the main board listing rules (the "Listing rules") published by The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Details of the corporate governance practices adopted by the Company are set out below.

## DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding directors' securities transactions on terms and at required standard as set out in the Model Code in Appendix 10 of the Listing Rules.

The Group has made specific enquiries of all the Directors and they have confirmed that they have been complying with the required standard and the related code of conduct regarding Director's securities transactions.

As far as the Group is aware, the Directors and Senior Management of the Group have not breached the required standard and the code of conduct regarding Director's securities transactions.

## BOARD OF DIRECTOR

The Board is comprised of seven members, with three executive directors, one non-executive director and three independent non-executive directors, as set out below:

### Executive Director:

1. Ms. Wong Mei Wai, Alice (also as Chief Executive Officer "CEO")
2. Mr. Chung Sam Kwok Wai (also as Chief Financial Officer "CFO")
3. Mr. Siu Yik Ming

### Non-Executive Director:

4. Mr. Choi Siu Wai, William (also as Chairman of the Board)

### Independent Non-Executive Directors:

5. Mr. Chan Kee Huen, Michael
6. Mr. Cheng King Hoi, Andrew
7. Mr. Ko Ming Tung, Edward

Our Executive Director and CEO, Ms. Wong Mei Wai, Alice is the mother of another Executive Director, Mr. Siu Yik Ming. Save as disclosed in this annual report, there are no other relationships among our Directors.

Detailed biographical information of all Directors is contained in the Director and Senior Management section on pages 11–15.

# Corporate Governance Report

For the financial year ended 31 March 2019, the Company has held two Board meetings in quarterly interval in accordance to the principles and requirements set out in code provision A.1.1 and in time proportion since the Listing date on 19 October 2018. The board meetings are chaired by our Chairman, Mr. Choi Siu Wai, William.

The Company will hold its first general meeting on 30 August 2019.

| Board of Directors | Attendance in person/ Number of Board meeting |
|---|---|
| *Non-Executive Director:* | |
| Mr. Choi Siu Wai, William *(Chairman of the Board)* | 2/2 |
| *Executive Directors:* | |
| Ms. Wong Mei Wai, Alice *(CEO)* | 2/2 |
| Mr. Chung Sam Kwok Wai *(CFO)* | 2/2 |
| Mr. Siu Yik Ming | 2/2 |
| *Independent Non-Executive Directors:* | |
| Mr. Chan Kee Huen, Michael | 2/2 |
| Mr. Cheng King Hoi, Andrew | 2/2 |
| Mr. Ko Ming Tung, Edward | 2/2 |

The Board, acting in the interest of the Group and its shareholders, is primarily responsible for strategy formulation, business development, corporate governance, risk management, compliance, internal control systems, dividend policy, board diversity policy, shareholders' relationship, accounting policies and financial statements, and other functions and matters assigned to the Board as set out in the Listing Rules and Articles of Association of the Company.

The Board delegates the daily operational management of the Group's business, execution of business development plan, administrative and operational duties and the implementation of risk management and internal controls to the CEO and other senior management of the Group. The Board also conducts regular reviews of the functions and performance of the management. The management of the Group shall obtain the approval of the Board before entering into and arranging any significant transaction/contract.

For the financial year ended 31 March 2019, the Group has complied with the relevant Listing Rules regarding (i) appointment of at least three non-executive directors, among whom at least one independent non-executive director has appropriate professional qualifications or accounting or related financial management expertise; (ii) independent non-executive directors account for at least one-third of the board of directors; and (iii) independent non-executive directors is majority in the Audit Committee of the Group and the chairman of the committee is an independent non-executive director.

As at the date of the annual report, each independent non-executive director has made an annual independence confirmation, and the Board is satisfied that all independent non-executive directors are independent and comply with the independence guidelines of the Listing Rules.

# Corporate Governance Report

## DIRECTORS

All Executive Directors, Non-Executive Directors and Independent Non-Executive Directors are appointed for a specific term of three years commencing 19 October 2018, subject to re-election or earlier determination in accordance with the Company's Articles of Association and/or applicable laws and regulations.

In accordance with the Articles of Association of the Group, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. The Directors to retire by rotation shall include (so far as necessary to ascertain the number of directors to retire by rotation) any Director who wishes to retire and not to offer himself for re-election. Any other retiring director shall be the director with the longest term since the last re-election or appointment, if a number of directors are re-elected on the same day, the director to be retired shall be determined by drawing lots (unless otherwise agreed).

All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment. All Directors of the Company shall be subject to retirement by rotation at least once every three years and that a Director may voluntarily retire. A retiring Director shall be eligible for re-election.

At the forthcoming annual general meeting of the Company to be held on 30 August 2019 (the "2019 AGM"), all Directors will voluntarily retire for the purpose of compliance with Code Provision A.4.2 and, being eligible, offer themselves for re-election as Directors in accordance with the Company's Articles of Association.

Particulars of the aforesaid retiring Directors and the recommendation of the Board for their re-election are set out in a circular of the Company to be despatched to shareholders together with this annual report.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles and duties of the Chairman and chief executive officer of the Company are held by different persons. The Chairman of the Board of Directors is Mr. Choi Siu Wai, William, who is responsible for providing leadership to the Board of Directors, ensuring its effectiveness in setting and implementing the Group's strategy and corporate policies. The Chief Executive Officer is Ms. Wong Mei Wai, Alice, who is responsible for the implementation of business strategy and policies, day-to-day management and monitoring of the performance of Group.

## BOARD COMMITTEES

The Board has established three Board Committees, namely the Audit Committee (the "Audit Committee"), the Remuneration Committee (the "Remuneration Committee") and the Nomination Committee (the "Nomination Committee"). All three Board Committee are established, empowered and accountable for duties under relevant terms of references which are available on the Company's and HKEx's website.

All Directors (including independent non-executive directors) bring valuable business experience, knowledge and expertise from different areas to the Board facilitating it to operate efficiently and effectively. All Directors have full and timely access to all information of the Group and to the services and advice of the Company Secretary and senior management. The Directors may, where appropriate, seek independent professional advice for performing their duties of the Group, at the expense of the Group. Directors shall disclose the details of their other duties to the Group and the Board of Directors regularly reviews the contributions of the Directors in the discharge of their duties with the Group.

# Corporate Governance Report

## Audit Committee

The Board has establish our Audit Committee on 21 September 2018 in compliance with the code provision of the Corporate Governance Code set out in Appendix 14 of the Listing Rules.

For the financial year ended 31 March 2019, the Audit Committee consists of three independent non-executive directors, namely Mr. Ko Ming Tung, Edward, Mr. Cheng King Hoi, Andrew and Mr. Chan Kee Huen, Michael who is chairman of the Audit Committee and has professional qualifications and experience in accounting and financial management as stipulated in the listing rules.

The Audit Committee's terms of reference in writing was adopted by the Company pursuant to the Board Resolution passed on 21 September 2018. The terms of reference requires that the Audit Committee must hold meetings twice a year and the necessary quorum shall be at least two, including an independent non-executive Director.

The main responsibilities of the Audit Committee include, but not limited to:

1. Making recommendations to the Board on the appointment, reappointment, resignation, dismissal and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditor; review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process;

2. Review of financial information of the Group, including changes in accounting policies and practice, major judgemental areas, going concern consideration, compliance with accounting standards and listing rules in relation to financial reporting;

3. Oversight of the Company's financial reporting system, including review of the adequacy of resources, qualifications and experience of Accounting Staff, and their training programmes and budget of the Company's accounting and financial reporting function;

4. Review and monitor the effectiveness and adequacy of the Group's risk management and internal control measures; ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

5. Regularly report observations and make recommendations to the board (if any).

The Audit Committee also acts as the Corporate Governance function of the Group, and is mainly responsible for:

➢ developing and reviewing the corporate governance policies and practices of the Company and making recommendations to the Board;

➢ reviewing and monitoring the training and continuous professional development of directors and senior management;

➢ reviewing and monitoring the policies and practices on compliance with legal and regulatory requirements;

➢ developing, reviewing and monitoring the code of conduct applicable to employees and directors; and

➢ reviewing the Company's compliance with the Corporate Governance Code set out in Appendix 14 of the Listing Rules and disclosure in the Corporate Governance Report.

For the financial year ended 31 March 2019, the audit committee has performed its main duties, including (1) review and advise on the Group's interim and annual reports and results announcements, the relevant accounting policies and estimates adopted by the Group; (2) review the risk management and risk assessment process and operating results of the Group; (3) review the internal control procedures adopted by the Group, the internal control review report, and providing suggestions and comments thereon; and (4) review the effectiveness of the internal audit function and provide suggestions and comments thereon; (5) ensure that sufficient and relevant trainings are received by the Directors and staff; and (6) discuss and confirm with Management that the Group has complied with applicable laws and regulations, in all material aspects.

For the financial year ended 31 March 2019, the Audit Committee has held 2 meetings and the attendance of the members is as follows:

| Audit Committee | Attendance in person/ Number of Audit Committee meeting |
|---|---|
| *Independent Non-Executive Directors* | |
| Mr. Chan Kee Huen, Michael *(Chairman of Audit Committee)* | 2/2 |
| Mr. Ko Ming Tung, Edward | 2/2 |
| Mr. Cheng King Hoi, Andrew | 2/2 |

The Company Secretary is also the company secretary of Audit Committee and is responsible for maintaining full minutes of the Audit Committee which are open for inspection at any reasonable time on reasonable notice by any of our director.

## Remuneration Committee

The Board has establish our Remuneration Committee on 21 September 2018 in compliance with the code provision of the Corporate Governance Code set out in Appendix 14 of the Listing Rules.

For the financial year ended 31 March 2019, the Remuneration Committee consists of five members, including one executive Director, one non-executive Director and three independent non-executive Directors. The Remuneration Committee is chaired by an independent non-executive Director, Mr. Ko Ming Tung, Edward and consisted of a majority of independent non-executive Directors as stipulated in the listing rules.

The Remuneration Committee's terms of reference in writing was adopted by the Company pursuant to the Board Resolution passed on 21 September 2018. The terms of reference requires that the Remuneration Committee must hold meeting at least once a year and the necessary quorum shall be at least two, including an independent non-executive Director.

The Company adopts the remuneration committee model set out in B.1.2 (c) (i) of Appendix 14 of the Listing rules. Accordingly, the Remuneration Committee is responsible for making recommendations to the Board regarding the Company's remuneration policy. It has the delegated responsibility for the formulation, determination and review of the remuneration packages of Directors and Senior Management.

The main responsibilities of the Remuneration Committee include, but not limited to:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payment;
- reviewing and approving performance-based remuneration and discretionary bonus;
- considering and approving the grant of share options and share appreciation rights to eligible participants;
- ensuring that no director can solely determine his/her own remuneration

For the financial year ended 31 March 2019, the Remuneration Committee has held one meeting to review and approve the remuneration packages of the Directors and Senior Management of the Group and assesses the performance of the Executive Directors and other related matters.

| **Remuneration Committee** | **Attendance in person/ Number of Remuneration Committee meeting** |
|---|---|
| *Independent Non-Executive Directors* | |
| Mr. Ko Ming Tung, Edward *(Chairman of Remuneration Committee)* | 1/1 |
| Mr. Chan Kee Huen, Michael | 1/1 |
| Mr. Cheng King Hoi, Andrew | 1/1 |
| *Non-Executive Directors* | |
| Mr. Choi Siu Wai, William | 1/1 |
| *Executive Directors* | |
| Ms. Wong Mei Wai, Alice | 1/1 |

The Company Secretary is also the company secretary of Remuneration Committee and is responsible for maintaining full minutes of the Remuneration Committee which are open for inspection at any reasonable time on reasonable notice by any of our director.

## Nomination Committee

The Board has establish our Nomination Committee on 21 September 2018 in compliance with the code provision of the Corporate Governance Code set out in Appendix 14 of the Listing Rules.

For the financial year ended 31 March 2019, the Nomination Committee consists of five members, including one executive Director, one non-executive Director and three independent non-executive Directors. The Nomination Committee is chaired by the chairman of the Board, Mr. Choi Siu Wai, William and consisted of a majority of independent non-executive Directors as stipulated in the listing rules.

The Nomination Committee's terms of reference in writing was adopted by the Company pursuant to the Board Resolution passed on 21 September 2018. The terms of reference requires that the Nomination Committee must hold meeting at least once a year and the necessary quorum shall be at least two, including an independent non-executive Director.

The main responsibilities of the Nomination Committee include, but not limited to:

- reviewing the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service) of the Board at least annually or when necessary;

- identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships;

- assessing the independence of the independent non-executive Directors and any proposed independent non-executive Directors;

- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors;

- reviewing the Board diversity policy, as appropriate and making recommendations on any required changes to the board for consideration;

- reviewing the measurable objectives under the board diversity policy and the progress of the attainment of the objectives, so as to ensure effective implementation and make disclosure of its review results.

# Corporate Governance Report

## Nomination Policy

The Board has adopted a Nomination Policy setting out the selection criteria and procedures to select and recommend suitable candidates for directorship. Following the Nomination Policy, the Nomination Committee is required to consider a variety of factors in assessing the suitability of a proposed candidate, including but not limited to the following criteria:

- Board Diversity Policy;
- Reputation for integrity;
- Sufficient commitment in time and interest to the Group;
- Qualification, experience and achievements that are relevant and appropriate to the Group's business;
- Independence for the appointment of independent non-executive Director; and
- any other relevant and significant factors as may be considered by the Nomination Committee and/or the Board.

## Board Diversity Policy

The Board has approved and adopted a board diversity policy effective since 1 June 2019 and has delegated to the Nomination Committee the responsibilities of implementation, monitoring and review of the policy.

The Board believes that diversity of the Board can be achieved through consideration of a number of factors when deciding on appointments of Directors, including but not limited to skills, regional and industrial experience, cultural and educational background, professional qualifications, race, gender, age and length of service and any other factors that the Board deems appropriate from time to time.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

## Measurable objective

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Company will also take into account factors based on its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

## Implementation and Review

Annually, The Nomination Committee reviews the Board's composition under diversified perspectives, including but not limited to progress on achieving any measurable objectives that have been set for Policy implementation.

The Nomination Committee also has the responsibility for identifying suitably qualified candidates to become members of the Board and, in carrying out such responsibility, will give adequate consideration to the Board Diversity Policy.

The Nomination Committee will review the Policy on a regularly basis, as appropriate, to ensure the effectiveness of the Policy and recommend any such revisions to the Board for consideration and approval.

For the financial year ended 31 March 2019, the Nomination Committee has held one meeting to review the Board's composition, structure, size and diversity; and is of the view that the Board consisted of members with balanced and diversified attributes, such as gender, age, education background, professional qualifications, experience, skills and knowledge.

| Nomination Committee | Attendance in person/ Number of Nomination Committee meeting |
|---|---|
| *Non-Executive Directors and Chairman of the Board* | |
| Mr. Choi Siu Wai, William *(Chairman of Nomination Committee)* | 1/1 |
| *Independent Non-Executive Directors* | |
| Mr. Ko Ming Tung, Edward | 1/1 |
| Mr. Chan Kee Huen, Michael | 1/1 |
| Mr. Cheng King Hoi, Andrew | 1/1 |
| *Executive Directors* | |
| Ms. Wong Mei Wai, Alice | 1/1 |

The Company Secretary is also the company secretary of Nomination Committee and is responsible for maintaining full minutes of the Nomination Committee which are open for inspection at any reasonable time on reasonable notice by any of our director.

## DIRECTORS' TRAINING AND CONTINUOUS DEVELOPMENT

Our policy requires that each new Director is given formal, comprehensive and customized induction training at the time of first appointment to ensure their proper understanding of the Group's business and operations, and sufficient awareness of the Directors ' duties and responsibilities under the listing Rules and related regulations.

The Group provides professional training to Directors to keep them up to date on the Listing Rules and other applicable regulatory requirements as well as the Group's business and governance policies.

Every newly appointed director received a comprehensive, formal and tailored induction on appointment, and subsequently, received briefing and professional development necessary to ensure that he has a proper understanding of the Group's operations and business and is fully aware of his responsibilities under statue and common law, the Listing Rules, legal and other regulatory requirements and the Group's business and governance policies. In addition, Non-Executive Director and Independent Non-Executive Directors visited the major subsidiaries of the Company and meet the management of those subsidiaries. During the visits, the Directors received presentations from the management of subsidiaries in relation to their updated development and performance.

During the year ended 31 March 2019, the Directors participated in the following continuous professional development:

| | Types of training |
|---|---|
| *Executive Directors* | |
| Ms. Wong Mei Wai, Alice | A, C |
| Mr. Chung Sam Kwok Wai | A, C |
| Mr. Siu Yik Ming | A, C |
| *Non-Executive Director* | |
| Mr. Choi Siu Wai, William | A, C |
| *Independent Non-Executive Directors* | |
| Mr. Chan Kee Huen, Michael | A, B, C |
| Mr. Cheng King Hoi, Andrew | A, C |
| Mr. Ko Ming Tung, Edward | A, C |

A: attending seminars, conferences and/or briefings on directors' duties and corporate governance, regulatory updates, and financial and economic development

B: giving speech at seminars and/or conferences

C: reading regulatory updates, newspapers, journals, and other business, financial and economic publications

The Board requires Directors to devote sufficient time and attention to their duties and the Company's affairs. The Directors are also required to disclose to the Company annually the number and nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved.

Non-Executive Directors and Independent Non-Executive Directors provide the Group with diversified expertise and experience. Their views and participation in Board and Board committees meetings bring independent judgement and advice on issues relating to the Group's strategies, performance and management process, to ensure that the interests of all shareholders are taken into account and safeguarded.

The Board periodically reviews the Company's practices on corporate governance, compliance with the CG Code, training and continuous professional development of Directors, and the disclosures in this report.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors are aware of their obligations to prepare consolidated financial statements for the financial year ended 31 March 2019, to reflect a true and fair financial position, results and cash flows of the Group for the year then ended, and the proper preparation of financial statements on an on-going basis in accordance with applicable statutory requirements and accounting standards. The Directors are not aware of any material uncertainties that may affect the business of the Group or raise significant questions about the Group's ability to operate on an on-going basis.

## COMPANY SECRETARY

Throughout the year ended 31 March 2019, Mr. Leung Kin Chuen was the company secretary of the Company (the "Company Secretary"). Mr. Leung has taken not less than 15 hours of relevant professional training during the financial year ended 31 March 2019 to comply with Rule 3.29 of the Listing Rules. Mr. Leung resigned as the Company Secretary with effect from 26 April 2019.

Ms Chan Yuet Kwai has been appointed as the Company Secretary with effect from 20 May 2019. Ms. Chan has also taken not less than 15 hours of relevant professional training during the financial year ended 31 March 2019 to comply with Rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHT

The Board and management are committed to meeting and communicating with shareholders through the annual general meeting of the Group, listening to shareholder opinions and answering questions from shareholders about the Group and its business. The Chairman of the board, the Directors and senior management will attend the annual general meeting of the Group to answer questions from shareholders. Notice of the annual general meeting is sent to the shareholders at least 21 days before the holding of the annual general meeting.

Extraordinary general meeting may be convened by the Board on requisition of Shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to the articles of association of the Company. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals with general meeting of the Company by sending the same to the Company at the principal office of the Company in Hong Kong.

If within 21 days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the Requisitionist(s), may convene a meeting in the same manner within two months form the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

## DIVIDEND POLICY

The Board has adopted a dividend policy effective since 1 January 2019.

The Board considers sustainable returns to shareholders whilst retaining adequate reserves for the Group's future development to be an objective. Under the dividend policy adopted by the Company, dividends may be recommended, declared and paid to shareholders from time to time.

In summary, the declaration of dividend is subject to the discretion of the Board, taking into consideration of, among others, the following factors:

- the group's actual and expected financial results;
- the general economic conditions and other internal or external factors that may have impact on the business or financial performance and position of the Group;
- the Group 's business operation strategy, including expected working capital requirements, capital expenditure requirements and future development plans;
- the Group's cash flow and liquidity position;
- retained earnings and distributable profit reserves of the Group;
- contractual restrictions on the payment of dividends imposed by the Group 's lenders and other institutions;
- effects on the Group's creditworthiness;
- interest of shareholders;
- applicable statutory and regulatory restrictions; and
- any other factors that the Board considers to be applicable from time to time.

Depending on the financial conditions of the Company and the Group and the factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period:

- interim dividend;
- final dividend;
- special dividend; and
- any distribution of profits that the Board may deem appropriate.

The payment of dividend is subject to any restrictions under the Laws of Hong Kong and Cayman Islands and the Company's Articles of Association.

The Company does not have any pre-determined dividend distribution proportion or distribution ratio. The declaration, payment and amount of dividends will be subject to the Board's discretion and there are no assurance that dividends will be declared and/or paid in any particular amount for any given period.

Any dividend for a financial year will be subject to shareholders' approval.

The Board will review the Dividend Policy on a regular basis.

## AUDITOR'S STATEMENT AND REMUNERATION

A statement by the Group's auditors on their reporting obligations in respect of the Group's financial statements for the year ended 31 March 2019 is set out in the "Report of the Independent Auditor" section of this report.

An analysis of the remuneration of the external auditor, Messrs BDO Limited of the Company for the year ended 31 March 2019 is set out below:

| | **Amount of Fee**<br>HK$ |
|---|---:|
| Annual audit services | 1,180,000 |
| Non-audit services | 183,400 |
| Total | 1,363,400 |

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for establishing and maintain an effective and adequate risk management and internal control systems.

The Board aims to minimize the risks rather than eliminate them entirely. Accordingly, the Board has a risk management system, including performance of a risk assessment for reviewing the key risk areas and determining appropriate risk mitigation strategies. The Group has also taken sufficient steps to identify, assess, update and monitor certain particular risks associated with its financial, operational and compliance activities.

The Group does not have an internal audit department. Instead, the Group has engaged an independent professional internal control consultant firm (the "Internal Control Consultant") to review the key business process and internal control systems, policies and procedures from financial, operational and compliance aspect.

The Internal Control Consultant has independently reported the findings and recommendations to the Audit Committee.

The Board and the Audit Committee have reviewed the need for an internal audit function and considers it more cost-effective to appoint external independent professionals to independently review and continuously evaluate the Group's internal monitoring systems and risk management systems, taking into account the size and nature of the Group. The Board will review the need for an internal audit function at least once a year.

Overall, the Board and the Audit Committee consider that the risk management and internal control system of the Group are effective and adequate. The Board will continue to assess the effectiveness and adequacy of risk management and internal controls through consideration of the reviews and recommendations made by the Audit Committee, Senior Management and Internal Control consultant.

## INVESTORS' RELATIONSHIP

The Group has a number of channels of communication with shareholders and public investors to ensure that they are kept up to date with the latest news and developments of the Group. The Group provides shareholders with up-to-date information on the Group's development, financial results and major events through annual, half-yearly reports. All published information is uploaded to the Group's website at http://www.sterlingapparel.com.hk

Shareholders may also submit enquiries to management and make recommendations to the Board or senior management at the Shareholders' Meeting. Shareholders' enquiries about their shareholdings can be directed to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited. Other shareholders' enquiries can be directed to the Company's Secretarial Department or the Company Secretary of the Company by post to the principal office of the Company at 18–20/F., Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong or by email to our Company.

The Articles of Association of the Group remains unchanged since the Listing date.

# Report of the Directors

The Board of Directors (the "Board") of Sterling Group Holdings Limited (the "Company") presents its report together with the audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 March 2019.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are apparel manufacturing.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 69 of this Annual Report.

No interim dividend was paid for the six months ended 30 September 2018.

The Board does not recommend payment of a final dividend to Shareholders of the Company for the year ended 31 March 2019.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 March 2019 is set out in the section headed "Management Discussion and Analysis" on pages 6 to 10 of this Annual Report.

## MAJOR RISKS AND UNCERTAINTIES

The following are the principal risks and uncertainties facing the Company as required to be disclosed pursuant to the Companies Ordinance (Chapter 622 of the laws of Hong Kong):

### 1. Economic climate and individual market performance

The impact of economic conditions on consumer confidence and buying habits would affect sales and results of the Group. The economic growth or decline in our geographical markets that affect consumer spending on garments would also affect our business. The Group continues to implement its strategies to develop and strengthen penetration of different geographical markets thereby reducing its dependency on specific markets.

### 2. Customers' credit risk

The exposure to credit risk by the Group, which will cause a financial loss due to failure to discharge an obligation by the counterparties, arises from the carrying amounts of the recognized financial assets as stated in the consolidated statement of financial position.

The Group only extends credit to customers based on careful evaluation of the customers' financial conditions and credit history. Credit sales of products are made to customers with an appropriate credit history. In addition, the Group reviews the recoverable amount of debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

Details of the customers' credit risk are set out in Note 36 to the consolidated financial statements.

### 3. Liquidity risk

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

Details of liquidity risk are set out in Note 36 to the consolidated financial statements.

### 4. Currency risk

The Group has foreign currency transactions and foreign currency borrowings, which expose the Group to foreign currency risk. The Group manages and monitors foreign exchange exposure to ensure appropriate measures are implemented on a timely and effective manner.

Details of the currency risk are set out in Note 36 to the consolidated financial statements.

### 5. Interest rate risk

The Group is mainly exposed to cash flow interest rate risk in relation to floating-rate bank balances and bank borrowings. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Details of interest rate risk are set out in Note 36 to the consolidated financial statements.

### 6. Capital Risk

The Group manages its capital structure and makes adjustments in response to changes in economic conditions, if and when necessary.

Details of capital risk are set out in Note 36 to the consolidated financial statements.

## ENVIRONMENTAL POLICIES, COMPLIANCE WITH LAWS AND REGULATIONS

The Group is dedicated to maintaining sustainable working practices and pay close attention to ensure all resources are efficiently utilized with minimal impact on our environments. Details on the Group's environmental policies and performance can be found in the Environmental, Social and Governmental of this Annual Report.

The Group has established various management systems and measures such as internal control and staff training to ensure its compliance with laws and regulations in relation to the Group's business and operation. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Group has no material breach of laws and regulations that has a material impact on the Group's business and operation during the year ended 31 March 2019.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years ended 31 March 2019 is set out on page 148.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 18 to the consolidated financial statements.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2019 are set out in Note 34 to the consolidated financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in Note 31 to the consolidated financial statements.

## RESERVES

Movements in reserves of the Group and of the Company during the year are set out on page 71 in the consolidated statement of changes in equity and Note 32 to the consolidated financial statements respectively.

Distributable reserves of the Company as at 31 March 2019, calculated in accordance with the Companies Law (Cap.22) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK$113,525,000.

## SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme upon the passing the written resolutions of our shareholders on 21 September 2018 (the "Share Option Scheme"). Pursuant to the Share Option Scheme, our Directors may grant options to eligible participants to subscribe for the Shares subject to the terms and conditions stipulated therein. Upon the listing of the Shares on SEHK on 19 October 2018 (the "Listing Date"), all conditions set forth have been satisfied. No share options has been granted under the Share Option Scheme since its adoption.

### (1) Purpose

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

### (2) Eligible persons

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

### (3) Total number of shares available for issue

A maximum of 80,000,000 Shares, being 10% of the total number of Shares in issue as at the date of this annual report, may be issued upon exercise of all options to be granted under the Share Option Scheme.

## (4) Maximum entitlement of each eligible person

Unless approved by the Shareholders in general meeting and subject to the following paragraph, the maximum number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to any one person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time.

Options granted to a substantial Shareholder or an INED or any of their respective associates (as defined in the Listing Rules) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the total number of 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 million, must be approved by the Shareholders in a general meeting in advance.

## (5) Option period

Subject to the rules of the Share Option Scheme, an option may be exercised in whole or in part by the grantee at any time before the expiry of the period to be determined and notified by the Board to the grantee which in any event shall not be longer than ten years commencing on the date of the offer letter and expiring on the last day of such ten-year period.

## (6) Minimum vesting period

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

## (7) Payment on acceptance of the option

Participants of the Share Option Scheme are required to submit to the Company a duly signed offer letter within 21 days from the offer date together with a payment in favour of the Company of HK$1 per option as the consideration of the grant.

## (8) Basis of determining the exercise price

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as determined by the Board, and shall be at least the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date (the "Offer Date"), which must be a trading day, on which the Board passes a resolution approving the making of an offer of grant of an option to an Eligible Person;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the Offer Date; and

(iii) the nominal value of a Share on the Offer Date.

### (9) Remaining life

Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the Share Option Scheme, after which period no further options shall be granted. All options granted and accepted and remaining unexercised immediately prior to the expiry of the Share Option Scheme shall continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

Since the adoption of the Share Option Scheme, no option has been granted under the Share Option Scheme. Therefore, no option was exercised or cancelled or has lapsed during the year ended 31 March 2019 and there was no outstanding option as at 31 March 2019.

## BANK BORROWINGS

Details of the bank borrowings of the Group are set out in Note 28 to the consolidated financial statements.

## DIRECTORS

The directors of the Company (the "Directors") who held office during the year and up to the date of this report are:

### Executive Directors:

Ms. Wong Mei Wai, Alice *(Chief Executive Officer)*
Mr. Chung Sam Kwok Wai *(Chief Financial Officer)*
Mr. Siu Yik Ming

### Non-Executive Director:

Mr. Choi Siu Wai, William *(Chairman of the Board)*

### Independent Non-Executive Directors:

Mr. Chan Kee Huen, Michael
Mr. Cheng King Hoi, Andrew
Mr. Ko Ming Tung, Edward

For compliance with Code Provision A.4.2 set out in the Corporate Governance Code of the Listing Rules and in accordance with Articles 83 and 84 of the Company's Articles of Association, all Directors will retire by rotation and, being eligible, offer themselves for re-election as Directors at the forthcoming 2019 AGM.

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

## DIRECTORS OF SUBSIDIARIES

During the Year and up to the date of this directors' report, each of Messrs. Wong Mei Wai Alice, Siu Yik Ming, Chung Sam Kwok Wai, and Choi Siu Wai William holds directorship in certain of the Company's subsidiaries. Other directors of the Company's subsidiaries during the Year and up to date of this directors' report include Messrs. Siu Chi Wai, Kan Wai Sing, Mok Chi Ho Don Simon, Tse Chau Yin, Wickramasingha Senanayake Appuhamillage Wipul Abayanaga Senanayake.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors of the Group as at the date of this report are set out on pages 11 to 15.

## INTERESTS OF DIRECTORS AND THE CHIEF EXECUTIVE

As at 31 March 2019, the interests and short positions of each Director and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Future Commission ("SFO")) which were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to our Company and SEHK pursuant to the Model Code, were as follows:

### Interests and/or short positions in our Company

| Director | Nature of interest | Number of Shares held[1] | Percentage of Interest in our Company |
|---|---|---|---|
| Ms. Wong Mei Wai Alice | Interest of spouse[2] | 300,000,000 (L) | 37.5% |
| Mr. Choi Siu Wai William | Interest in controlled corporation[3] | 272,000,000 (L) | 34.0% |

*Notes:*

1. The letter "L" denotes long position in the shares held.

2. Ms. Wong Mei Wai Alice is the spouse of Mr. Siu Chi Wai and is deemed to be interested in the Shares in which Mr. Siu Chi Wai is interested in under Part XV of the SFO. These shares are owned by Moonlight Global Holdings Limited. Moonlight Global Holdings Limited, a controlled corporation of our Company, is wholly owned by Mr. Siu Chi Wai.

3. These shares are held by Rainbow Galaxy Limited. The issued share capital of Rainbow Galaxy Limited is ultimately wholly owned by two revocable trusts of which Mr. Choi Siu Wai William is the settlor. Mr. Choi Siu Wai William is deemed to be interested in the shares of the Company in which Rainbow Galaxy Limited is interested in under Part XV of the SFO.

Save as disclosed above, as at the date of this report, none of our Directors nor the chief executive of our Company had 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) which were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and SEHK pursuant to the Model Code.

## ARRANGEMENT TO ACQUIRE SHARES

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

## EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Options", at no time during the year or at the end of the year was the Company a party to any equity-linked agreements.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years, which is subject to retirement by rotation and re-election in accordance with the Articles of Association, and may be terminated by either party upon a three-months prior written notice. Each of NED and INEDs has entered into an appointment letter with the Company for a term of three years, which is subject to retirement by rotation and re-election in accordance with the Articles of Association, and may be terminated by either party upon a one-month prior written notice. The service contracts and appointment letters are automatically renewed upon expiration.

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

## INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transactions" in this Report of the Directors and Note 35 to the consolidated financial statements, no transaction, arrangement or contract of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party and in which any of the Company's Director or an entity connected with the Director or controlling shareholder or its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 March 2019 or at any time during the year ended 31 March 2019.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 March 2019, none of the Directors had any interest in business apart from the Group's businesses which competed, or was likely to compete, either directly or indirectly, with the Group's businesses under Rule 8.10 of the Listing Rules.

## NON-COMPETITION UNDERTAKING

Each of CFL Global (Comercial Offshore De Macau) Limitada, C.F.L. Enterprise Limited, Rainbow Galaxy Limited and Mr. William Choi, and each of Moonlight Global Holdings Limited, Mr. Siu Chi Wai, Ms. Wong Mei Wai Alice, and Mr. Siu Yik Ming have confirmed to the Company of his/her/its compliance with the non-competition undertakings provided to the Company under two separate deeds of non-competition both dated 21 September 2018 (the "Deeds of Non-competition). The INEDs have reviewed the status of compliance and confirmed that all the undertakings under the Deeds of Non-competition had been complied with by the above-mentioned persons and duly enforced during the period ended 31 March 2019.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2019, so far as our Directors are aware, the following persons had an interest or short position in the Shares or the underlying Shares as recorded in the register required to be kept under section 336 of the SFO or which were required to be disclosed to our Company and SEHK under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Capacity/nature of interest | Number of Shares (1) | Percentage shareholding |
|---|---|---|---|
| Moonlight Global Holdings Limited ("Moonlight") | Beneficial owner | 300,000,000 (L) | 37.5% |
| Rainbow Galaxy Limited (2) ("Rainbow Galaxy") | Beneficial owner | 272,000,000 (L) | 34.0% |
| Mr. Siu Chi Wai | Interest of controlled corporation (3) | 300,000,000 (L) | 37.5% |
| Ms. Wong Mei Wai Alice | Interest of spouse (4) | 300,000,000 (L) | 37.5% |
| Mr. Choi Siu Wai William | Interest of controlled corporation (5) | 272,000,000 (L) | 34.0% |
| Ms. Cheung Shui Lin | Interest of spouse (6) | 272,000,000 (L) | 34.0% |

*Notes:*

1. The letter "L" denotes a long position in the Shares.

2. Rainbow Galaxy is directly wholly owned by Angel Sense Limited, a company incorporated in the BVI. Angel Sense Limited is owned as to 50.0% by Mega Capital Assets Limited (a company incorporated in the BVI) and as to 50.0% by Capital Star Assets Limited (a company incorporated in the BVI). Each of Mega Capital Assets Limited and Capital Star Assets Limited is wholly owned by a revocable family trust of which Mr. Choi Siu Wai William is the settlor.

3. The issued share capital of Moonlight is wholly owned by Mr. Siu Chi Wai. Mr. Siu Chi Wai is deemed to be interested in the Shares in which Moonlight is interested in under Part XV of the SFO.

4. Ms. Wong Mei Wai Alice is the spouse of Mr. Siu Chi Wai and is deemed to be interested in the Shares in which Mr. Siu Chi Wai is interested in under Part XV of the SFO. Moonlight, a controlled corporation of our Company, is wholly owned by Mr. Siu Chi Wai.

5. These shares are held by Rainbow Galaxy. The issued share capital of Rainbow Galaxy is ultimately wholly owned by Choi's Family Trusts of which Mr. Choi Siu Wai William is the settlor. Mr. Choi Siu Wai William is deemed to be interested in the shares of the Company in which Rainbow Galaxy is interested in under Part XV of the SFO.

6. Ms. Cheung Shui Lin is the spouse of Mr. Choi Siu Wai William and is deemed to be interested in the Shares in which Mr. Choi Siu Wai William is interested in under Part XV of the SFO. Rainbow Galaxy, a controlled corporation of our Company, is ultimately wholly owned by Choi's Family Trusts of which Mr. Mr. Choi Siu Wai William is the settlor.

Save as disclosed above, as at the date of this annual report, the Directors are not aware of any other person had a beneficial interest or short position in the Shares as recorded in the register required to be kept under section 336 of the SFO or the underlying Shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2019, the Group employed 2,087 full-time employees in Hong Kong, the PRC and Sri Lanka. The Group recognises the importance of maintaining good relationship with its employees and retaining competent staff to ensure operational efficiency and effectiveness. The remuneration packages offered to the Group's employees are based on each employee's qualifications, relevant experience, position and seniority. The Group conducts review on salary increments, bonuses and promotions based on the performance of each employee. The Group provides on-the-job training to our new employees. During the year ended 31 March 2019, the Group had not experienced any strike, any significant problems with its employees or other material labour disputes which had materially disrupted its operation. The Group has not experienced any difficulties in the recruitment of experienced and skilled staff.

## PERMITTED INDEMNITY PROVISION

Pursuant to Article 164 of the Company's Articles of Association, the Directors shall be indemnified out of the assets of the Company from liabilities which they may incur by reason of the execution of their duties, unless such indemnification provision is avoided by any provisions of the applicable laws of the Cayman Islands.

The Company maintains an insurance policy for directors' and officers' liability for the year.

## MANAGEMENT CONTRACT

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

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of revenue from sales of goods or rendering of services attributable to the Group's largest customer and the five largest customers combined were 69.01% and 99.96% respectively of the Group's total sales for the year.

The aggregate purchases attributable to the Group's largest and five largest suppliers combined were 38.42% and 61.18% respectively of the Group's total purchases for the year.

None of the Directors, their close associates, or any shareholder (who to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had, at any time during the year, a beneficial interest in any of the Group's five largest customers or suppliers.

## CONTINUING CONNECTED TRANSACTIONS

On 8 February 2018, Sterling Apparel Limited ("SAL"), an indirectly wholly-owned subsidiary of the Company, as tenant, entered into three tenancy agreements (the "TAs") with Win 18 Limited ("Win 18"), Win 19 Limited ("Win 19") and Win 20 Limited ("Win 20"), the landlords, for the leasing of the premises at 18th to 20th Floors respectively, Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong, together with the six car parking spaces of No. 310 to 315 for a term from 8 February 2018 to 31 January 2021.

Win 18, Win 19 and Win 20 are all companies incorporated in Hong Kong which are wholly owned by Winfield Group Limited ("Winfield"). Winfield is owned as to 50% by Moonlight and as to 50% by Rainbow Galaxy. Moonlight and Rainbow Galaxy are the Controlling Shareholders of our Company. As such, each of Win 18, Win 19 and Win 20 are connected persons of our Company as defined under Chapter 14A of the Listing Rules. Accordingly, the entering into of the TAs constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules (the "Continuing Connected Transactions").

Details of the TAs were as follows:

### (1) Tenancy Agreement between SAL and Win 18

The premises: 18th Floor, Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong, together with the car parking space of No. 310 & 311
Term: From 8 February 2018 to 31 January 2021
Monthly rent: HK$125,000 (excluding rates, government rents and management fees)
Rent free period: From 8 February 2018 to 30 April 2018
Use of the premises rented: As ancillary office of the Company and certain of its subsidiaries

### (2) Tenancy Agreement between SAL and Win 19

The premises: 19th Floor, Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong, together with the car parking space of No. 312 & 313
Term: From 8 February 2018 to 31 January 2021
Monthly rent: HK$125,000 (excluding rates, government rents and management fees)
Rent free period: From 8 February 2018 to 30 April 2018
Use of the premises rented: As ancillary office of the Company and certain of its subsidiaries

### (3) Tenancy Agreement between SAL and Win 20

The premises: 20th Floor, Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong, together with the car parking space of No. 314 & 315
Term: From 8 February 2018 to 31 January 2021
Monthly rent: HK$125,000 (excluding rates, government rents and management fees)
Rent free period: From 8 February 2018 to 30 April 2018
Use of the premises rented: As ancillary office of the Company and certain of its subsidiaries

The terms of the TAs were arrived at after arm's length negotiations between SAL and Win 18, Win 19 and Win 20, and on the basis of the valuation made by an independent property valuer.

The annual caps for each of the financial years/periods are set out as follows:

| Period | Annual Cap HK$ |
|---|---|
| From 8 February 2018 to 31 March 2018 | Nil |
| Year ended 31 March 2019 | 4,125,000 |
| Year ending 31 March 2020 | 4,500,000 |
| 10 months ending 31 January 2021 | 3,750,000 |

As the TAs only commenced from 8 February 2018 and the rent free period under the TAs was from 8 February 2018 to 30 April 2018, there was no historical amount recorded for the year ended 31 March 2018. The annual cap and the annual rental paid by our Group under each of the TAs was HK$1,375,000 for the year ended 31 March 2019. For the year ended 31 March 2019, the rent paid under the TAs did not exceed the annual caps.

Further details of the Continuing Connected Transactions were set out in the section of "Connected Transaction" of the Company's Prospectus dated on 29 September 2018.

The Independent Non-Executive Directors have reviewed the Continuing Connected Transactions in accordance with Rule 14A.55 of Listing Rules and confirmed that during the year and up to the date of this report such transactions have been entered into:

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

(ii) on normal commercial terms; and

(iii) in accordance with the TAs on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transactions during the year in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing the auditor's findings and conclusion in respect of the Continuing Connected Transactions disclosed on pages 39 and 40 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in Note 35 to the consolidated financial statements.

The tenancy agreements under Note 35 constituted continuing connected transactions for the Company under the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

The remaining related party transactions under Note 35 were not connected transactions under the Listing Rules.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and there are no restrictions against such rights under the laws of Cayman Islands (being the jurisdiction in which the Company was incorporated).

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date up to the date of this report.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year and up to the date of this report.

## CONTINGENT LIABILITIES

The Company executed corporate guarantees as part of the securities for general banking facilities granted to certain wholly-owned subsidiaries.

## CORPORATE GOVERNANCE CODE

Throughout the year ended 31 March 2019, the Company has complied with all the Code Provisions set out in the CG Code. Further information of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 16 to 29.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry with all the Company's Directors, the Company has ascertained that all of its Directors have complied with the required standards set out in the Model Code throughout the year ended 31 March 2019.

## POST BALANCE SHEET EVENT

Subsequent to March 31, 2019 and on May 31, 2019, an indirect wholly-owned subsidiary of the Company entered into an Intellectual Property Purchase Agreement with the seller pursuant to which the seller has agreed to sell, convey, transfer and assign certain intellectual property rights to the buyer for a cash consideration of USD1,400,000. Concurrently, the buyer, as the licensor, and the seller, as the licensee, entered into a License agreement, pursuant to which the licensor grants to the licensee the rights to use the Licensor's intellectual property to manufacture, sell and distribute products in the territory as defined in the license agreement for a certain royalty fee based on sales with a minimum annual amount equal to USD120,000. Additional details of the transaction can be found in the Company's announcement on May 31, 2019.

Save as disclosed above in this annual report, there is no other material subsequent event after 31 March 2019 and up to the date of this annual report.

## TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

## AUDITOR

The consolidated financial statements have been audited by BDO Limited who will retire and, being eligible, offer themselves for reappointment.

On behalf of the Board
**Choi Siu Wai, William**
*Chairman*

Hong Kong, 26 June 2019

STERLING GROUP
HOLDINGS LIMITED
美臻集團控股有限公司

# Environmental, Social and Governance (ESG) Report

# Environmental, Social and Governance Report

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## 1. ABOUT STERLING GROUP HOLDINGS LIMITED

Sterling Group Holdings Limited (hereinafter referred to as the "The Group" and "We") was listed on the Main Board of the Hong Kong Stock Exchange in October 2018 (stock code: 1825). We are an OEM manufacturer of premium woven apparels serving international brands in the U.S. and UK markets. Our mission is to offer value-priced high quality garments with one-stop manufacturing services to our customers, as well as providing opportunities to our employees for their career development while delivering profitable returns to our shareholders. In addition, we strive to create a sustainable business model taking into account of social-economic and environmental development. We inculcate a sustainability culture within the Group raising our sense of duty, awareness and commitment to sustainability.

## 2. SCOPE OF REPORTING


We are pleased to issue our Environmental, Social and Governance report for the year ended March 2019. The report is an important channel for us to communicate to our stakeholders regarding the efforts we have made and our achievement in social responsibility and sustainability.

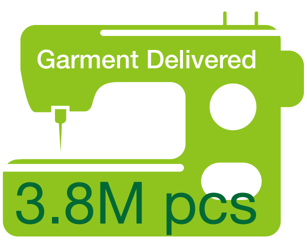
The report covers our major business activities and operations of our three production facilities:

Sri Lanka
- Chiefway Katunayake (Pvt) Ltd.
- Chiefway (Pvt) Ltd.

China
- ZhiWei (Guangzhou) Garment Manufacturing Company Ltd.

The report is prepared in accordance with the Environment, Social and Governance Reporting Guide contained in Appendix 27 of the Rules Governing the Listing of Securities ("Listing Rules") on the Hong Kong Stock Exchange and follows the "comply or explain" provisions. The report focuses on the activities implemented during fiscal year of 2018/19 (1 April 2018 to 31 March 2019), with some content dating back to previous years.

We value your feedback on this report and our sustainability plan. Should you have any comments and suggestions, please feel free to contact us at sterling_esg@sphk.com.hk.





**Our vision**

Quality, passion and expertise are the ingredients. Perfection is the outcome.


**Karvis Fong**
Member of Sterling Sustainability Committee (SSC)
MSc in Environmental Engineering and Management
Senior Manager – Compliance & QA
sterling_esg@sphk.com.hk

## 3. SUSTAINABILITY PHILOSOPHY

Sustainability focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs. The concept of sustainability is composed of three major pillars: economic, environmental and social – it is integrated in our operation as profits, planet and people. We have instilled in our employees the sustainability notion which has become an integral part of our manufacturing and operational activities, seeking to deliver profit and environmental & social benefits in a continuous and synergistic manner.


## 4. STERLING SUSTAINABILITY COMMITTEE (SSC)

To implement the ESG initiative and formulate our sustainability strategy, the Group has established a committee called Sterling Sustainability Committee (SSC) which comprises of senior management and other members staff with sufficient ESG knowledge, and the authority to promote a company-wide awareness of the importance of the company's ESG efforts. The SSC members span from the leadership team to functional departments and the SSC aims to ensure that the environmental and social responsibility considerations are integrated into the management decision as well as daily operation.

## 5. STAKEHOLDER ENGAGEMENT

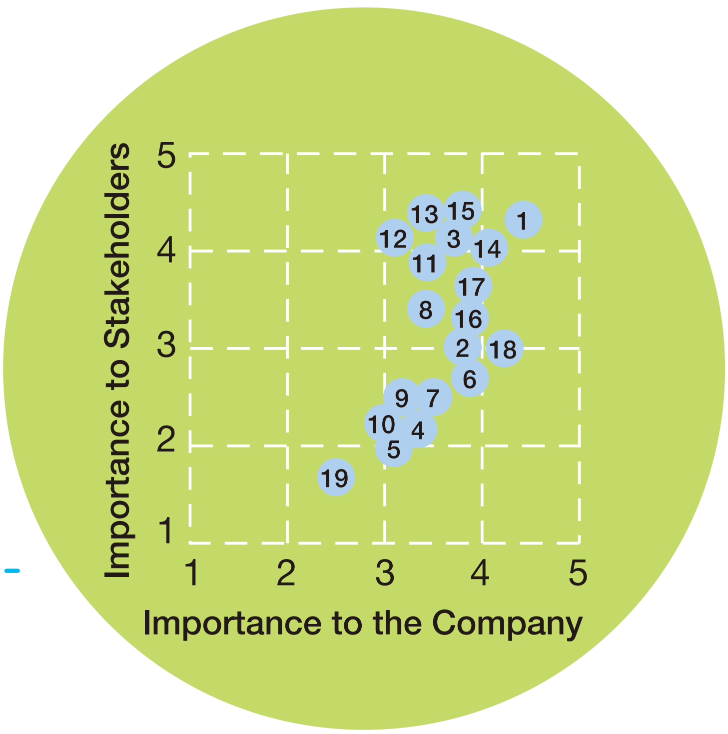
Stakeholder engagement is an incubator of our sustainable development plan, which is also an important step to gather valuable ideas about ESG issues for materiality assessment in order to sharpen the focus of our sustainability strategy.

In this first year of preparing our ESG report, we have primarily engaged major stakeholders through a number of channels. We have carried out on-line surveys with our internal staffs, while we plan to expand our scope of stakeholder engagement in the future. In view of experts' opinion and materiality analysis, we have identified for a materiality matrix four key topics with nineteen aspects which become the basic elements in formulating our sustainability plan.

## 6. SUSTAINABILITY MATERIALITY ASSESSMENT

A list of sustainability topics are identified which are potentially material to Sterling Group in the context of our business and day-to-day operations. A materiality matrix is developed from the result of stakeholder engagement exercises conducted for key staffs and top management. The materiality assessment and prioritization are summarized in the below matrix.

| Area | Number | Topic |
|---|---|---|
| Governance | 1 | Business Performance |
| | 2 | Risk Management |
| | 3 | Law Compliance |
| Environmental | 4 | Energy Consumption and Management |
| | 5 | Water Management |
| | 6 | Greenhouse Gas Emission |
| | 7 | Use of Materials |
| | 8 | Waste Management |
| | 9 | Transportation Management |
| | 10 | Chemical Management |
| Labour | 11 | Employee Diversity and Equal Opportunity |
| | 12 | Talent Attraction & Retention |
| | 13 | Employee Benefits |
| | 14 | Career Development and Training |
| | 15 | Occupational Safety and Health |
| | 16 | Employee and Labour Practice |
| Society Aspect | 17 | Anti-corruption |
| | 18 | Supplier Social Assessment |
| | 19 | Community Engagement |



## 7. ENVIRONMENT MANAGEMENT

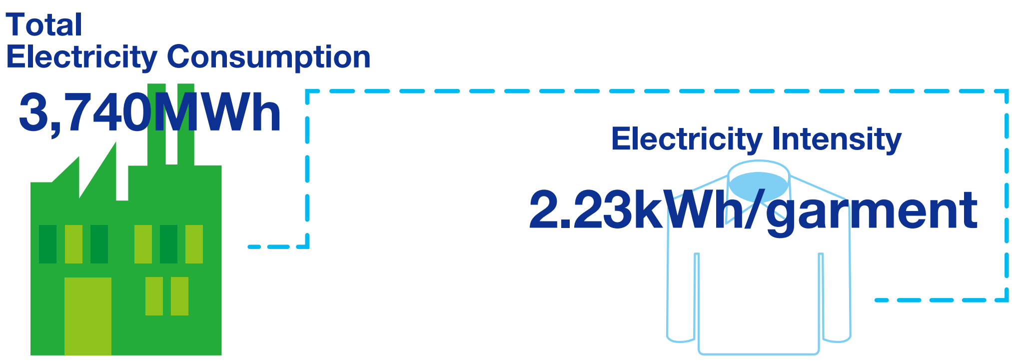
### 7.1 Energy Management and Emission

Sterling Group strives to comply with all the relevant environmental laws and regulations. We did not encounter any major non-compliance issues with any applicable environmental laws in the reporting period. The core business of our Group is garment manufacturing with production facilities in Sri Lanka and China. We use electricity as a major source of power to operate our factories. The key manufacturing activities of our production facility include handling incoming fabric, cutting, sewing, pressing, finishing and packing to our customers' specifications. There is no direct industrial pollution, significant air emission and discharge of hazardous waste or industrial waste water from our operations.

We embrace a vision of satisfying the desire of every business partner and responding to the latest global trend in sustainability. We have established our internal environmental policy and ensure that low emission and energy saving measures are fully considered in our operational activities. Our three production factories mainly utilize electricity as a primary energy source for production. We are also in the process of rolling out a new energy saving program in our China factory, Zhiwei in Panyu Guangdong, by using new technology in order to reduce electricity usage and greenhouse gas emissions. Also, we endeavor to minimize the use of energy through proper maintenance of equipment, improvement of equipment designs & installation and increasing employees' awareness of energy saving habits.

In addition, Zhiwei factory in Panyu, Guangdong has switched to the use of natural gas for all our boilers. Natural gas is much cleaner to use than other fossil fuels and produces less soot, not to speak of the fact that natural gas production is also better for the environment. In terms of greenhouse gas emission, natural gas combustion produces less carbon dioxide with higher efficiency.

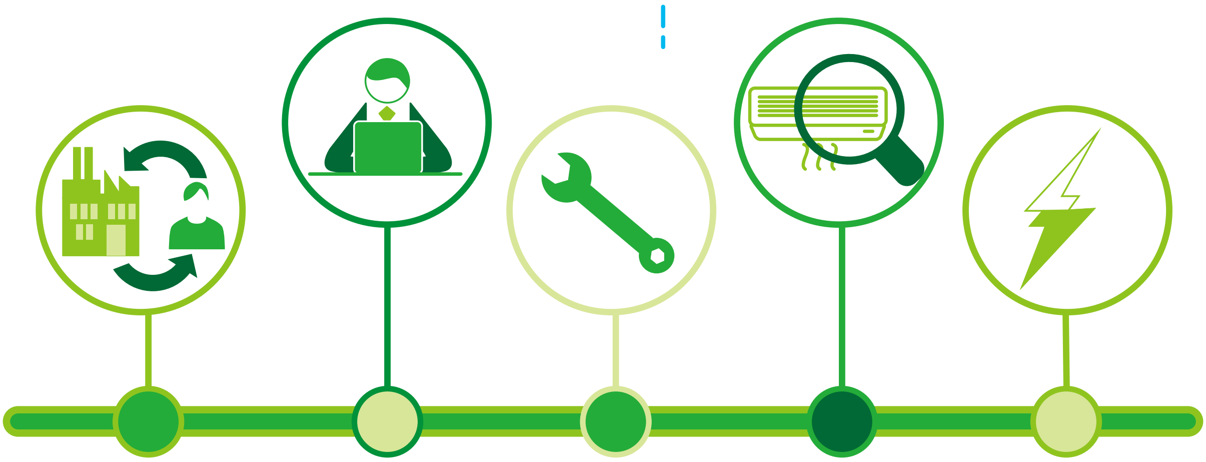
| Energy Type | Electricity | Natural Gas | Diesel Oil |
|---|---|---|---|
| **Consumption** | 3740 MWh | 133577 $m^3$ | 120790 L |
| **Intensity (per garment)** | 2.23 kWh | 0.08 $m^3$ | 0.07 L |



## 7.2 Cleaner Production Program

In 2018, The Group participated in the Cleaner Production Partnership Program launched by Environmental Protection Department of Hong Kong SAR (EPD) in collaboration with the Economic and Information Commission of Guangzhou Province. Cleaner Production (CP) is the continuous application of an integrated preventive environmental strategy applied to processes, products and services to increase efficiency and reduce risks to human beings and the environment.

We have partnered with a consulting firm to analyze our China factory – Zhiwei (Guangzhou) Garment Manufacturing Company Ltd. and identify energy saving opportunities. We have utilized state-of-the-art technologies for the air-conditioning system to reduce energy consumption, and also inhibit the incrustation inside cooling water tower. The use of this new technology is a more sustainable practice as we have reduced or eliminated the use of chemicals in removing incrustation. This project will be completed by third quarter in 2019.



On-site assessment for air-conditioning and water cooling system

Analyse the feasibility for new technology installation

Installation of new technology on air-conditioning and water cooler

Monitor and compare the energy usage on air-conditioning system

Reduce the energy consumption by 10%–20% potentially

## 7.3 Greenhouse Gas Emission

The Group strictly manages the use of energy and seeks opportunities to mitigate the adverse environmental impact in our operation. In the last two years, we have gradually changed the new air-conditioning system in our Sri Lanka facility, renovated the factory building, refurbished and added new equipment with the aim of improving the efficiency and reducing electricity consumption. As mentioned earlier in the report, we are implementing new technologies for the air-conditioning system in the ZhiWei factory and strive to achieve lower electricity consumption and less greenhouse gas emission. Likewise, ZhiWei use of natural gas for all boilers is more environmental friendly in terms of emission. The Group does not have any material non-compliance with applicable laws and regulation relating to the air and greenhouse gas emission in the reporting period.

| Greenhouse Gas ("GHG") Emission | Unit | Emission |
|---|---|---|
| **GHG Emission (Scope 1)** | tonnes $CO_2e$ | 638 |
| **GHG Emission (Scope 2)** | tonnes $CO_2e$ | 2,618 |
| **Total GHG Emission** | tonnes $CO_2e$ | 3,256 |
| **GHG Emission intensity (per garment)** | $kgCO_2e/pc$ | 1.95 |


Illustrations on environmental data:

1) Greenhouse gas emission (scope 1) mainly comes from the consumption of diesel and natural gas. The energy consumption coefficient refers to the emission factors of IPCC 2006 Guidelines for National Greenhouse Gas Inventories.

2) Greenhouse gas emission (scope 2) is from electricity purchased from power suppliers. In respect of the greenhouse gas emission factors, "Climate Transparency (2017 Report)" is referred to for electricity consumption in China, whereas Sri Lanka electricity grids refer to "Sri Lanka ODSM – Presidential Task Force on Energy Demand Side Management."

Scope 1: It represents the diesel, natural gas and fuel consumption by stationary and mobile sources.
Scope 2: It represents the electricity purchased from power supplier.

### 7.4 Water Usage Management

The Group's key manufacturing process is "cut and sewn" which does not involve fabric processing and washing. The amount of water used in production is not significant. In our operation, the main water usage is for domestic use. In order to reduce the water footprint, we have education program for employees in water conservation, proper maintenance of the water system to eliminate leakages and the gradual change of the 2-ways flushing system.

For ZhiWei (Guangzhou) Garment Manufacturing Company Ltd. and Chiefway Katunayake (Pvt) Ltd., water meters are installed to monitor water consumption. However, since water is sourced from underground at Chiefway (Pvt) Limited in Meegoda, Sri Lanka, the use of meter is not feasible to keep track of water consumption.

**Total**
**Water Consumption: 41,543$m^3$**
**Water Intensity: 0.02$m^3$/garment**

### 7.5 Use of Packaging Materials

The packaging materials we used in our operation are mainly corrugated carton boxes, tissue paper, plastic bags, hangers and cardboards. Most packaging materials are nominated by our customers and we have minimal control over the types of materials used for packaging. We strive to not over-order, have better handling and utilization of materials to reduce wastage.

### 7.6 Waste Management

In our garment manufacturing process, the major waste material from our production is fabric scraps. We strive to have more accurate fabric utilization in both the development stage and production process to minimize fabric scraps. Other general waste materials are being properly disposed of in accordance of local regulations and requirements.

## 8. FAIR TRADE USA FACTORY PROGRAM

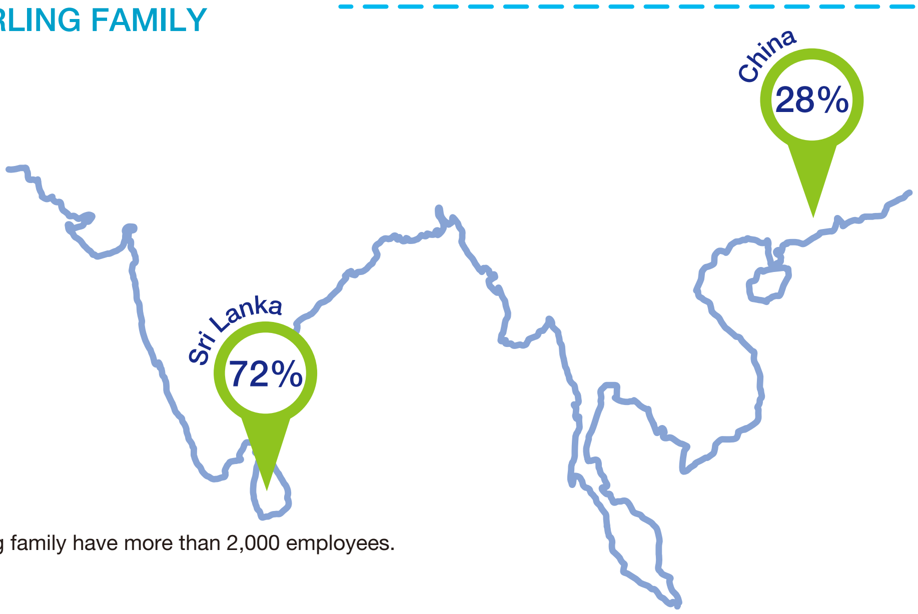
Fair Trade USA is a non-profit organization that certifies and promotes Fair Trade products around the world. It has more than 1,100 companies and brands where the products they offer comply with the rigorous Fair Trade standards, are produced by a Fair Trade certified factory and all carry the Fair Trade Certified label.

When consumers choose Fair Trade Certified goods, they are able to vote with their dollars to support responsible companies, empowering workers and protecting the environment. Through the specific Fair Trade Committee, our workers can address their needs and improve their welfare.

In 2018, Sterling Group are honoured to be invited to join the Fair Trade program by our largest customer, an iconic brand in American fashion apparel. Our two Sri Lanka factories – Chiefway Katunayake (Pvt) Ltd. and Chiefway (Pvt) Ltd. – joined the program and started the certification process in 2019. We strive to pursue the Fair Trade USA's values, which also underpin our sustainability strategy.

We fully support the Fair Trade USA program because we believe Fair Trade is not just a market, but a social movement to bring strength, hope and real choice to the consumers and workers making the products. We see the Fair Trade program ushering a new global business model that helps secure our own profitability and competitiveness while protecting the environment and ensuring a fair return to the workers' community.

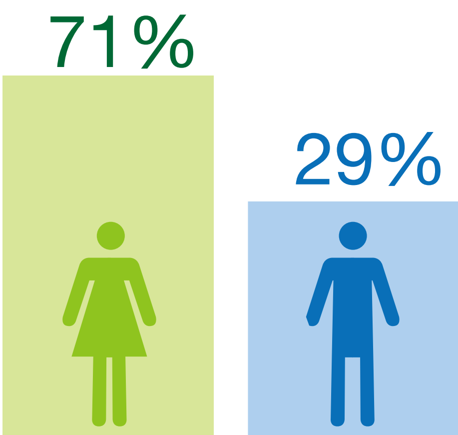
## 9. STERLING FAMILY



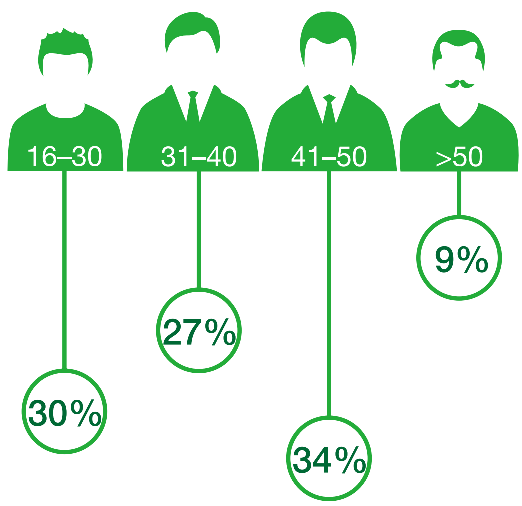

Sterling family have more than 2,000 employees.

Sterling group is committed to providing a fair and equitable work environment for all our employees regardless of gender, sexual orientation, disability, age, nationality or religion. We value a diverse workforce and believe that diversity ensures everyone in the Sterling family to be treated fairly and offered equal opportunity to develop their career.

Workforce by gender



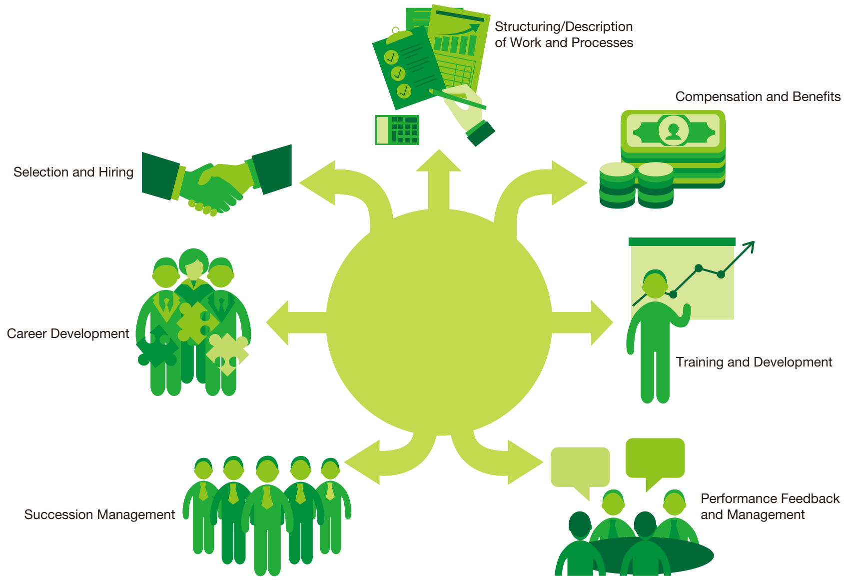

Workforce by age



## 10. SOCIAL MANAGEMENT SYSTEM

The Group is devoted to providing an environment and atmosphere that promote high ethical standards, equality, transparency and respect for each other. Our code of conduct and corporate values empower our employees to recognize human rights, freedom of association to protect their interests, and denounce child and forced labour. We have established a robust system preventing child labor during hiring process; the most important of which is building awareness and advocacy in our Group and those in position of decision-making to prevent child and forced labor, particularly through education.

We are also committed to creating an equal and equitable employment environment, where all staffs are remunerated commensurate with market rates and rewarded by performance appraisal system which recognizes every employee's effort and contributions to mutually agreed goals and objectives. Each of our factories has its own human resources policy in regards to the remuneration, performance evaluation and career development opportunities with well-defined role and responsibilities. The remuneration is being reviewed from time to time considering the legal wage standard, labour market and living wage level. In Sri Lanka, extra benefits such as workers' holiday parties and meals are provided free of charge in order to improve the workers' quality of life.




Another core element in our social management system is that no discrimination is allowed against race, age, gender or sexual orientation. Wages & benefits and working hours are in strict compliance with local labour law and our brand customers' requirements. We did not encounter any non-compliance issues with relevant laws and regulations in the reporting periods.

In the workplace, we respect employees' right to express their grievances and/or requests for improvement in their working conditions. In Sri Lanka, we have set up an Employee Council (EC) in each factory consisting of freely elected representatives from the employees and senior management. The primary purpose of EC is to encourage communication between the rank and file employees with the factory management so that they are given a voice and a formal channel to express their opinions about any matters that impact their welfare or work environment.

Our Sri Lanka factories, Chiefway Katunayake (Pvt) Ltd. and Chiefway (Pvt) Ltd., have engaged with Worldwide Responsible Accredited Production (WRAP) program since a number of years ago and are accredited with the Gold rating. WRAP is an independent, non-profit organization dedicated to promoting CSR standards in all factories around the world. Our factories being WRAP-certified means that we are in compliance with WRAP's 12 important principles which are based on generally accepted international workplace regulations and include the spirit or language of relevant conventions of the International Labour Organization (ILO). The principles encompass human resources management, health and safety, environmental practices, and legal compliance including import/export and customs compliance and security standards.

## 11. HEALTH AND SAFETY

The Group is committed to providing a safe and hygienic workplace to our employees. All of our factories have responsible officers to oversee and manage health and safety problems. Relevant on-site assessment is being conducted on a regular basis to ensure the safety of workplace and the safe operation of equipment and machinery.

We arrange fire drills regularly to ensure all employees are well trained with fire safety procedures including timely inspection of fire equipment and the means of egress. All employees whose duties include chemical handling are well trained about the chemical properties and the proper handling procedures including the use of personal protective equipment. Our Sri Lanka facilities are equipped with medical clinics with full-time professional nurses, and workplace incidents are analyzed to provide a continuous review of safety practices so as to improve and prevent any injury incident occurrence. The Group has been fully compliant with applicable laws and regulations relating to health and safety in the reporting period.

| | |
|---|---|
| Number and rate of work-related fatalities | 0 |
| Lost days due to work injury | 67 |

## 12. TRAINING AND DEVELOPMENT

The Group believes training presents a prime opportunity to expand the knowledge base of all employees and investing in talent is vital to sustainable business growth and success. Dedicated training and development can foster employee engagement, which is a core contributor to the Group's financial performance.

There are many training programs organized for our employees including first aid knowledge, CTPAT, Chemical training, ergonomics, workplace health and safety, fire safety, etc.

**TRAINING**

**TOTAL HOURS**
**more than 60,000**

## 13. SRI LANKA – OUR RISING STAR

As aforementioned, Chiefway Katunayake Limited and Chiefway Pvt Limited have been both members of the WRAP (Worldwide Responsible Accredited Production) program for some time and are now both certified with Gold accreditation. In addition, in partnership with our largest customer, an American retail fashion brand, we are pleased to have just started the certification process with Fair Trade USA, an organization dedicated to promoting sustainable production, trade and consumption through a fair trade model improving the social and economic well-being of production worker, farmers and fishermen. In Sri Lanka, we strive to create a competitive edge by positioning ourselves in the Sri Lanka garment industry as a manufacturer with the capability to produce more tailored fashion apparels such as suiting, blazers, jackets and coats. To that end, we have made and will continue to make the necessary investment in equipment and machinery as well as skill training for our workers.


In addition to ensuring our compliance with CSR standards expected of us through WRAP, Fair Trade USA and our customers, we have also engaged in community outreach programs making visits to local schools and orphanages, donating needed equipment or material such as laptop computers, water filters, etc. As we develop our Sri Lanka business, we will continue to explore different avenues to improve community engagement, and enhance employee welfare, along with the Fair Trade Program.

## 14. SUPPLY CHAIN MANAGEMENT

Supply chain management (SCM) is a crucial part of the Group's business, focusing on enhancing the collaboration and cooperation among all companies in the supply chain with the goal of satisfying our customers' needs timely and effectively. Therefore, selecting and retaining good suppliers is a significant factor to ensure quality and operation effectiveness.

Our garment manufacturing suppliers are few, relative to the volume of our business, but they all typically have a close and long-term relationship with our Group. Located in China and Philippines, they are selected based on their production capability, quality management system, CSR management and cost competitiveness. In order to monitor and work closely with our outsourced factories, we position at each of these factory sites our Quality Assurance and Social Compliance team to collaborate closely with the factory ensuring our code of conduct standards, on-site quality control inspection are assessed on a regular basis. For the materials suppliers, which are largely customer-nominated, the Group has also a dedicated trim and fabric team to properly manage our supplier base with relevant requirements in meeting our product specifications.

## 15. PRODUCT RESPONSIBILITY

### 15.1 Product Safety and Health

The Group places a high priority and awareness on product quality and safety. This is an area where we put considerable effort to meet and exceed our customer expectations. In term of the product safety, most of the raw materials are nominated by our customer, and all materials and products need to pass a rigid compliance process and meet the testing requirements against our customer specifications. In addition, the compliance function of our Group keeps abreast of all requirements and regulations of product safety, and ensure high-risk products, such as children wear with draw cords, receive the necessary attention during the manufacturing process and quality control check points.

The Group establishes a quality assurance (QA) team to oversee the quality of products throughout the production process with robust systems and procedures. All finished goods needs to go through a rigorous inspection protocol prior to packing and delivery. We do not encounter any product safety issues during the reporting period.

### 15.2 Intellectual Property and Customer Privacy

The Group respects and protects our customers' intellectual property. We have systematic measures and handling procedures in our production facilities to maintain strict control over customer's licensed materials, including but not limited to secure storage of licensed material and accountability for the issued materials at the end of each shift. For the personal and trade information with customers, the Group controls access to such information, and ensure those who possess such information know the importance of confidentiality and privacy. Unauthorized disclosure of such information may be a breach of the Company's employment contract.

The Group has no non-compliance issues with any laws and regulations due to intellectual property rights and data privacy-related matters in the reporting period.

## 16. ANTI-CORRUPTION

Integrity is one of the core values of our Group. We manage our business with a high level of integrity and a heightened awareness to prevent corruption through strengthening the management control process, implementing systems and procedures and conducting periodic review of internal controls.

A clear code of conduct against anti-corruption is stated in the employee handbook of our group. Our anti-corruption policy stipulates that no employee may solicit or accept personal benefits from any parties involved in any business transactions conducted with or on behalf of the Group. We do not tolerate any form of corruption, and take the most serious view of any attempt to commit corrupt practices. Any cases of suspected corruption will be properly investigated and appropriate action taken including reporting to the appropriate authorities, disciplinary action, prosecution and active pursuit of recovery.

The Group's corporate culture encourages communication directly with the most senior management so that employees feel free to speak up against suspected acts of bribery or corrupt practices. We did not have any litigation or allegation of corruption in the reporting period.

## 17. CHEMICAL MANAGEMENT

### 17.1 Restricted Substances List

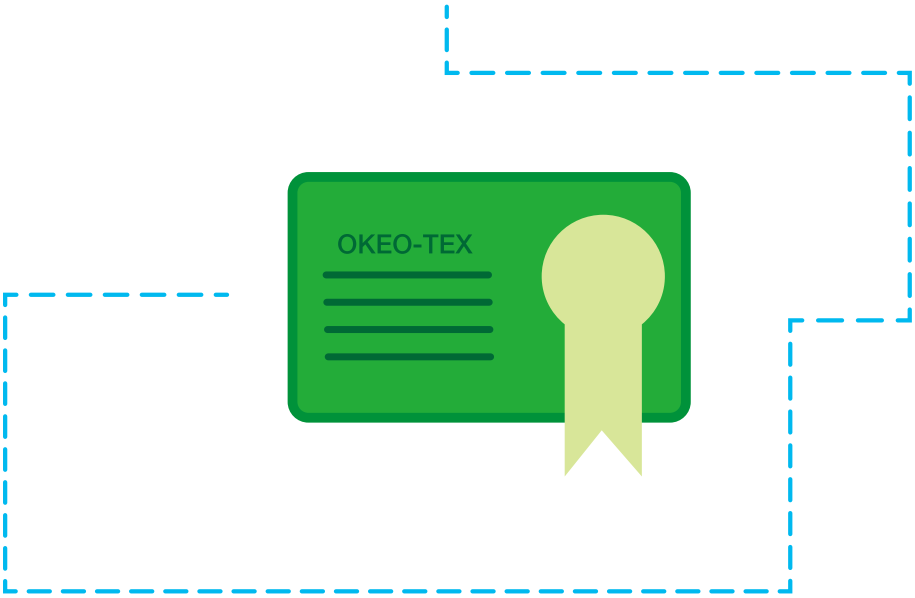
Sterling Group is fully aware that any hazardous substances in garments are not only harmful to our end customers, but also directly damage our environment. Therefore, we are committed to upholding our product integrity standards, ensuring that our materials used and the final garments made comply with the hazardous substances requirements. In order to accomplish our goal, the Group formulated its own Restricted Substances List (RSL) policy and requirements in 2015, which is also aligned with AFIRM restricted substances list. The policy and procedure stipulate our expectations to materials suppliers in regard to the use of chemicals. RSL is a list of chemicals restricted in consumer products and its adoption aims to reduce the use of hazardous substances in our supply chains and final products.

In 2019, Sterling Group started to collaborate with one of our customers, a large established UK based luxury fashion brand, to strengthen our chemical management of fabric mills by utilizing Manufacturing Restricted Substance List (MRSL) from Zero Discharge of Hazardous Chemicals (ZDHC) Program to avoid using potentially hazardous substances in its manufacturing process. This is accomplished by effluent testing against ZDHC standard.

## 17.2 Okeo-Tex

Sterling Group is one of the strategic partners to produce flight crew uniforms for one of the largest airlines in America using STANDARD 100 by OEKO-TEX.

Since 1992, STANDARD 100 by OEKO-TEX has been a globally standardized, independent mark of quality for raw, semi-finished and finished textiles products from all stages of production and for all accessory materials used in the process. This global certification system assures manufacturers, brands, retailers and consumers that certified products meet the strict limit value for harmful substances of STANDARD 100 and ensure these substances are not present in critical concentrations. The harmful substances include but not limited to: pesticides, carcinogenic colourants, heavy metals, azo dyes, formaldehyde, pentachlorophenol, cadmium, nickel, etc. and are aligned with important legal regulations such as requirements from the US Consumer Product Safety Improvement Act.




We collaborated with all the materials suppliers used in airline uniform program by working with the entire supply chain to ensure that all materials supplied are strictly legally compliant with the requirements of modular system of STANDARD 100, and that Sterling Group (Chiefway International Limited) is the STANDARD 100 by OEKO-TEX company to provide the final garments bearing the STANDARD 100 product label. Merchandise bearing this label stands for consumer protection and human-ecological product safety.

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# Independent Auditor's Report

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**TO THE SHAREHOLDERS OF STERLING GROUP HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Sterling Groups Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 69 to 147, which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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 of goodwill

Refer to Note 20 and the Group's critical accounting estimates and judgements in relation to impairment of goodwill set out in Note 5b(i) to the consolidated financial statements.

As at 31 March 2019, the Group had goodwill of HK$17,803,000 relating to the acquisitions of Chiefway International Limited in Hong Kong, Zhi Wei (Guangzhou) Garment Manufacturing Co., Limited ("Zhi Wei") in the People's Republic of China ("the PRC") and Chiefway (Private) Limited ("Chiefway (PVT)") in Sri Lanka. Goodwill is assessed annually for impairment.

## KEY AUDIT MATTERS *(Continued)*

### Impairment assessment of goodwill *(Continued)*

Management concluded that there was no impairment in respect of the cash-generating units to which goodwill was allocated. This conclusion was based on value-in-use calculations that require the estimation of recoverable amounts, as detailed in Note 20 to the consolidated financial statements.

We identified impairment assessment on goodwill as a key audit matter because of its potential significance to the consolidated financial statements. The estimation of recoverable amounts of the cash-generating units to which goodwill was allocated involves a significant degree of judgement and estimation on 5-year period cash flow forecasts of the businesses to be made by management.

#### Our response

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

- Assessing the reasonableness of key assumptions, in particular those relating to the 5-year period cash flow forecasts underlying the value-in-use calculations;

- Assessing management's historical forecasting accuracy by comparing previous projections to actual results achieved; and

- Checking, on a sample basis, the accuracy and relevance of the data provided by management, such as growth rates and discount rates used.

## OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

## DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional 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.

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

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

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

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

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

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

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

**BDO Limited**
*Certified Public Accountants*

**Chow Tak Sing, Peter**
Practising Certificate no. P04659

Hong Kong, 26 June 2019

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2019

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| Revenue | 7 | 641,733 | 676,856 |
| Cost of sales | | (548,834) | (552,029) |
| **Gross profit** | | 92,899 | 124,827 |
| Other revenue | 8 | 4,807 | 4,880 |
| Other gains and losses, net | 9 | 398 | 1,578 |
| Selling and distribution costs | | (41,048) | (43,194) |
| General and administrative expenses | | (62,257) | (50,283) |
| Listing expenses | | (8,937) | (6,069) |
| Finance costs | 10 | (7,984) | (5,892) |
| **(Loss)/profit before income tax expense** | 11 | (22,122) | 25,847 |
| Income tax expense | 14 | (548) | (5,835) |
| (Loss)/profit for the year | | (22,670) | 20,012 |
| **Other comprehensive income, net of tax** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange difference arising on translation of foreign operations | | 993 | 17 |
| Remeasurement gain/(loss) on defined benefit plan for the year | | 378 | (118) |
| Other comprehensive income/(expense) for the year | | 1,371 | (101) |
| Total comprehensive (expense)/income for the year | | (21,299) | 19,911 |
| **(Loss)/profit and total comprehensive (expense)/income for the year attributable to owners of the Company** | | (21,299) | 19,911 |
| | | HK cents | HK cents |
| **(LOSS)/EARNINGS PER SHARE** | | | |
| **– Basic** | 15 | (3.29) | 3.34 |

# Consolidated Statement of Financial Position

As at 31 March 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Prepaid insurance premium | 17 | 8,358 | 7,966 |
| Property, plant and equipment | 18 | 49,738 | 59,864 |
| Payment for leasehold land held for own use under operating lease | 19 | 23,329 | 23,907 |
| Deferred tax assets | 30 | 321 | 15 |
| Goodwill | 20 | 17,803 | 16,792 |
| **Total non-current assets** | | 99,549 | 108,544 |
| **Current assets** | | | |
| Inventories | 21 | 37,094 | 39,742 |
| Trade and other receivables | 22 | 169,698 | 143,676 |
| Amounts due from related parties | 23 | – | 4,272 |
| Tax recoverable | | 3,605 | 1,720 |
| Cash and cash equivalents | 24 | 75,687 | 66,536 |
| **Total current assets** | | 286,084 | 255,946 |
| **Total assets** | | 385,633 | 364,490 |
| **Current liabilities** | | | |
| Trade, bills and other payables | 25 | 77,305 | 84,486 |
| Amounts due to shareholders | 26 | – | 8,428 |
| Amount due to a related party | 27 | – | 1,049 |
| Bank borrowings | 28 | 190,443 | 197,176 |
| Income tax payable | | 268 | 2,565 |
| **Total current liabilities** | | 268,016 | 293,704 |
| **Net current assets/(liabilities)** | | 18,068 | (37,758) |
| **Non-current liabilities** | | | |
| Defined benefit obligation | 29 | 2,073 | 2,252 |
| **Total non-current liabilities** | | 2,073 | 2,252 |
| **NET ASSETS** | | 115,544 | 68,534 |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 31 | 8,000 | –* |
| Share premium | 31 | 66,541 | – |
| Reserves | 32 | 41,003 | 68,534 |
| **TOTAL EQUITY** | | 115,544 | 68,534 |

* Represents amount less than HK$1,000

The consolidated financial statements on pages 69 to 147 were approved and authorised for issue by the Board of Directors on 26 June 2019 and are signed on its behalf by:

**Choi Siu Wai William**
*Chairman*

**Wong Mei Wai Alice**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2019

| | Share Capital HK$'000 *(Note 31)* | Share Premium HK$'000 *(Note 31)* | Contributed reserve HK$'000 *(Note 32)* | Translation reserve HK$'000 *(Note 32)* | Remeasurement reserve HK$'000 *(Note 32)* | Retained earnings HK$'000 *(Note 32)* | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 April 2017** | – | – | 10,000 | (13) | – | 56,558 | 66,545 |
| Profit for the year | – | – | – | – | – | 20,012 | 20,012 |
| Exchange difference arising on translation of foreign operations | – | – | – | 17 | – | – | 17 |
| Acquisition of a subsidiary by share allotment | – | – | 78 | – | – | – | 78 |
| Remeasurement loss on defined benefit plan for the year | – | – | – | – | (118) | – | (118) |
| Total comprehensive income for the year | – | – | 78 | 17 | (118) | 20,012 | 19,989 |
| Share issued for cash consideration | –* | – | – | – | – | – | –* |
| Dividends *(Note 16)* | – | – | – | – | – | (18,000) | (18,000) |
| **Balance as at 31 March 2018 and 1 April 2018** | –* | – | 10,078 | 4 | (118) | 58,570 | 68,534 |
| Initial application of HKFRS 9 | – | – | – | – | – | (232) | (232) |
| **Restated balance at 1 April 2018** | –* | – | 10,078 | 4 | (118) | 58,338 | 68,302 |
| Loss for the year | – | – | – | – | – | (22,670) | (22,670) |
| Exchange difference arising on translation of foreign operations | – | – | – | 993 | – | – | 993 |
| Remeasurement gain on defined benefit plan for the year | – | – | – | – | 378 | – | 378 |
| Total comprehensive income/(expense) for the year | – | – | – | 993 | 378 | (22,670) | (21,299) |
| Effect on Reorganisation | –* | – | – | – | – | – | –* |
| Capitalisation Issue | 6,000 | – | (6,000) | – | – | – | – |
| Issuance of new shares upon listing | 2,000 | 66,541 | – | – | – | – | 68,541 |
| Balance as at 31 March 2019 | 8,000 | 66,541 | 4,078 | 997 | 260 | 35,668 | 115,544 |

* Represents amount less than HK$1,000

# Consolidated Statement of Cash Flows

For the year ended 31 March 2019

| | Notes | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before income tax expense | | (22,122) | 25,847 |
| Adjustments for: | | | |
| Amortisation of prepaid insurance premium | | – | 222 |
| Imputed interest income from prepaid insurance premium | | – | (293) |
| Depreciation of property, plant and equipment | | 11,618 | 11,296 |
| Amortisation of payment for leasehold land held for own use under operating lease | | 578 | 570 |
| Provision for defined benefits plan | | 484 | 431 |
| Fair value changes on prepaid insurance premium | | (251) | – |
| Interest income | | (82) | (20) |
| Expected credit loss on trade receivables, net | | 515 | – |
| Gain on disposal of property, plant and equipment | | (2) | (1) |
| Reversal of written down of inventories | | (5) | (74) |
| Finance costs | | 7,984 | 5,892 |
| **Operating (loss)/profit before working capital changes** | | (1,283) | 43,870 |
| Decrease/(increase) in inventories | | 2,653 | (4,237) |
| Increase in trade and other receivables | | (20,595) | (38,395) |
| Increase in amounts due from related parties | | – | (267) |
| Decrease in trade, bills and other payables | | (6,441) | (8,751) |
| Increase in amounts due from related parties | | – | 17,791 |
| Cash (used in)/generated from operations | | (25,666) | 10,011 |
| Settlement of defined benefit obligation | | (180) | (290) |
| Income tax paid | | (4,991) | (274) |
| **Net cash (used in)/generated from operating activities** | | (30,837) | 9,447 |
| **Cash flows from investing activities** | | | |
| Interest received | | 82 | 20 |
| Cash advances to related parties | | – | (4,004) |
| Repayment from related parties | | 4,272 | – |
| Purchases of property, plant and equipment | | (2,621) | (9,434) |
| Proceed from disposal of property, plant and equipment | | 2 | – |
| Addition of payment for leasehold land held for own use under operating lease | | – | (1,560) |
| **Net cash generated from/(used in) investing activities** | | 1,735 | (14,978) |

# Consolidated Statement of Cash Flows

For the year ended 31 March 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Cash flows from financing activities** | 39 | | |
| Cash advance from a related party | | – | 7,466 |
| Repayment to a related party | | (1,049) | – |
| Repayment to shareholders | | (8,428) | (7,403) |
| Cash advances from shareholders | | – | 78 |
| Interim dividend paid | | – | (9,000) |
| Payments of listing expenses | | (17,820) | (8,300) |
| Proceeds from issue of new ordinary shares upon listings | | 80,000 | – |
| Proceeds from bank borrowings | | 600,747 | 499,501 |
| Repayment of bank borrowings | | (607,480) | (451,370) |
| Interest paid | | (7,984) | (5,892) |
| **Net cash generated from financing activities** | | 37,986 | 25,080 |
| **Net increase in cash and cash equivalents** | | 8,884 | 19,549 |
| **Cash and cash equivalents at the beginning of year** | | 66,536 | 47,140 |
| **Effect of change in foreign exchange rate** | | 267 | (153) |
| **Cash and cash equivalents at the end of year** | | 75,687 | 66,536 |
| **Analysis of the balances of cash and cash equivalents:** | | | |
| Bank balances and cash | | 75,687 | 66,536 |

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

## 1. GENERAL INFORMATION AND REORGANISATION

### (a) General information

Sterling Group Holdings Limited ("The Company") was incorporated in the Cayman Islands on 6 June 2017, as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 19 October 2018.

The registered office of the Company is located at the offices of Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Its principal place of business is 18-20/F., Win Plaza, 9 Sheung Hei Street, San Po Kong, Kowloon, Hong Kong. The ultimate controlling shareholders are Moonlight Global Limited ("Moonlight") and Rainbow Galaxy Limited ("Rainbow Galaxy") respectively.

The Company is an investment holding company and the Group is principally engaged in the provision of manufacturing and trading of apparel products in the markets of the United States of America ("USA"), Italy and United Kingdom ("UK").

### (b) Reorganisation

Pursuant to a group reorganisation which was completed on 21 June 2018 as detailed in the section headed "History, Reorganisation and Corporate Structure" in the prospectus of the Company dated 29 September 2018 (the "Prospectus"), the Company became the holding company of the subsidiaries comprising the Group.

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

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

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

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

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

#### A HKFRS 9 – Financial Instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 April 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

##### *(i) Classification and measurement of financial instruments*

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

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of retained earnings as of 1 April 2018 as follows (increase/(decrease)):

| | HK$'000 |
|---|---|
| Retained earnings as at 1 April 2018 | 58,570 |
| Increase in expected credit losses ("ECLs") in trade receivables | (278) |
| Increase in expected credit losses in deferred tax assets | 46 |
| Restated retained earnings as at 1 April 2018 | 58,338 |

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

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

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

#### A HKFRS 9 – Financial Instruments *(Continued)*

##### *(i) Classification and measurement of financial instruments (Continued)*

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

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

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

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

Amortised cost would be applied to the Group's financial assets. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

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

| | |
|---|---|
| FVTPL | FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss. |
| Amortised cost | Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss. |

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

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

A HKFRS 9 – Financial Instruments *(Continued)*

*(i) Classification and measurement of financial instruments (Continued)*

(a) The Group's prepaid insurance premium of HK$8,107,000 were previously classified as loan and receivables placed for life insurance policy and measured at amortised cost under HKAS 39. Under HKFRS 9, as prepaid insurance premium whose cash flow characteristics fail to meet the SPPI criterion. As a result, prepaid insurance premium has been classified and measured as financial assets at FVTPL. As at 1 April 2018, the difference between the carrying amount and the fair value of the prepaid insurance premium is immaterial, no transition adjustment against the opening balance of equity at 1 April 2018 was made.

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

| **Financial assets** | **Original classification under HKAS 39** | **New classification under HKFRS 9** | **Carrying amount as at 1 April 2018 under HKAS 39** HK$'000 | **Carrying amount as at 1 April 2018 under HKFRS 9** HK$'000 |
|---|---|---|---|---|
| Prepaid insurance premium | Loans and receivables | FVTPL | 8,107 | 8,107 |
| Trade and other receivables | Loans and receivables | Amortised cost | 128,914 | 128,636 |
| Amounts due from related parties | Loans and receivables | Amortised cost | 4,272 | 4,272 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 66,536 | 66,536 |

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

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

#### A HKFRS 9 – Financial Instruments *(Continued)*

##### *(ii) Impairment of financial assets*

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

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

*Measurement of ECLs*

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 365 days past due.

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

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

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

A HKFRS 9 – Financial Instruments *(Continued)*

*(ii) Impairment of financial assets (Continued)*

*Presentation of ECLs*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt instruments at FVTOCI, the loss allowance is recognised in other comprehensive income, instead of reducing the carrying amount of the assets.

*Impact of the ECL model*

(I) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a life time ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance as at 1 April 2018 was determined as follows for trade receivables as follows:

| 1 April 2018 | Current | Less than 3 months past due | More than 3 months but less than 6 months past due | More than 6 months but less than 12 months past due | More than 1 years past due | More than 2 years past due | Total |
|---|---|---|---|---|---|---|---|
| Expected credit loss rate (%) | 0.1% | 0.5% | 2.0% | 5.0% | 10% | 100% | – |
| Gross carrying amount (HK$'000) | 99,551 | 20,472 | 2,413 | 476 | 41 | – | 122,953 |
| Loss allowance (HK$'000) | 100 | 102 | 48 | 24 | 4 | – | 278 |

The increase in loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 April 2018 were HK$278,000. The loss allowances further increased by HK$515,000 for trade receivables during the year ended 31 March 2019.

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

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

A HKFRS 9 – Financial Instruments *(Continued)*

*(ii) Impairment of financial assets (Continued)*

*Impact of the ECL model (Continued)*

(II) Impairment of other receivables

For other financial assets carried at amortised cost, the expected credit loss is based on the 12-month expected credit loss. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the expected credit loss is immaterial as at 1 April 2018.

As a result of the above changes, the impact of the new HKFRS 9 expected credit loss model results in additional loss allowance as follow:

| | HK$'000 |
|---|---|
| Loss allowance as at 1 April 2018 under HKAS 39 | – |
| Expected credit loss recognised for trade receivables | 278 |
| Loss allowance as a 1 April 2018 under HKFRS 9 | 278 |

*(iii) Hedge accounting*

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

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

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

#### A HKFRS 9 – Financial Instruments *(Continued)*

##### *(iv) Transition*

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

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

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVTOCI.

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

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

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

#### B HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised goods or services in the contract. HKFRS 15 identifies 3 situations in which control of the promised goods or services is regarded as being transferred over time:

(a) when the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

(b) when the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) when the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15, the entity recognises revenue for the sale of that goods or services at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

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

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

#### B HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") *(Continued)*

*Nature of the goods, satisfaction of performance obligations and payments*

The Group recognise revenue from the sales of apparel products.

Sales are recognised when control of the products has been transferred, being when the products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. There is generally only one performance obligation in the contract.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Invoices are usually payable within 90 days.

*Nature of change in accounting policy and impact on 1 April 2018*

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 April 2018 which resulted in changes in accounting policies.

In accordance with the transitional provisions in HKFRS 15, comparative figures have not been restated.

The Group assessed the impacts of adopting HKFRS 15 on its financial statements. Based on the assessment, the adoption of HKFRS 15 has no significant impact on the Group's revenue recognition.

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

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

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

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKAS 1 (Revised) and HKAS 8 | Definition of Material[2] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKFRS 3 (Revised) | Definition of Business[2] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKFRS 3, Business Combinations[1] |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKAS 12, Income Taxes[1] |
| Annual Improvements to HKFRSs 2015–2017 Cycle | Amendments to HKAS 23, Borrowing Costs[1] |

1 Effective for annual periods beginning on or after 1 April 2019

2 Effective for annual periods beginning on or after 1 April 2020

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

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

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

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

#### HKFRS 16 – Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As set out in Note 37, the total operating lease commitment of the Group in respect of rented premises as at 31 March 2019 amounted to HK$33,240,000 in which HK$32,654,000 were with original lease term over 1 year. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases at its present value upon the application of HKFRS 16. The combination of straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term, but there is no impact on the total expenses recognised over the lease term.

The directors of the Group do expect recognition of right-of-use assets and lease liabilities in the consolidated statement of financial position will materially affect certain items on statement of financial position of the Group, resulting in a potential increase in net current liabilities. As for the financial performance impact in the consolidated statements of profit or loss and other comprehensive income, rental and related expenses will decrease, while depreciation and amortisation expense and finance costs will increase and will not have material impact on the overall financial results of the Group over the entire lease terms of the lease contracts. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that may be subject to change until the Group finalises its financial statements for the year ending 31 March 2020.

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

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

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

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at FVTOCI if specified conditions are met – instead of at FVTPL.

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

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

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

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

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

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

The Group has already commenced an assessment of the impact of adopting the above standards and amendments to existing standards to the Group. Except as HKFRS 16 described above, the directors of the Company anticipate that the application of other new and amendments to HKFRSs and an interpretation will have no material impact on the Group's financial performance and positions and/or the disclosures to the financial statements of the Group.

## 3. BASIS OF PREPARATION

### (a) Basis of presentation

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

### (b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

### (c) Functional and presentation currency

The financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

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

### (b) Subsidiaries

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

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the Company and other parties who hold voting rights;
- Other contractual arrangements; and
- Historic patterns in voting attendance.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

### (d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

| | |
|---|---|
| Leasehold land | Over the remaining terms of the lease including renewal periods |
| Land and buildings | Over the shorter of the term of the lease or 20–50 years |
| Leasehold improvements | 5 years |
| Plant and machinery | 5–10 years |
| Furniture and fixtures | 5 years |
| Office equipment | 5 years |
| Computer equipment | 3–10 years |
| Motor vehicles | 5–10 years |

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Property, plant and equipment *(Continued)*

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected arise from the continued use of the asset.

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

### (e) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

### (f) Leasing

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

#### The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

### (g) Inventories

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

#### (i) Financial assets

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

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

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

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h)A Financial Instruments (accounting policies applied from 1 April 2018) *(Continued)*

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

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

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

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h)A Financial Instruments (accounting policies applied from 1 April 2018) *(Continued)*

#### (iii) Financial liabilities

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

Financial liabilities at amortised cost including trade, bills and other payables, amounts due to the shareholders and a related party and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

#### (iv) Effective interest method

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

#### (v) Equity instruments

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

#### (vi) Derecognition

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h)B Financial Instruments (accounting policies applied until 31 March 2018)

The group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the group's previous accounting policy.

#### (i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at FVTPL are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

*Loans and receivables*

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

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

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h)B Financial Instruments (accounting policies applied until 31 March 2018) *(Continued)*

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

*For loans and receivables*

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h)B Financial Instruments (accounting policies applied until 31 March 2018) *(Continued)*

#### (iii) Financial liabilities

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

*Financial liabilities at amortised cost*

Financial liabilities at amortised cost including trade, bills and other payables, amounts due to the shareholders and a related party and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

#### (iv) Effective interest method

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

#### (v) Equity instruments

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

#### (vi) Derecognition

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

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

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

#### Sales of apparel products

Customers obtain control of apparel products when the goods are delivered to and have been accepted. Revenue is thus recognised upon the customers accepted the apparel products. There is generally only one performance obligation. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Invoices are usually payable within 60 days.

In the comparative period, revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i)A Revenue recognition (accounting policies applied from 1 April 2018) *(Continued)*

Other revenue

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant leases.

Dividend income is recognised when the right to receive the dividend is established.

### (i)B Revenue recognition (accounting policies until 31 March 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of estimated customer returns, rebates and other similar allowances and excludes value added tax.

Revenue from the sale of goods is recognised when the goods are delivered and the title has been passed, at which time, all of the following are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from banks imputed interest income from prepaid insurance premium are accrued on a time basis on the principal outstanding amount at the applicable interest rate.

Claims income is recognised when the defective raw materials from suppliers are discovered by the Group and the right to receive such compensation is established.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Contract assets and liabilities (accounting policies applied from 1 April 2018)

A contract asset represents the Group's right to consideration in exchange for goods that the Group has transferred to a customer that is not yet unconditional.

It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

A contract asset is recognised when the group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 4(h)A(ii) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the group recognises the related revenue. A contract liability would also be recognised if the group has an unconditional right to receive consideration before the group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

### (k) Income taxes

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

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

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

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

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Foreign currencies

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Employee benefits

#### (i) Short term employee benefits

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

#### (ii) Defined contribution retirement plan

Contributions to the Mandatory Provident Fund Scheme, Employees' Provident Fund, Employees' Trust Fund in Hong Kong and Sri Lanka respectively and PRC stated-managed retirement benefits scheme in the PRC are recognised as an expense in profit or loss when the services are rendered by the employees.

#### (iii) Defined benefit retirement plan

Net obligation in respect of defined benefit retirement plans in Sri Lanka is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the end of each of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligation. The calculation is performed annually using the projected unit credit method.

Gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to statement of other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss.

#### (iv) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (n) Impairment of assets (other than financial assets)

At the end of each of the reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- prepaid insurance premium;
- property, plant and equipment;
- prepayment for leasehold land; and
- payment for leasehold land held for own use under operating lease

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

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

### (o) Provisions and contingent liabilities

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

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

### (p) Cash and cash equivalents

Cash comprises cash in hand and at bank and demand deposits with bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

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

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

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

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

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

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

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

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

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

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

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

#### (i) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currency of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

### (b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

#### (i) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

#### (ii) Estimated useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives. It will write-off or written down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future periods.

## 5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### (b) Key sources of estimation uncertainty *(Continued)*

#### (iii) Estimated impairment of trade receivables

The Group recognises lifetime ECL for trade receivables, using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

#### (iv) Net realisable value of inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less the estimated costs necessary to mark the sale. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to the changes in market condition. Management reassesses these estimations at the reporting date.

#### (v) Income taxes

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

## 5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### (b) Key sources of estimation uncertainty *(Continued)*

#### (vi) Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures the life insurance policy (Note 17) at fair value.

For more detailed information in relation to the fair value measurement of the item above, please refer to the Note 36 to the consolidated financial statements.

## 6. SEGMENT INFORMATION

### Operating segments

The Group was principally engaged in the manufacturing and trading of apparel products. Information reported to the Group's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole, as the Group's resources are integrated and no discrete operating segment is available. Accordingly, the Group has only one business segment and no further analysis of this single segment is considered necessary.

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

### Segment revenues and results

The following is an analysis of the Group's revenue that is disaggregated by major products, primary geographical market and timing of revenue recognition and results from continuing operations by reportable segment.

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Major products** | | |
| Outerwear | 242,126 | 221,688 |
| Bottoms | 249,076 | 286,345 |
| Tops | 32,980 | 38,178 |
| Others *(Note a)* | 117,551 | 130,645 |
| Total | 641,733 | 676,856 |
| **Primary geographical markets** | | |
| USA | 582,997 | 626,779 |
| Italy | 39,519 | 21,953 |
| UK | 11,680 | 19,799 |
| Others *(Note b)* | 7,537 | 8,325 |
| | 641,733 | 676,856 |
| **Timing of revenue recognition** | | |
| At a point in time | 641,733 | 676,856 |
| Transferred over time | – | – |
| | 641,733 | 676,856 |

*Note a:* Others products mainly includes dresses, suits, gown, scarf, jumpsuits and vests.

*Note b:* Others mainly includes Japan, Netherlands and Canada.

## 6. SEGMENT INFORMATION *(Continued)*

### Information about the Group's non-current assets

Information about the Group's non-current assets other than prepaid insurance premium is presented based on the client's location of the assets:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Hong Kong | 16,984 | 21,628 |
| PRC | 14,504 | 16,353 |
| Sri Lanka | 59,703 | 62,597 |
| | 91,191 | 100,578 |

### Information about major customers

Revenue attributed from customers that accounted for 10% or more of the Group's total revenue for the years ended 31 March 2019 and 31 March 2018 is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Customer A | 445,511 | 339,548 |
| Customer B | 130,073 | 285,342 |

## 7. REVENUE

The Group's revenue represents the net invoiced value of goods sold recognised in accordance with accounting policy set out in Note 4(i).

The following table provides information about trade receivables from contracts with customers.

| | As at<br>31 March<br>2019<br>HK$'000 | As at<br>1 April<br>2018<br>HK$'000 | As at<br>31 March<br>2018<br>HK$'000 |
|---|---|---|---|
| Trade receivables | 152,891 | 122,675 | 122,953 |

## 8. OTHER REVENUE

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Bank interest income | 82 | 20 |
| Imputed interest income from prepaid insurance premium | – | 293 |
| Sample sales income | 3,789 | 4,048 |
| Claims income | 936 | 519 |
| | 4,807 | 4,880 |

## 9. OTHER GAINS AND LOSSES, NET

The Group's other gains and losses, net, recognised during the reporting period are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Expected credit loss on trade receivables, net | (515) | – |
| Gain on disposal of property, plant and equipment | 2 | 1 |
| Fair value changes on prepaid insurance premium | 251 | – |
| Exchange gains, net | 660 | 1,577 |
| | 398 | 1,578 |

## 10. FINANCE COSTS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Interest on bank borrowings | | |
| – trust receipt loans | 3,758 | 3,588 |
| – term and revolving loans | 4,224 | 2,303 |
| – bank overdraft | 2 | 1 |
| | 7,984 | 5,892 |

## 11. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

The Group's operating (loss)/profit is arrived at after charging/(crediting):

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Auditor's remuneration | 1,180 | 485 |
| Depreciation of property, plant and equipment *(Note (i))* | 11,618 | 11,296 |
| Amortisation of payment for leasehold land held for own use under operating lease *(Note (ii))* | 578 | 570 |
| Amortisation of prepaid insurance premium | – | 222 |
| Imputed interest income from prepaid insurance premium | – | (293) |
| Fair value changes on prepaid insurance premium | (251) | – |
| Expected credit loss on trade receivables | 515 | – |
| Cost of inventories recognised as expense *(Note (iii))* | 548,834 | 552,029 |
| Listing expenses | 8,937 | 6,069 |
| Reversal of written down of inventories | (5) | (74) |
| Minimum lease payment under operating lease in respect of | | |
| – Motor vehicles | 531 | 536 |
| – Land and buildings | 4,475 | 1,062 |
| Employee costs *(Note (iv))* | 137,879 | 135,122 |

(i) For the years ended 31 March 2019 and 2018, depreciation charges of HK$7,874,000 and HK$7,074,000 included in direct operating costs and HK$3,744,000 and HK$4,222,000 included in general and administrative expenses.

(ii) For the years ended 31 March 2019 and 2018, amortisation charges of HK$357,000 and HK$349,000 included in direct operating costs and HK$221,000 and HK$221,000 included in general and administrative expenses.

(iii) For the years ended 31 March 2019 and 2018, cost of inventories recognised as expense includes HK$140,680,000 and HK$118,351,000 of subcontracting charge, depreciation, amortisation charges, staff cost and manufacturing overhead, which are also included in the respective total amounts disclosed above for each types of expenses.

(iv) For the years ended 31 March 2019 and 2018, employee costs of HK$77,518,000 and HK$75,381,000 included in direct operating costs; HK$20,855,000 and HK$27,036,000 included in selling and distribution costs; and HK$39,506,000 and HK$32,705,000 included in general and administrative expenses.

## 12. EMPLOYEE COSTS

Employee costs (including directors' emoluments (Note 13(i))) comprise:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Wages and salaries | 117,852 | 117,395 |
| Short-term non-monetary benefits | 8,151 | 7,667 |
| Contributions to defined contribution retirement plans | 11,393 | 9,629 |
| Contributions to defined benefit retirement plans | 483 | 431 |
| | 137,879 | 135,122 |

## 13. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

### (i) Directors' emoluments

Directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) (the Regulation) are as follows:

| | Fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Year ended 31 March 2019:** | | | | |
| *Executive directors:* | | | | |
| Ms. Wong Mei Wai Alice *(Note (a))* | 90 | 3,372 | 18 | 3,480 |
| Mr. Siu Yik Ming *(Note (c))* | 90 | 1,077 | 18 | 1,185 |
| Mr. Chung Sam Kwok Wai *(Note (d))* | 90 | 1,884 | 18 | 1,992 |
| *Non- executive director:* | | | | |
| Mr. Choi Siu Wai William *(Note (b))* | 90 | – | – | 90 |
| *Independent non-executive directors:* | | | | |
| Mr. Chan Kee Huen Michael *(Note (e))* | 90 | – | – | 90 |
| Mr. Cheng King Hoi Andrew *(Note (e))* | 90 | – | – | 90 |
| Mr. Ko Ming Tung Edward *(Note (e))* | 90 | – | – | 90 |
| | 630 | 6,333 | 54 | 7,017 |

## 13. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(Continued)*

### (i) Directors' emoluments *(Continued)*

| | Fees<br>HK$'000 | Salaries, allowances and benefits in kind<br>HK$'000 | Retirement benefit scheme contributions<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| **Year ended 31 March 2018:** | | | | |
| *Executive directors:* | | | | |
| Ms. Wong Mei Wai Alice *(Note (a))* | – | 3,274 | 18 | 3,292 |
| Mr. Siu Yik Ming *(Note (c))* | – | 726 | 12 | 738 |
| Mr. Chung Sam Kwok Wai *(Note (d))* | – | 1,178 | 12 | 1,190 |
| *Non- executive director:* | | | | |
| Mr. Choi Siu Wai William *(Note (b))* | – | – | – | – |
| *Independent non-executive directors:* | | | | |
| Mr. Chan Kee Huen Michael *(Note (e))* | – | – | – | – |
| Mr. Cheng King Hoi Andrew *(Note (e))* | – | – | – | – |
| Mr. Ko Ming Tung Edward *(Note (e))* | – | – | – | – |
| | – | 5,178 | 42 | 5,220 |

*Notes:*

(a) Ms. Wong Mei Wai Alice was appointed as executive director of the Company on 31 July 2017.

(b) Mr. Choi Siu Wai William was appointed as non-executive director of the Company on 31 July 2017.

(c) Mr. Siu Yik Ming was appointed as executive director of the Company on 31 July 2017.

(d) Mr. Chung Sam Kwok Wai was appointed as executive director of the Company on 31 July 2017.

(e) Mr. Chan Kee Huen Michael, Mr. Cheng King Hoi Andrew and Mr. Ko Ming Tung Edward were appointed as independent non-executive directors of the Company on 21 September 2018.

## 13. EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(Continued)*

### (ii) Five highest paid individuals

The five highest paid individuals whose emoluments were the highest in the Group include two (2018: two) directors for the year ended 31 March 2019, whose emoluments are reflected in the analysis as shown. The emoluments payable to the remaining three (2018: three) individuals for the year ended 31 March 2019 are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Wages, salaries, bonuses and benefits in kind | 8,872 | 5,852 |
| Contribution to retirement benefits schemes | 90 | 63 |
| | 8,962 | 5,915 |

The emoluments fell within the following bands:

| | Number of Individuals | |
|---|---|---|
| | 2019 | 2018 |
| Emolument bands | | |
| Nil – HK$1,000,000 | – | – |
| HK$1,000,001 – HK$1,500,000 | 3 | – |
| HK$1,500,001 – HK$2,000,000 | 1 | 4 |
| HK$2,000,001 – HK$3,000,000 | – | – |
| HK$3,000,001 – HK$3,500,000 | 1 | 1 |
| HK$3,500,001 – HK$4,000,000 | – | – |

During the year, none (2018: none) of the five highest paid individuals waived or agreed to waive any emoluments and there were no emoluments paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

## 14. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statements of profit or loss and other comprehensive income represents:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Hong Kong profits tax | | |
| – Current taxation | – | 6,785 |
| – Under provision in prior years | 360 | 566 |
| | 360 | 7,351 |
| Overseas profits tax | | |
| – Current taxation | 398 | 328 |
| – Under/(over) provision in prior years | 50 | (532) |
| | 448 | (204) |
| Deferred tax *(Note 30)* | | |
| – Current year | (260) | (1,312) |
| Income tax expense | 548 | 5,835 |

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, the Company incorporated in the Cayman Islands is not subject to any income tax.

For the year, Hong Kong profits tax for the Hong Kong subsidiaries has been provided at the rate of 16.5% (2018:16.5%) on the estimated assessable profits. A HK subsidiary of the Group has been entitled to a concessionary tax rate of 50% (2018: 50%) on the transactions made with a PRC subsidiary of the Group under the relevant contract processing arrangement. 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%.

Pursuant to the income tax rules and regulations of the PRC, the provision for PRC Enterprise Income Tax ("EIT") of the subsidiary of the Group is calculated based on the statutory tax rate of 25% (2018:25%) on the assessable profits for the year.

The provision for Sri Lanka Corporate Income Tax is based on the statutory rate of 14% (2018: 12%) of the assessable profit of the Sri Lanka subsidiaries of the Group for the year as determined in accordance with the Sri Lanka's Inland Revenue Act No. 10 of 2006.

## 14. INCOME TAX EXPENSE *(Continued)*

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| (Loss)/profit before income tax | (22,122) | 25,847 |
| Tax calculated at the profit tax rate of 16.5% applicable to profits | (3,650) | 4,265 |
| Effect of different tax rates of subsidiaries operating in other countries | 350 | (48) |
| Effect of tax exemption and reduction | (207) | (636) |
| Tax effect of expenses not deductible for tax purposes | 2,338 | 2,814 |
| Tax effect of revenue not taxable for tax purposes | (1,474) | (400) |
| Under provision in respect of prior years | 410 | 34 |
| Tax effect of temporary difference not recognised | 215 | (53) |
| Tax effect of tax losses not recognised | 2,628 | – |
| Utilisation of tax losses previously not recognised | (62) | (141) |
| Income tax expense | 548 | 5,835 |

## 15. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year ended 31 March 2019. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effect of the issue of shares in connection with the capitalisation of shares which took place on 19 October 2018.

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Earnings | | |
| (Loss)/profit attributable to owners of the Company for the purposes of calculations of basic earnings per share | (22,670) | 20,012 |

| | 2019<br>'000 | 2018<br>'000 |
|---|---|---|
| Number of shares | | |
| Weighted average number of ordinary shares for the purposes of calculations of basic earnings per share | 689,864 | 600,000 |

The weighted average number of ordinary shares for such purpose has been retrospectively adjusted for the effects of the issue of Shares in connection with the Reorganisation Issue and Capitalisation Issue (as defined in Note 31).

No diluted earnings per share for both 2019 and 2018 was presented as the Company did not have any dilutive potential ordinary shares in issue for both 2019 and 2018.

## 16. DIVIDEND

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Dividend for ordinary shareholders of the Company recognised as distribution during the year: | | |
| 2018 Interim dividend | – | 18,000 |

During the year ended 31 March 2018, an interim dividend of HK$18,000,000 was recognised as distribution by Sterling Apparel Limited ("SAL"), a wholly-owned subsidiary of the Group, to its then shareholders, being the Controlling Shareholders. No rate of dividend is presented as it is not considered meaningful for the purpose of this report.

The Board of directors do not recommend the payment of final dividend for the year ended 31 March 2019.

## 17. PREPAID INSURANCE PREMIUM

In February 2013, a subsidiary of the Company entered into a life insurance policy (the "Policy") with a bank to insure a director of the Company, Ms. Wong Mei Wai Alice. Under the Policy, the beneficiary and policy holder is a subsidiary of the Company and the total insured sum is USD$3,000,000 (equivalent to HK$23,250,000). At inception of the Policy, the Group paid a gross premium of approximately USD1,000,000 (equivalent to HK$7,750,000). The bank will pay the Group a guaranteed interest rate of 4% per annum for the first year and a variable return per annum afterwards (with minimum guaranteed interest rate of 2.0% per annum) during the effective period of the Policy. The Group can terminate the Policy at any time and can receive cash back at the date of termination based on the account value of the Policy ("Account Value"), which is determined by the gross premium paid plus accumulated guaranteed interest earned and minus any charges made in accordance with the terms and conditions of the policy. If termination is made between the first policy year to the end of surrender period stated in the Policy, there is a specified amount of surrender charge deducted from Account Value.

The Policy exposes the insurer to significant insurance risk. The gross premium paid at inception of the Policy consists of a deposit placed element and a prepayment for life insurance element. These two elements are recognised on the consolidated statement of financial position at the aggregate of the amount of gross premium paid plus interest earned, and after deducting the annual cost of insurance, other applicable charges as well as the amortisation of the expected surrender charge at the end of the tenth policy year.

The directors of the Company consider that the expected life of the Policy remains unchanged from the date of initial recognition and the financial impact of the option to terminate the Policy was not significant.

During the year, the deposit and prepayment for the Policy are pledged to secure general banking facilities granted to the Group (Note 28).

The deposit and prepayment for the Policy is denominated in US$, a currency other than the functional currency.

The deposits placed for life insurance policies were reclassified to financial assets at fair value through profit or loss upon the initial application of HKFRS 9 on 1 April 2018 as disclosed in Note 2(a)A(i). The changes in fair value of HK$251,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2019.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant & machinery HK$'000 | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Computer equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress ("CIP") HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| As at 1 April 2017 | 27,532 | 15,419 | 42,775 | 2,984 | 1,392 | 3,418 | 1,707 | – | 95,227 |
| Additions | 2,702 | 332 | 5,207 | 447 | 235 | 294 | – | 217 | 9,434 |
| Disposals | – | – | – | – | – | (2) | – | – | (2) |
| Exchange realignment | (72) | – | 359 | (7) | 6 | 218 | 89 | – | 593 |
| As at 31 March 2018 | 30,162 | 15,751 | 48,341 | 3,424 | 1,633 | 3,928 | 1,796 | 217 | 105,252 |
| Additions | 380 | – | 764 | 168 | 255 | 683 | 6 | 365 | 2,621 |
| Transfer from CIP | – | – | 217 | – | – | – | – | (217) | – |
| Disposals | – | – | (5) | – | – | – | – | – | (5) |
| Exchange realignment | (658) | – | (851) | (66) | (5) | (179) | (141) | (2) | (1,902) |
| As at 31 March 2019 | 29,884 | 15,751 | 48,466 | 3,526 | 1,883 | 4,432 | 1,661 | 363 | 105,966 |
| **Accumulated depreciation** | | | | | | | | | |
| As at 1 April 2017 | 1,334 | 9,823 | 17,814 | 1,429 | 650 | 1,689 | 928 | – | 33,667 |
| Depreciation | 1,074 | 2,579 | 6,063 | 563 | 238 | 468 | 311 | – | 11,296 |
| Eliminated on disposals | – | – | – | – | – | (2) | – | – | (2) |
| Exchange realignment | (6) | – | 262 | (4) | 1 | 108 | 66 | – | 427 |
| As at 31 March 2018 | 2,402 | 12,402 | 24,139 | 1,988 | 889 | 2,263 | 1,305 | – | 45,388 |
| Depreciation | 1,192 | 2,075 | 6,871 | 504 | 244 | 482 | 250 | – | 11,618 |
| Eliminated on disposals | – | – | (5) | – | – | – | – | – | (5) |
| Exchange realignment | (56) | – | (463) | (49) | (1) | (101) | (103) | – | (773) |
| As at 31 March 2019 | 3,538 | 14,477 | 30,542 | 2,443 | 1,132 | 2,644 | 1,452 | – | 56,228 |
| **Net book value** | | | | | | | | | |
| **As at 31 March 2019** | **26,346** | **1,274** | **17,924** | **1,083** | **751** | **1,788** | **209** | **363** | **49,738** |
| As at 31 March 2018 | 27,760 | 3,349 | 24,202 | 1,436 | 744 | 1,665 | 491 | 217 | 59,864 |

## 19. PAYMENT FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASE

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| At the beginning of the year | 23,907 | 6,642 |
| Transferred from prepayment for leasehold land | – | 16,275 |
| Addition | – | 1,560 |
| Amortised during the year | (578) | (570) |
| At the end of the year | 23,329 | 23,907 |

## 20. GOODWILL

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| At the beginning of the year | 16,792 | 16,792 |
| Exchange differences | 1,011 | – |
| At the end of the year | 17,803 | 16,792 |

### Impairment tests for cash-generating unit containing goodwill

For the purpose of impairment testing, goodwill arising from the business combinations is allocated to the appropriate cash generating unit ("CGU") of the Group identified as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Manufacturing and trading of apparel products | 17,803 | 16,792 |

The recoverable amount for the cash generating unit ("CGU") is determined based on value–in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using the estimated growth rates as stated below. The growth rate does not exceed the long-term average growth rate for the manufacturing finished apparel products business in which the CGU operates. The discount rates used for value-in-use calculations are pre-tax and reflect specific risks relating to the relevant CGU.

| | 2019 | 2018 |
|---|---|---|
| Budgeted gross margin | 19% | 19% |
| Average revenue growth rate | 5% | 5% |
| Growth rate | 5% | 5% |
| Pre-tax discount rate | 16% | 19% |

## 20. GOODWILL *(Continued)*

### Impairment tests for cash-generating unit containing goodwill *(Continued)*

The calculation of value-in-use for the CGUs is most sensitive to the following assumptions:

Budgeted gross margin – Gross margin is based on average value achieved in the five years preceding the start of the budget period. The budgeted gross margin is kept constant over the five-year period of the cash flow projection.

Average revenue growth rate – Average revenue growth rate is based on the average forecasted growth from the first year of budgeted growth for the remaining forecast period.

Growth rate – Forecasted growth rate is based on published industry research and does not exceed the long-term average growth rate for the industry relevant to the CGU.

Pre-tax discount rate – Pre-tax discount rate reflects the current market assessment of the risk specific to the CGU, regarding on the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the CGU and derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the CGU is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on the publicly available market data.

## 21. INVENTORIES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Raw materials and consumables | 32,332 | 35,039 |
| Work-in-progress | 3,348 | 1,965 |
| Finished goods | 1,414 | 2,738 |
| | 37,094 | 39,742 |

## 22. TRADE AND OTHER RECEIVABLES

| | As at 31 March 2019 HK$'000 | As at 1 April 2018 HK$'000 | As at 31 March 2018 HK$'000 |
|---|---|---|---|
| Trade receivables | 153,684 | 122,953 | 122,953 |
| Less: loss allowances *(Note)* | (793) | (278) | – |
| Trade receivables, net | 152,891 | 122,675 | 122,953 |
| Prepayments | 14,356 | 14,621 | 14,621 |
| Deferred listing expenses | – | 3,073 | 3,073 |
| Prepaid insurance premium | – | – | 141 |
| Other receivables | 721 | 1,077 | 1,077 |
| Utilities and sundry deposits | 1,730 | 1,811 | 1,811 |
| | 169,698 | 143,257 | 143,676 |

*Note:* Upon adoption of HKFRS 9, an opening adjustment as at 1 April 2018 was made to recognise expected credit loss on trade receivables (Note 2(a)A(ii)).

The ageing analysis of trade receivables, net of loss allowances at the end of each of the reporting period, based on the invoice date, is as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| 0 – 30 days | 59,379 | 73,908 |
| 31 – 90 days | 76,677 | 44,460 |
| 91 – 365 days | 16,162 | 4,492 |
| Over 365 days | 673 | 93 |
| | 152,891 | 122,953 |

The Directors consider that the fair values of trade receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

The credit period granted to trade debtors ranges 0-90 days from the invoice dates. Further details on the Group's credit policy and credit risk management are set out in Note 36(b)(ii).

The Group determined that these other receivables have low credit risk at reporting date and no significant increase in credit risk since initial recognition, which the ECL is based on the 12- months ECLs. The Group assessed that the credit standing of the tenor of such receivables is short. And of the deposits, in situation of a default, the Group might reduce the loss by negotiating settlement. No expected credit losses were provided as it is assessed that the overall expected credit loss for above financial assets measured at amortised cost is immaterial as at 31 March 2019.

## 23. AMOUNTS DUE FROM RELATED PARTIES

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Chiefway Lanka (Private) Limited ("Chiefway Lanka") | (a) | – | 4,004 |
| Winfield Group Limited ("Winfield") | (b) | – | 200 |
| Win 18 Limited ("Win 18") | (b) | – | 23 |
| Win 19 Limited ("Win 19") | (b) | – | 22 |
| Win 20 Limited ("Win 20") | (b) | – | 23 |
| | | – | 4,272 |

The amounts due from Winfield, Win 18, Win 19, Win 20 and Chiefway Lanka were non-trade in nature, unsecured, interest-free and repayable on demand.

*Notes:*

(a) Chiefway Lanka (Pvt) Limited is 100% owned by Mr. Siu Yik Ming, a director of the Group, who is also the son of the director, Ms. Wong Mei Wai Alice, and the son of the shareholder, Mr. Siu Chi Wai, of the Group.

(b) Mr. Siu Chi Wai and Mr. Choi Siu Wai William are shareholders of the Group and ultimate beneficial owners of Winfield, Win 18, Win 19 and Win 20.

The Group determined amounts due from related parties have low credit risk at reporting date and no significant increase in credit risk since initial recognition, which the ECL is recognised based on the 12-months ECLs and the provision for impairment were assessed to be immaterial as at 1 April 2018.

## 24. CASH AND BANK BALANCES

Cash at banks earned interest at floating rates based on the daily bank deposits rates.

Included in cash and bank balances of the Group was HK$3,455,000 (2018: HK$6,744,000) of bank balances denominated in Renminbi ("RMB") placed with the banks in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

## 25. TRADE, BILLS AND OTHER PAYABLES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Trade payables | 40,407 | 28,023 |
| Bills payables | 24,927 | 41,121 |
| Other payables and accruals | 11,971 | 15,342 |
| | 77,305 | 84,486 |

Bills payables have to be settled within three months from the date of issue.

The ageing analysis of trade payables based on invoice date are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| 0 – 30 days | 22,215 | 13,713 |
| 31 – 90 days | 18,057 | 13,186 |
| 91 – 365 days | 106 | 567 |
| Over 365 days | 29 | 557 |
| | 40,407 | 28,023 |

Credit terms granted by the suppliers are generally 0–90 days. All amounts have short maturity periods on their inception and hence the carrying amounts of trade and other payables are considered to be a reasonable approximation to their fair values.

## 26. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders are non-trade in nature, unsecured, interest-free and repayable on demand.

## 27. AMOUNT DUE TO A RELATED PARTY

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Chiefway Group Limited | – | 1,049 |

The amount due to Chiefway Group Limited is trade nature, unsecured, interest-free and repayable on demand.

*Note:* Chiefway Group Limited is 100% owned by Mr. Siu Yik Ming, a director of the Group, who is also the son of the director, Ms. Wong Mei Wai Alice, and the son of the shareholder, Mr. Siu Chi Wai, of the Group.

## 28. BANK BORROWINGS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Interest bearing** | | |
| – trust receipt loans, secured *(notes (a) and (b))* | 79,376 | 90,943 |
| – term and revolving loans, secured *(notes (a), and (b))* | 111,067 | 106,233 |
| | 190,443 | 197,176 |

*Notes:*

(a) The bank borrowings of the Group are secured by (a) certain assets of the Group, (b) the assets of related companies which share common directors and shareholders of the Group, and (c) the personal guarantees of the two controlling shareholders, one of their spouses who's also a director, and a related party of the other controlling shareholder who together with that controlling shareholder jointly owns a related company.

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Prepaid insurance premium *(Note 17)* | 8,358 | 8,107 |

(b) The bank borrowings included bank loans of HK$23,739,000 (2018: HK$54,286,000) that are not scheduled to repay within one year with maturities ranging from within one year to three years. It is classified as current liability as the related loan agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at their own discretion. None of the portion of these bank loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

Total current bank borrowings were scheduled to repay as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| On demand or within one year | 166,704 | 142,890 |
| More than one year, but not exceeding two years | 15,406 | 28,286 |
| More than two years, but not exceeding five years | 8,333 | 26,000 |
| | 190,443 | 197,176 |

## 28. BANK BORROWINGS *(Continued)*

*Note:*

The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.

All of the banking facilities are subject to the fulfilment of covenants relating to certain of the Group's financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become repayable on demand. In addition, certain of the Group's loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants, which is up to date with the scheduled repayments of the term and revolving loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in Note 36(b)(iii). At the end of the reporting period, none of the covenants relating to drawn down facilities has been breached.

The range of effective interest rates, from date of commencement of interests become chargeable, on the Group's bank loans are as follows:

| | 2019 | 2018 |
|---|---|---|
| Effective interest rates: | | |
| Bank loans | 2.5% – 5.1% | 1.9% – 4.5% |

## 29. DEFINED BENEFIT OBLIGATION

The Group is liable to pay retirement benefits under the Payment of the gratuity Act No. 12 of 1983 to all employees in Sri Lanka, who have a period of service of not less than five completed years, on termination (whether by the employer or workman, or on retirement or by the death of the workman, or by operation of law, or otherwise) of the services. Upon each year of completed service, the employee will be entitled to half a month's wage and salary.

The liability recognised in financial statements in respect of defined benefit plan is present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually using projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flow using the interest rates that apply to the currency in which the benefit will be paid and that have terms to maturity approximating to the terms of the related liability.

The actuarial valuations of defined benefit obligation were carried out by an independent actuarial consulting firm, Actuarial & Management Consultants (Pvt) Limited, using the Projected Unit Credit Method. The results of the valuation are shown as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Defined benefit obligation – gratuity | 2,073 | 2,252 |

## 29. DEFINED BENEFIT OBLIGATION *(Continued)*

The principal actuarial assumptions used for the valuation included a long-term rate of investment return net of salary increases of 10% per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement.

The liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also have related to future services rendered and future changes in actuarial assumptions and market conditions.

**(a)** The amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Amounts recognised in profit or loss: | | |
| – Current service cost | 354 | 211 |

Movements in the present value of defined benefit obligation are as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| At beginning of the year | 2,252 | 1,999 |
| Service cost | 354 | 211 |
| Interest cost | 130 | 220 |
| Actuarial loss from remeasurement | (378) | 118 |
| Exchange difference | (105) | (6) |
| Benefits paid | (180) | (290) |
| At end of the year | 2,073 | 2,252 |

The weighted average duration of the defined benefit obligation is 8.20 years.

### (b) Historical information

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Present value of defined benefit obligation | 2,073 | 2,252 |

## 29. DEFINED BENEFIT OBLIGATION *(Continued)*

**(c)** The significant actuarial assumptions (expressed as weighted average) and sensitivity analysis are as follows:

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 10% | 11% |
| Future salary increases | 7% | 7% |

The below analysis shows how the defined benefit obligation at the end of the reporting period would have increased/(decreased) as a result of 1% change in the significant actuarial assumptions:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Increase/(decrease) on profit for the year and retained earnings: | | |
| *If increase by 1% in:* | | |
| Discount rate | 106 | 259 |
| Future salary increases | (118) | (260) |
| *If decrease by 1% in:* | | |
| Discount rate | (106) | (259) |
| Future salary increases | 118 | 260 |

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

## 30. DEFERRED TAX

Details of the deferred tax liabilities/(assets) recognised and movements during the year:

| | Accelerated Tax depreciation HK$'000 | Expected credit loss on trade receivables HK$'000 | Total HK$'000 |
|---|---|---|---|
| As at 1 April 2017 | 1,297 | – | 1,297 |
| Credited to profit and loss for the year | (1,312) | – | (1,312) |
| At 31 March 2018 | (15) | – | (15) |
| Initial application of HKFRS 9 | – | (46) | (46) |
| As at 1 April 2018 | (15) | (46) | (61) |
| Credited to profit and loss for the year | (175) | (85) | (260) |
| As at 31 March 2019 | (190) | (131) | (321) |

As at the end of the reporting period, no deferred tax asset has been recognised in respect of certain unused tax losses due to the unpredictability of future profit streams. The unused tax losses of HK$5,611,343 and HK$16,945,000 (2018: HK$ HK$6,866,000 and nil) will not expire for the subsidiaries in Sri Lanka and Hong Kong as at 31 March 2019. The deductible temporary differences can be carried forward indefinitely. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 31. SHARE CAPITAL

The Company was incorporated with limited liability in the Cayman Islands on 6 June 2017 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each, of which one Share was allotted issued to the initial subscriber, an Independent Third Party. At the same date, the said Share of HK$0.01 was transferred to Moonlight Global Limited ("Moonlight") and one Share of HK$0.01 was allotted and issued to Rainbow Galaxy Limited ("Rainbow Galaxy") prior to the completion of the Reorganisation.

| | Number of shares | Nominal value of ordinary shares HK$ | Share premium HK$ |
|---|---|---|---|
| Authorised | | | |
| As 1 April 2018 | 38,000,000 | 380,000 | – |
| Increase during the year *(Note b)* | 9,962,000,000 | 99,620,000 | – |
| **As 31 March 2019** | **10,000,000,000** | **100,000,000** | **–** |
| Issued | | | |
| As 1 April 2018 | 2 | –* | – |
| Reorganisation Issue *(Note c)* | 98 | –* | – |
| Capitalisation Issue *(Note d)* | 599,999,900 | 5,999,999 | – |
| Issuance of new shares upon listing *(Note e)* | 200,000,000 | 2,000,000 | 78,000,000 |
| Share issuance cost | – | – | (11,459,102) |
| **At 31 March 2019** | **800,000,000** | **8,000,000** | **66,540,898** |

* Represents amount less than HK$1,000

| | Number of shares | Nominal value of ordinary shares HK$ | Share premium HK$ |
|---|---|---|---|
| Authorised | | | |
| As 1 April 2017 | – | – | – |
| Increase during the year | 38,000,000 | 380,000 | – |
| As 31 March 2018 | 38,000,000 | 380,000 | – |
| Issued and fully paid | | | |
| As 1 April 2017 | – | – | – |
| Increase during the year *(Note a)* | 2 | –* | – |
| As 31 March 2018 | 2 | –* | – |

* Represents amount less than HK$1,000

## 31. SHARE CAPITAL *(Continued)*

*Note a:* On 6 June 2017 (date of incorporation), 2 shares of HK$0.01 were allotted and issued.

*Note b:* On 21 September 2018, the Shareholders resolved to increase the authorised share capital of the Company from HK$380,000 to HK$100,000,000 by the creation of 9,962,000,000 additional Shares, each ranking pari passu with the Shares then in issue in all respects.

*Note c:* Pursuant to the share and purchase agreement dated 18 September 2018, each of Moonlight and Rainbow Galaxy transferred 50% shareholding interests in Excel Tops Limited to the Company by allotting and issuing, credit as fully paid, 49 ordinary shares of the Company to Moonlight and 49 ordinary shares of the Company to Rainbow Galaxy.

*Note d:* Pursuant to the resolution of the Company's controlling shareholders, of Moonlight and Rainbow Galaxy the Company allotted and issued a total of 599,999,900 new ordinary shares on 19 October 2018 by way of capitalisation of a sum of HK$5,999,999 reserve of the Company ("Capitalisation Issue"). Such shares rank pari passu in all respects with the then existing shares of the Company. Upon the completion of the Capitalisation Issue, the number of ordinary shares of the Company increased to 600,000,000.

*Note e:* On 19 October 2018, upon listing on the Stock Exchange, the Company issued a total of 200,000,000 new ordinary shares. Such shares rank pari passu in all respects with the then existing shares of the Company. The offer price is HK$0.40 per share and the total proceeds (before payments of listing expenses) from issuance of new shares upon listing are HK$80,000,000. Upon the completion of the issuance, the number of ordinary shares of the Company increased to 800,000,000. Increase in share capital was completed through utilisation of accumulated profit and statutory surplus reserve. The excess portion of net asset value of the Company at the date of capital restructuring over the enlarged share capital was transferred to capital reserve.

## 32. RESERVES

### (a) The Group

Details of the movements in the reserves of the Group during the year are set out in the consolidated statements of changes in equity.

### (b) The Company

| | Share premium HK$'000 | Contributed reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2017 | – | – | – | – |
| Acquisition of a subsidiary by share allotment | – | 61,354 | – | 61,354 |
| Total comprehensive income for the year, net of tax | – | – | – | – |
| At 31 March 2018 and 1 April 2018 | – | 61,354 | – | 61,354 |
| Capitalisation Issue | – | (6,000) | – | (6,000) |
| Issuance of new shares upon listing | 66,541 | – | – | 66,541 |
| Total comprehensive income for the year, net of tax | – | – | (8,370) | (8,370) |
| **At 31 March 2019** | **66,541** | **55,354** | **(8,370)** | **113,525** |

(c) The following describes the nature and purpose of each reserve within owner's equity:

| **Reserve** | **Description and purpose** |
|---|---|
| Share premium | Capital injection in excess of registered capital. |
| Contributed reserve | Difference between the nominal value of shares issued by the Company and the aggregate fully paid registered capital of the subsidiaries pursuant to the Group Reorganisation. |
| Translation reserve | Gains/losses arising on retranslating the net assets of foreign operations into presentation currency. |
| Remeasurement reserve | Gains/losses arising on remeasuring the actuarial value of defined benefit plan. |
| Retained earnings | Cumulative net gains and loss recognised in profit and loss. |

## 32. RESERVES *(Continued)*

### (d) Capital management

The Group's objective when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the end of reporting period.

## 33. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | | 61,354 | 61,354 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | 60,400 | – |
| Cash and bank balances | | 169 | – |
| **Total current assets** | | 60,569 | – |
| **Current liabilities** | | | |
| Other payables and accruals | | 398 | – |
| **Total current liabilities** | | 398 | – |
| **Net current assets** | | 60,171 | – |
| **Total assets less current liabilities** | | 121,525 | 61,354 |
| **NET ASSETS** | | 121,525 | 61,354 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 31 | 8,000 | –* |
| Share premium | 31 | 66,541 | – |
| Reserves | 32(b) | 46,984 | 61,354 |
| **TOTAL EQUITY** | | 121,525 | 61,354 |

* Represents amount less than HK$1,000

On behalf of the directors

**Choi Siu Wai William**
*Chairman*

**Wong Mei Wai Alice**
*Director*

## 34. INVESTMENTS IN SUBSIDIARIES

### The Company

| | As at 31 March 2019 HK$'000 | As at 31 March 2018 HK$'000 |
|---|---|---|
| Unlisted investment, at cost | 61,354 | 61,354 |

Details of the principal subsidiaries, the business structure of which were corporations, as at 31 March 2019 and 2018 are as follows:

| Name of subsidiary | Place and date of incorporation/ establishment and form of business structure | Percentage of equity attributable to the Company Directly | Indirectly | Issued and fully paid ordinary share capital or registered capital | Principal activities and principal place of business |
|---|---|---|---|---|---|
| Excel Tops Limited | British Virgin Islands ("BVI"), 11 May 2017, limited liability company | 100% | – | Registered and fully paid capital USD 20,000 | Investment holding, BVI |
| Sterling Apparel Limited | Hong Kong ("HK"), 19 June 2012, limited liability company | – | 100% | Registered and fully paid capital HK$10,000,000 | Trading of apparel products, HK |
| Chiefway International Limited | HK, 21 January 2004, limited liability company | – | 100% | Registered and fully paid capital HK$400,000 | Manufacturing and trading of apparel products, HK |
| Elegant Maker Limited | HK, 22 January 2016, limited liability company | – | 100% | Registered and fully paid capital HK$1 | Investment holding, HK |
| Zhi Wei (Guangzhou) Garment Co., Limited | The People's Republic of China (the "PRC"), 5 February 2007 limited liability company | – | 100% | Registered and fully paid capital HK$8,000,000 | Manufacturing and trading of apparel products, the PRC |
| Chiefway Katunayake (Private) Limited | Sri Lanka, 31 March 2017, limited liability company | – | 100% | Registered and fully paid capital Sri Lankan Rupee ("LKR') 696,190,000 | Manufacturing and trading of apparel products, Sri Lanka |
| Chiefway (Private) Limited | Sri Lanka, 16 September 2011, limited liability company | – | 100% | Registered and fully paid capital LKR 98,791,540 | Manufacturing and trading of apparel products, Sri Lanka |

## 35. RELATED AND CONNECTED PARTIES DISCLOSURES

In addition to the transactions and balances disclosed, the Group entered into the following related party transactions, which would constitute connected transactions as defined in Chapter 14A of the Listing Rules.

**(i)** Transactions with related parties are as follows:

| Name of entities | Relationship with the Group |
|---|---|
| C.F.L. Enterprise Limited | Mr. Choi Siu Wai William (Director and beneficial owner of the shareholder of the Group) is the director and shareholder of the related company |
| Chiefway Group Limited | A director of the Group who is also the son of director, Ms. Wong Mei Wai Alice, and shareholder, Mr. CW Siu, of the Group, has beneficial interests in the related company |
| Kam Li Fashion Factory | Common shareholder, Mr. CW Siu |
| Full Submit Development Limited | Common shareholder, Mr. CW Siu |

| Name of related parties | Nature of transactions | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| C.F.L. Enterprise Limited | Sales of finished apparel products | 89 | 36 |
| | Sales of apparel samples | – | 6 |
| Chiefway Group Limited | Rental expense | – | 120 |
| Kam Li Fashion Factory | Motor vehicle rental expenses | 216 | 216 |
| Full Submit Development Limited | Motor vehicle rental expenses | 300 | 300 |

None of the related parties transactions disclosed above constituted connected transaction or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

### (ii) Key management personnel compensation

The key management personnel of the Group represent directors and other senior management of the Group. Details of the emolument paid to them are set out in Note 13.

### (iii) Outstanding balances with related parties

Details of the Group's amounts due from/(to) related parties and shareholders are included in Notes 23, 26 and 27.

## 35. RELATED AND CONNECTED PARTIES DISCLOSURES *(Continued)*

### (iv) Connected parties transactions

| Name of entities | Relationship with the Group |
|---|---|
| Win 18 Limited ("Win 18") | Common controlling shareholders, Moonlight and Rainbow Galaxy |
| Win 19 Limited ("Win 19") | Common controlling shareholders, Moonlight and Rainbow Galaxy |
| Win 20 Limited ("Win 20") | Common controlling shareholders, Moonlight and Rainbow Galaxy |

| Name of connected party | Nature of transactions | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Win 18 *(Note)* | Rental expense | **1,375** | 202 |
| Win 19 *(Note)* | Rental expense | **1,375** | 202 |
| Win 20 *(Note)* | Rental expense | **1,375** | 202 |

*Note:* On 8 February 2018, the Group had entered into the Tenancy Agreements with Win 18, Win 19 and Win 20 respectively. In accordance with the terms and conditions of the Tenancy Agreements, Win 18, Win 19 and Win 20 each respectively agrees to lease the 18th Floors of Win Plaza and car parking space nos.P310 and P311 on 3rd Floor of Win Plaza, 19th Floor of Win Plaza and car parking space no. P312 and 313 on 3rd Floor of Win Plaza and 20th Floor of Win Plaza and car parking space no. P314 and P315 on 3rd Floor of Win Plaza respectively, from 8 February 2018 to 31 January 2021 (both days inclusive). The rent free period under the Tenancy Agreements is from 8 February 2018 to 30 April 2018 (both days inclusive).

Win 18, Win 19 and Win 20 are all companies incorporated in Hong Kong which are wholly owned by Winfield. Winfield is owned as to 50% by Moonlight and as to 50% by Rainbow Galaxy. Moonlight and Rainbow Galaxy are the Controlling Shareholders of the Group. As such, each of Win 18, Win 19 and Win 20 are connected persons of the Group as defined under Chapter 14A of the Listing Rules.

The annual cap amount for the three financial years ended/ending 31 March 2019, 2020 and 2021 for the Tenancy Agreement are HK$4,125,000, HK$4,500,000 and HK$3,750,000 respectively as set out in the Prospectus of the Company dated 29 September 2018.

## 36. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

The following table shows the carrying amount and fair value of financial assets and liabilities:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| *Financial assets at fair value through profit or loss* | | |
| – Prepaid insurance premium | 8,358 | – |
| *Financial assets at amortised cost* | | |
| – Trade and other receivables | 155,342 | – |
| – Cash and cash equivalents | 75,687 | – |
| *Loans and receivables* | | |
| – Trade and other receivables | – | 128,914 |
| – Prepaid insurance premium | – | 8,107 |
| – Amounts due from related parties | – | 4,272 |
| – Cash and cash equivalents | – | 66,536 |
| | 239,387 | 207,829 |
| **Financial liabilities** | | |
| *At amortised cost* | | |
| – Trade, bills and other payables | 77,305 | 84,486 |
| – Amounts due to shareholders | – | 8,428 |
| – Amount due to a related party | – | 1,049 |
| – Bank borrowings | 190,443 | 197,176 |
| | 267,748 | 291,139 |

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

The Group's principal financial assets are trade and other receivables, amounts due from related parties and cash and bank balances that derive directly from its operations. Principal financial liabilities of the Group include trade, bills and other payables, bank borrowings, and amounts due to shareholders and a related party. The main purpose of these financial liabilities is to finance the Group's operations.

The Group has not issued and does not hold any financial instruments for trading purposes. The main risks arising from the Group's financial instruments are currency risk, credit risk, liquidity risk and interest rate risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders.

## 36. FINANCIAL INSTRUMENTS *(Continued)*

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

#### (i) Currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to currency risk primarily through transactions that are denominated in currencies other than the functional currency of the operations to which they related. Cash and cash equivalents, trade and other receivables and trade, bills and other payables denominated in foreign currencies expose the Group to currency risk.

The currencies giving rise to the risk are primarily United States Dollars ("US$"), Renminbi ("RMB"), Euro ("EUR") and Sri Lankan Rupees ("LKR").

As HK$ is pegged to US$, the Group does not expect any significant movements in US$/HK$ exchange rate. The currencies giving rise to this risk are primarily RMB, EUR and LKR.

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | As at 31 March | | As at 31 March | |
| | **2019 HK$'000** | 2018 HK$'000 | **2019 HK$'000** | 2018 HK$'000 |
| RMB | **1** | 3 | **1** | 9 |
| EUR | **21** | 565 | **17** | 2,379 |
| LKR | **3,915** | 3,254 | **3,192** | 842 |

## 36. FINANCIAL INSTRUMENTS *(Continued)*

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

#### (i) Currency risk *(Continued)*

The following table indicates the approximate change in the Group's (loss)/profit for the year and other components of combined equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the HKD strengthens against the relevant currency. For a weakening of the HKD against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | **Increase/ (decrease) in foreign exchange rates** | **Effect on (loss)/profit for the year and retained profits** HK$'000 |
|---|---|---|
| As at 31 March 2019 | | |
| RMB | 5%/(5%) | – |
| EUR | 5%/(5%) | 5/(5) |
| LKR | 5%/(5%) | 759/(759) |
| As at 31 March 2018 | | |
| RMB | 5%/(5%) | 12/(12) |
| EUR | 5%/(5%) | 1,905/(1,905) |
| LKR | 5%/(5%) | 2,532/(2,532) |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

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

## 36. FINANCIAL INSTRUMENTS *(Continued)*

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

#### (ii) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables and deposits with banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

*(i) Trade and other receivables*

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain period. These evaluations focus on the customer's history of making payments when due and ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 0 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 March 2019 and 2018, 72.4% and 34.4%, respectively, of the total trade receivables were due from the Group's largest customer; and 100.0% and 100.0%, respectively of the total trade receivables were due from the Group's five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any loss allowance. The Group does not provide financial guarantee which would expose the Group to credit risk.

The Group applies the simplified approach to account for expected credit losses prescribed by HKFRS 9, which permit the use of the lifetime expected credit losses. The provision rates are based on days past due for grouping of various customer segments with similar loss patterns. The calculation reflects the probability-weighed outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

## 36. FINANCIAL INSTRUMENTS *(Continued)*

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

#### (ii) Credit risk *(Continued)*

*(i) Trade and other receivables (Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 March 2019:

| | **Expected loss rate** (%) | **Gross carrying amount** HK$'000 | **Loss allowance** HK$'000 |
|---|---|---|---|
| Current | 0.1% | 93,449 | 93 |
| Less than 3 month past due | 0.5% | 45,167 | 226 |
| More than 3 months but less than 6 months past due | 2.0% | 9,676 | 194 |
| More than 6 months but less than 12 months past due | 5.0% | 5,184 | 259 |
| More than 1 year past due | 10% | 208 | 21 |
| | | 153,684 | 793 |

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Prior to 1 April 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 4(h)B(ii)). At 31 March 2018, no trade receivables were determined to be impaired. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

| | HK$'000 |
|---|---|
| Neither past due nor impaired | 99,551 |
| Less than 3 month past due | 20,472 |
| More than 3 months but less than 6 months past due | 2,413 |
| More than 6 months but less than 12 months past due | 476 |
| More than 1 year past due | 41 |
| | 122,953 |

Trade receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

## 36. FINANCIAL INSTRUMENTS *(Continued)*

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

#### (ii) Credit risk *(Continued)*

##### *(i) Trade and other receivables (Continued)*

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group grants a credit period within 0–90 days to its trade customers. Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on the payment due dates, as of the end of the reporting period.

| | As at 31 March 2019 HK$'000 | As at 1 April 2018 HK$'000 | As at 31 March 2018 HK$'000 |
|---|---|---|---|
| Current | 93,356 | 99,451 | 99,551 |
| Less than 3 month past due | 44,941 | 20,370 | 20,472 |
| More than 3 months but less than 6 months past due | 9,482 | 2,365 | 2,413 |
| More than 6 months but less than 12 months past due | 4,925 | 452 | 476 |
| More than 1 year past due | 187 | 37 | 41 |
| | 152,891 | 122,675 | 122,953 |

The below table reconciled the expected credit loss of trade receivables for the year:

| | HK$'000 |
|---|---|
| Balance as at 1 April 2017 | |
| Impairment loss on trade receivables | – |
| Balance as at 31 March 2018 under HKAS 39 | – |
| Impact of initial application of HKFRS 9 | 278 |
| Adjusted balance as 1 April 2018 * | 278 |
| Expected credit loss on trade receivables recognised during the year | 515 |
| Balance at 31 March 2019 | 793 |

* The Group has initially applied HKFRS 9 at 1 April 2018. Under the transition method chosen, comparative information is not restated.

At the end of the reporting period, the Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables.

## 36. FINANCIAL INSTRUMENTS *(Continued)*

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

#### (ii) Credit risk *(Continued)*

##### *(ii) Other receivables*

As at 31 March 2019, other receivables is classified as financial asset at amortised cost. The measurement of loss allowance was therefore based on 12 months expected credit losses. The Group has assessed that the expected loss rate for other receivables was immaterial. Thus no loss allowance for other receivables was recognised.

##### *(iii) Amounts due from related parties*

As at 31 March 2019, amount due from related parties is classified as financial asset at amortised cost. The measurement of loss allowance was therefore based on 12 months expected credit losses. The Group has assessed that the expected loss rate for amount due from related parties was immaterial. Thus no loss allowance was recognised.

##### *(iv) Cash and cash equivalents*

Most of the Group's cash and cash equivalents are held in major reputable financial institutions in Hong Kong, the PRC and Sri Lanka, which management believes are of high credit quality.

#### (iii) Liquidity risk

In the management of liquidity risk, the Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants in order to maintain sufficient reserves of cash and adequate committed lines of funding from major banks to meet its liquidity requirements in the short and long term. The liquidity policies have been followed by the Group during the reporting period and are considered to have been effective in managing liquidity risk.

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

## 36. FINANCIAL INSTRUMENTS *(Continued)*

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

#### (iii) Liquidity risk *(Continued)*

| | Interest rate | Carrying amount HK$'000 | Total contractual undiscounted cash flows HK$'000 | Within 1 year or on demand HK$'000 |
|---|---|---|---|---|
| **As at 31 March 2019** | | | | |
| Trade, bills and other payables | N/A | 77,305 | 77,305 | 77,305 |
| Bank borrowings: Trust receipt loans | 4.1057% | 79,376 | 82,635 | 82,635 |
| Bank borrowings: Term and revolving loans | 2.4957% to 5.0756% | 111,067 | 114,002 | 114,002 |
| | | 267,748 | 273,942 | 273,942 |
| **As at 31 March 2018** | | | | |
| Trade, bills and other payables | N/A | 84,486 | 84,486 | 84,486 |
| Amounts due to shareholders | N/A | 8,428 | 8,428 | 8,428 |
| Amount due to a related party | N/A | 1,049 | 1,049 | 1,049 |
| Bank borrowings: Trust receipt loans | 3.6796% | 90,943 | 94,289 | 94,289 |
| Bank borrowings: Term and revolving loans | 1.8718% to 4.4796% | 106,233 | 110,973 | 110,973 |
| | | 291,139 | 299,225 | 299,225 |

The table that follows summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the above maturity analysis. Taking into account the Group's financial position, the directors of the Group do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment, the directors of the Group believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Term and revolving loans subject to repayment on demand clause based on scheduled repayments** | | |
| Carrying amount | 111,067 | 106,233 |
| Within three months or on demand | 67,651 | 30,492 |
| More than three months but less than one year | 22,030 | 24,737 |
| More than one year but less than five years | 24,321 | 55,744 |
| Total contractual undiscounted cash flow | 114,002 | 110,973 |

## 36. FINANCIAL INSTRUMENTS *(Continued)*

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

#### (iv) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings. Bank borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively. The Group's interest rate profile as monitored by management is set out below.

The following table details the interest rate profile of the Group's bank borrowings at the end of the reporting period.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Effective interest rate (%) | HK$'000 | Effective interest rate (%) | HK$'000 |
| **Floating rate bank borrowings** | | | | |
| Bank borrowings:<br>Trust receipt loans | 4.1057% | 79,376 | 3.6796% | 90,943 |
| Bank borrowings:<br>Term and revolving loans | 2.4957% to 5.0756% | 111,067 | 1.8718% to 4.4796% | 106,233 |
| Total net bank borrowings | | 190,443 | | 197,176 |

*Sensitivity*

The Group's cash flow interest rate risk relates primarily to interest bearing bank borrowings.

*Sensitivity analysis*

For the year, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decrease/increase the Group's profit after tax and retained earnings by approximately HK$1,905,000 (2018: HK$1,972,000).

The sensitivity analysis above indicates the impact on the Group's (loss)/profit for the year and retained earnings that would arise assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis during the reporting period.

## 36. FINANCIAL INSTRUMENTS *(Continued)*

### (c) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made during the reporting period.

The Group monitors capital using a debt to capital ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as trade, bills and other payables, bank borrowings, amounts due to shareholders, amount due to a related party, and less cash and cash equivalents. Capital includes equity attributable to owners of the Company.

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Total debt | 267,748 | 291,139 |
| Less: Cash and cash equivalents | (75,687) | (66,536) |
| Net debt | 192,061 | 224,603 |
| Equity attributable to the owners of the Company | 115,544 | 68,534 |
| Net debt and equity | 307,605 | 293,137 |
| Debt to capital ratio | 62.44% | 76.62% |

## 36. FINANCIAL INSTRUMENTS *(Continued)*

### (d) Fair value

The fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

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

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | **Level 1** HK$'000 | **Level 2** HK$'000 | **Level 3** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| **As at 31 March 2019** | | | | |
| Prepaid insurance premium | – | 8,358 | – | 8,358 |

There was no transfer between levels during the year.

The fair value of the prepaid insurance premium is determined with reference to the surrender cash value if the Group withdrew from the life insurance policy.

## 37. OPERATING LEASE COMMITMENTS

### The Group as lessee

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Not later than one year | 10,395 | 10,406 |
| Later than one year and not later than five years | 13,864 | 23,737 |
| Later than five years | 8,981 | 9,189 |
| | 33,240 | 43,332 |

The Group leases a number of motor vehicles, office premises, facilities and leasehold land under operating leases. The leases run for an initial period of two to fifty years, with an option to renew the lease and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective lessors. None of the leases include contingent rentals.

## 38. SUBSEQUENT EVENTS

Subsequent to 31 March 2019 and up to the date of this report, an indirect wholly owned subsidiary of the Group ("the buyer"), entered into the Intellectual Property Agreement ("IPA") on 31 May 2019 pursuant to which the seller has agreed to sell, assign, transfer, convey and deliver the purchased intellectual property at the consideration of US$1,400,000 in cash. Concurrently, the buyer, as the licensor, and the seller, as the licensee, entered into a License agreement, pursuant to which the licensor grants to the licensee the rights to use the licensor's intellectual property to manufacture, sell and distribute products in the territory as defined in the license agreement for a certain royalty fee based on sales with a minimum annual amount equal to USD120,000.

Save as disclosed above, there are no other significant events which took place subsequent to 31 March 2019.

## 39. NOTES SUPPORTING CASH FLOW STATEMENT

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

Reconciliation of liabilities arising from financing:

| | Amounts due to shareholders HK$'000 | Amount due to a related party HK$'000 | Bank borrowings HK$'000 |
|---|---|---|---|
| At 1 April 2017 | 99,501 | – | 149,045 |
| **Changes from cash flows:** | | | |
| Repayment of bank borrowings | – | – | (451,370) |
| Proceeds from bank borrowings | – | – | 499,501 |
| Cash advance from shareholders | 1,597 | – | – |
| Cash advance from a related party | – | 1,049 | – |
| Total changes from financing cash flows | 1,597 | 1,049 | 48,131 |
| **Non-cash change** | | | |
| Set-off of balance *(Note)* | (92,670) | – | – |
| At 31 March 2018 and 1 April 2018 | 8,428 | 1,049 | 197,176 |
| **Changes from cash flows:** | | | |
| Repayment of bank borrowings | – | – | (607,480) |
| Proceeds from bank borrowings | – | – | 600,747 |
| Repayment to shareholders | (8,428) | – | – |
| Repayment to a related party | – | (1,049) | – |
| Total changes from financing cash flows | (8,428) | (1,049) | (6,733) |
| At 31 March 2019 | – | – | 190,443 |

*Note:* It represent the set-off effect of the amount due to shareholders and the properties disposed to the shareholders of the Group.

# Five-year Financial Summary

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | 2018<br>HK$'000 | **2019**<br>**HK$'000** |
| Turnover | 462,740 | 556,113 | 670,955 | 676,856 | **641,733** |
| (Loss) Profit for the year | 14,334 | 26,514 | 31,114 | 20,012 | **(22,670)** |
| Attributable to: | | | | | |
| Owners of the Company | 14,334 | 26,514 | 31,114 | 20,012 | **(22,670)** |
| Non-controlling interests | – | – | – | – | **–** |
| | 14,334 | 26,514 | 31,114 | 20,012 | **(22,670)** |

## ASSETS AND LIABILITIES

| | At 31 March | | | | |
|---|---|---|---|---|---|
| | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | 2018<br>HK$'000 | **2019**<br>**HK$'000** |
| Total assets | 256,409 | 273,013 | 412,184 | 364,490 | **385,633** |
| Total liabilities | 227,119 | 237,569 | 345,639 | 295,956 | **270,089** |
| | 29,290 | 35,444 | 66,545 | 68,534 | **115,544** |
| Equity attributable to owners of the Company | 29,290 | 35,444 | 66,545 | 68,534 | **115,544** |
| Non-controlling interests | – | – | – | – | **–** |
| | 29,290 | 35,444 | 66,545 | 68,534 | **115,544** |