

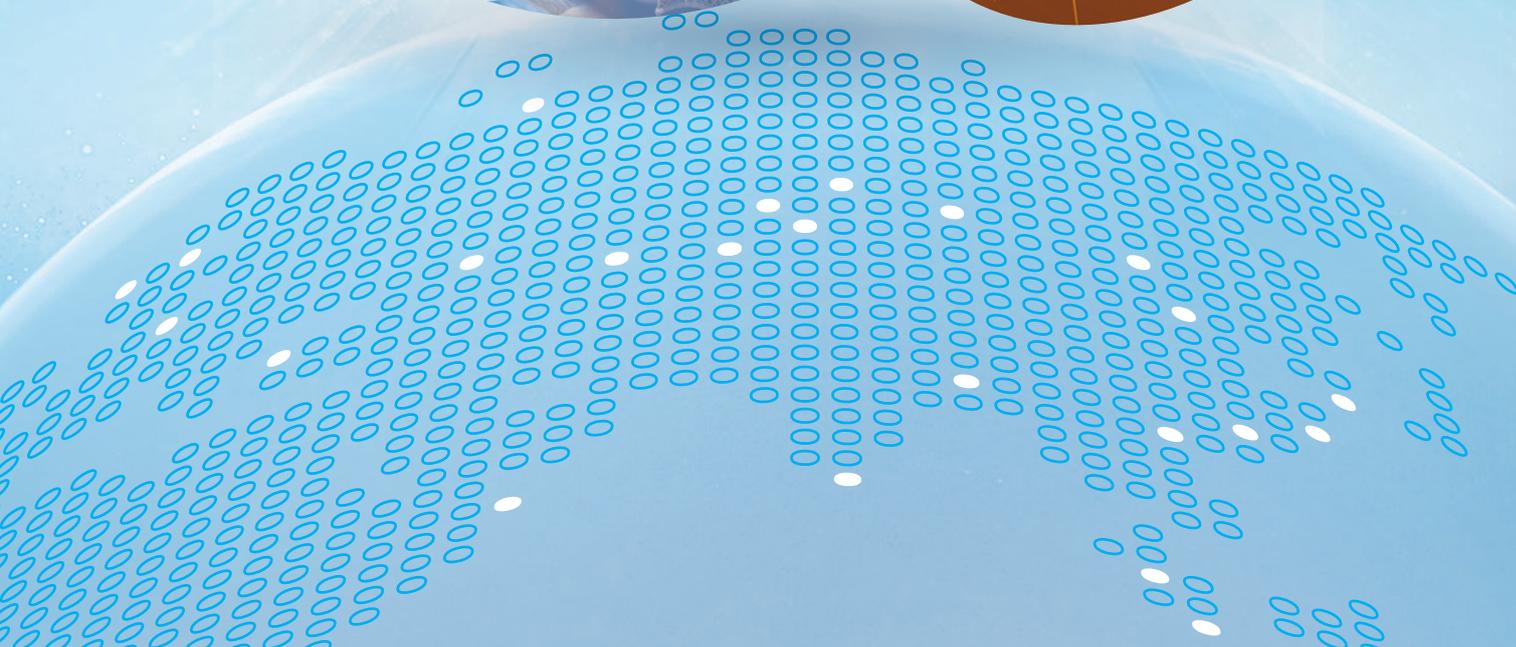
State Energy Group International Assets Holdings Limited 國能集團國際資產控股有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

Stock Code 股份代號 : 918

Annual Report 2016/17 年報



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CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. Ren Qingxin (*Chairman*)

Mr. Zhou Xinyu

Ms. Niu Fang

Independent Non-executive Directors:

Ms. Ni Lijun

Mr. Shen Guoquan

Ms. Meng Rongfang

COMPANY SECRETARY

Mr. Au Yeung Ho Yin (*HKICPA, Grad ICSA*)

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

PRINCIPAL OFFICE

Unit 2307 – 10, 23/F

Everbright Centre

108 Gloucester Road Wan Chai

Hong Kong

AUDITOR

Cheng & Cheng Limited

Certified Public Accountants

10th Floor, Allied Kajima Building

138 Gloucester Road

Wan Chai Hong Kong

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited

SOLICITORS

Bermuda:

Conyers Dill & Pearman

Hong Kong:

Loeb & Loeb LLP

SHARE REGISTRARS AND TRANSFER OFFICES

Bermuda:

MUFG Fund Services (Bermuda) Limited

26 Burnaby Street

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Bermuda

Hong Kong:

Tricor Abacus Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

STOCK CODE

0918

CHAIRMAN'S STATEMENT

The year of 2016 marks the turning point of the development of State Energy Group International Assets Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”). Following the change in the majority control of the Company (as announced in November 2016), the Group is well positioned for new advancement, which we believe represents a good starting point going forward.

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of the Company, I hereby present the audited annual results of the year ended 31 March 2017 of the Group to our shareholders. The Group has recorded a turnover of approximately HK\$112,447,000, representing a decrease of 29.0% as compared to that of approximately HK\$158,354,000 in 2016. The turnover of our export of garments and sportswear business (the “**Export Business**”) and our property investment are HK\$109,018,000 and HK\$3,429,000 respectively, representing a decrease of 29.9% and an increase of 18.8% from that of last year; while the loss attributable to equity holders of the Company is HK\$12,749,000, compared to the loss of HK\$25,593,000 last year. The basic loss per share attributable to the equity holders of the Company is HK1.64 cents. For the detailed overview of business, please refer to “Management Discussion and Analysis” of this annual report.

The Export Business has been under the negative impact from both internal and external factors, and recorded a sluggish performance with continuous drop in revenue, with difficulty in obtaining sustainably profitable sales orders. Although our property investment business continues to generate a stable income stream for the Group, we need to expand its business scale and increase its profitability.

As such, after prudent evaluation of the Board on the development prospect of the Export Business and our property investment business, the Group is shifting our focus to actively explore new business opportunities which have great potential going forward, so as to enhance our sustainable profitability and improve our operation results. Through internationalization, professionalization and marketization of our operations, and leveraging on multiple resources and cooperation with our strategic partners, the Group shall focus on business opportunities brought by the “One Belt One Road” strategy in the People's Republic of China (the “**PRC**”) so as to create value for our shareholders. Specifically, the Group shall focus on exploring the property investment and financial service business opportunities brought by the “One Belt One Road”, among which our property investment business shall be based upon our existing principal business, which includes but is not limited to high-end properties, specialized properties, new industry cities or park projects in countries and areas along the “One Belt One Road”, as well as exploring the opportunities to expand the scale of our asset management business under the property funds model, so as to improve our profitability. Our financial service business shall include but is not limited to the commencement of our asset management business based on the “One Belt One Road” strategy, setup of our own or joint venture established investment funds, as well as the acquisition of or establishment of licensed financial corporations.

The Group's determination in improving our business is also reflected in the introduction of new directors and management talents. With the professional knowledge, proven track records as well as ample field experiences of the Board members and core management team, the Group has earned the recognition and high regards from our business partners, which helps with our advancement on the “One Belt One Road” business development. The Group shall also prudently assess the risks associated with the “One Belt One Road” business operations.

CHAIRMAN'S STATEMENT

During the year ended 31 March 2017, our new businesses have already gained certain proactive and positive progress: We have established a joint venture company with Xuzhou Coal Mining Group Limited* (徐州礦務集團有限公司) ("**Xuzhou Coal Mining**"), a company established in the PRC with limited liability, to construct integrated new logistics towns in Xuzhou as the key strategic point in the "One Belt One Road" Scheme. In addition, we have entered into several memoranda of understanding: one with a vendor in relation to a proposed acquisition of the hotel property in Prague, the Czech Republic and another one with a target company and an agent in relation to a proposed acquisition of a financial institution engaged in insurance brokerage services and also in the provision of investment products to its clients, and licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance of Hong Kong (the "**SFO**"). The Group is actively pursuing the confirmation and implementation of the abovementioned projects, and has begun negotiation on the ways of cooperation concerning other property assets and financial institutions along the "One Belt One Road" regions, and is actively evaluating other potential business opportunities along the "One Belt One Road".

As the "One Belt One Road" strategy of the PRC has entered into the implementation stage, it is most welcomed by many countries and major economic bodies. Led by the Chinese economy, different industries of the countries and areas along the "One Belt One Road" embrace such golden opportunities of development, including the property investment and financial service industries. Looking forward, the Group will stay alert to the market trends, and position ourselves as the platform integrator and operator of resources, assets and capital, so as to combine the quality resources in the PRC and advantageous industries overseas with a focus on promoting the productive development and collaboration of our asset investment and financial services businesses. With the strategic implementation of our development plans, the Group is expected to achieve greater advancement in the coming year.

On behalf of the Board, I would like to express our utmost sincere gratitude towards our respectable business partners, clients and shareholders for their continuous support and trust and to thank our management team and all staff members for their hard work. Moving forward, the Group will be united as one and put our best foot forward in the face of future opportunities and challenges, and endeavor to optimize the return to our shareholders.

Ren Qingxin
Chairman

Hong Kong, 28 June 2017

* For identification propose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Ren Qingxin (“Mr. Ren”)

Mr. Ren, aged 47, is the chairman and an executive Director of the Company. Mr. Ren worked at CSCEC First Division Group Co., Limited from July 1992 to September 2016, having taken up the roles of deputy economist-in-chief, the general manager of the international business department and the chief executive and chairman of CSCEC (Russia) Co., Limited. Mr. Ren obtained his bachelor’s degree in civil engineering and architecture from Northeast Forestry University in the PRC in 1992, and was accredited as a senior engineer in the PRC in 2003.

Ms. Zhou Xinyu (“Mr. Zhou”)

Mr. Zhou, aged 45, is the chief executive officer and an executive Director of the Company. Mr. Zhou has more than ten years of experience in capital operations, investment banking and financial investment. From December 2013 to June 2015, Mr. Zhou was the deputy general manager of the investment development department of China Huarong Asset Management Co., Limited. From January 2013 to December 2013, he was the assistant to general manager of Huarong Securities Co., Limited. From June 2008 to November 2012, he worked at Guosen Securities Co., Limited. From January 2008 to May 2008, he served as the deputy general manager of the capital market department of Huarong Securities Co., Limited. He also previously served as the senior deputy manager of the investment department of China Huarong Asset Management Corporation from December 2005 to January 2008. From June 2013 to March 2016, Mr Zhou was a non-executive director of Hanhua Financial Holding Co., Limited, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (stock code: 3903). Mr. Zhou obtained his bachelor’s degree in engineering mechanics from Xi’an Jiaotong University in the PRC in 1993 and his master’s degree in economics (majoring in finance) from the Central University of Finance and Economics in the PRC in 2001. He obtained his doctorate degree in economics (majoring in applied economics economy) from the Chinese Academy of Social Sciences in 2006.

Ms. Niu Fang (“Ms. Niu”)

Ms. Niu, aged 42, is an executive Director of the Company. Ms. Niu has more than 10 years of experience in corporate management and business investment. She took part in the establishment of National Business Holdings Group Co., Limited* (國能商業集團有限公司) (“**National Business**”) which, together with its group companies, is engaged in the trading of bulk energy and resources commodities and related investments. She has been National Business’s general manager since 2011, and is principally responsible for its strategic planning and business development. Ms. Niu obtained a bachelor’s degree in economics from Hebei University in the PRC in 1997, and qualified as a mid-level accountant in the PRC in 2004.

* For identification purposes only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(CONTINUED)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Ni Lijun (“Ms. Ni”)

Ms. Ni, aged 57, is an independent non-executive Director of the Company. Ms. Ni has more than 30 years’ of experience in construction financial management. From October 2006 to September 2016, Ms. Ni had been the deputy accountant-in-chief and later the accountant in-chief of CSCEC (Russia) Co., Limited. From April 2001 to September 2006, she was deputy manager of the finance department of CSCEC First Division Group Co., Limited. From July 1979 to March 2001, Ms. Ni held various roles in China State Construction First Division Fourth Construction Company including deputy manager of the capital department, deputy manager of the finance department and manager of the project accounting department. Ms. Ni retired in 2015. Ms. Ni graduated from the Distance Learning College of Renmin University of China in 1989, majoring in infrastructure economics, and qualified as a senior accountant in the PRC in 2001.

Mr. Shen Guoquan (“Mr. Shen”)

Mr. Shen, aged 52, is an independent non-executive Director of the Company. Mr. Shen is a practising lawyer in the PRC, and is currently a senior partner of Allbright Law Offices, specialising in capital market legal practice. From January 2005 to April 2007, Mr. Shen was a fulltime member of the 7th and 8th Share Issuance Examination Committee of the China Securities Regulatory Commission, and is now a member of the 3rd Listing Committee of the Shanghai Stock Exchange. Mr. Shen was an independent director of Beijing HualuBaina Film & TV Co., Limited (stock code: 300291), Shanghai East Money Information Co., Limited (stock code: 300059), Suzhou TA&A Ultra Clean Technology Co., Limited (stock code: 300390) (all companies are listed on Shenzhen Stock Exchange) and Shanghai Xinhua Media Co., Limited (stock code: 600825) (a company listed on Shanghai Stock Exchange). He currently is an independent director of Jiangxi Lianchuang Optoelectronic Science And Technology Co., Limited (stock code: 600363) (a company listed on Shanghai Stock Exchange) and Zibo Qixiang Tengda Chemical Co., Ltd. (stock code: 002408) (a company listed on Shenzhen Stock Exchange). Mr. Shen obtained a master’s degree in law from East China University of Politics and Law in 1993, majoring in economic law. From 2008 to 2010, Mr. Shen was accredited as an “Outstanding Lawyer” by the All China Lawyers Association.

Ms. Meng Rongfang (“Ms. Meng”)

Ms. Meng, aged 51, is an independent non-executive Director of the Company. Ms. Meng is a director and senior partner of BDO China-Shu Lun Pan Certified Public Accountants LLP. Since 1998, she has been working in the accounting industry, offering audit, consultation and other services to many listed companies, foreign-invested enterprises and large state-owned enterprises. Ms. Meng obtained a master’s degree in professional accountancy from the Chinese University of Hong Kong in 2008 and an undergraduate degree in law from East China University of Politics and Law in 2003. Ms. Meng qualified as a senior accountant in the PRC in 2009.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS *(CONTINUED)*

SENIOR MANAGEMENT

Mr. He Xin (“Mr. He”)

Mr. He, aged 35, joined the Group in November 2016, is currently a deputy chief executive officer and chief financial officer of the Company and also a director of Takson Garment Manufacturing Company Limited, a wholly owned subsidiary of the Company. Prior to joining the Group, Mr. He served as a business director of the investment banking department of Huatai United Securities Co., Ltd. from December 2014 to November 2016. From June 2013 to December 2014, Mr. He served as a business general manager of the investment banking department of Huarong Securities Co., Ltd. Mr. He was a senior manager of the investment banking department of Guosen Securities Co., Limited from January 2008 to May 2013. Mr. He worked in the securities service department of HNA Group Co., Limited from June 2007 to January 2008.

Mr. He obtained a bachelor’s degree in management majoring in information management and information system from Shandong University of Finance and Economics in July 2004. In June 2007, Mr. He obtained a master’s degree in economics majoring in investment from Zhongnan University of Economics and Law.

Mr. Zhang Chi (“Mr. Zhang”)

Mr. Zhang, aged 33, joined the Group in April 2017, is currently a director of Takson Garment Manufacturing Company Limited, a wholly owned subsidiary of the Company and a general manager of Takson (Beijing) Management and Consultation Co., Ltd.* (第一德勝(北京)管理諮詢有限公司), a wholly owned subsidiary of the Company. Mr. Zhang holds a bachelor’s degree in engineering from the Harbin Institute of Technology and a master’s degree in finance from the University of Durham. Mr. Zhang has served as the senior deputy manager of the department of international business management of China Huarong Asset Management Co., Ltd. and the deputy general manager of the department of investment banking of Zhonggong Huarong Kunlun Qinghai Asset Management Co., Ltd.* (中華融昆侖青海資產管理股份有限公司). Mr. Zhang has extensive experience in capital market, investment, international business and asset management.

Mr. Au Yeung Ho Yin (“Mr. Au Yeung”)

Mr. Au Yeung, aged 34, joined the Group in April 2017, is currently the deputy chief financial officer, company secretary and the assistant to the chief executive officer of the Company. Mr. Au Yeung holds a bachelor’s degree in business management from Newcastle University (formerly known as the University of Newcastle upon Tyne). Mr. Au Yeung was admitted as a graduate member of Hong Kong Institute of Chartered Secretaries in 2012 and a member of the Hong Kong Institute of Certified Public Accountants in 2010. Mr. Au Yeung has extensive experience in financial management, auditing, taxation, and company secretarial matters. Mr. Au Yeung has been chief financial officer and company secretary of several companies listed on the Stock Exchange.

* For identification propose only

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

EXPORT BUSINESS

The Group carries on the business of sourcing and subcontracting of garments and sportswear products in China which are then exported to the United States of America. The Group specialises in Original Design Manufacturer business.

The Export Business faced several challenges in the past few years. The warm winter in the United States of America in the fall of 2015 resulting in the Group's customers in the United States of America carrying higher inventory severely dampened customer spending in winter clothing, so the Group received less orders during the year ended 31 March 2017. These challenges all led to a steep decline of approximately 29.9% in the turnover of the Group's Export Business from approximately HK\$155.5 million for the year ended 31 March 2016.

PROPERTY INVESTMENT

As at 31 March 2017, the Group held six investment properties located in the PRC and one investment property located in Hong Kong for generating rental income purposes (the "**Investment Properties**"). For the year ended 31 March 2017, all the investment properties were fully leased out. Based on the independent valuation of the investment properties of the Company, the Group reported fair value gain of approximately HK\$0.9 million (31 March 2016: fair value loss of approximately HK\$3.5 million).

FINANCIAL REVIEW

TURNOVER

The Group recorded a turnover of approximately HK\$112.4 million for the year ended 31 March 2017, representing a decrease of approximately 29.0% as compared to that of approximately HK\$158.4 million for the year ended 31 March 2016.

Turnover derived from the Export Business decreased by approximately 29.9% from approximately HK\$155.5 million for the year ended 31 March 2016 to approximately HK\$109.0 million for the year ended 31 March 2017 mainly due to a general decrease in customer orders.

Turnover derived from property investment increased by approximately 18.8% from approximately HK\$2.9 million for the year ended 31 March 2016 to approximately HK\$3.4 million for the year ended 31 March 2017. This was mainly due to the increase in monthly rental income of the Investment Properties during the year ended 31 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

GROSS PROFIT AND GROSS PROFIT MARGIN

The Group recorded a gross profit of approximately HK\$26.5 million in respect of the Export Business for the year ended 31 March 2017, representing a decrease of approximately 28.0% as compared to approximately HK\$36.8 million for the year ended 31 March 2016. The decrease was due to the drop in revenue.

The gross profit margin of the Export Business was approximately 24.3% for the year ended 31 March 2017 compared to approximately 23.7% for the year ended 31 March 2016. The increase was due to phasing out seasonal promotion programmes with lower margins so as to better utilise the production capacities of sub-contractors in the peak season and market consolidation.

The Group recorded a gross profit of approximately HK\$3.4 million in respect of the property investment business for the year ended 31 March 2017, representing an increase of approximately 18.8% as compared to approximately HK\$2.9 million for the year ended 31 March 2016. The increase was due to increase in monthly rental income.

SELLING, DISTRIBUTION AND MARKETING EXPENSES

Selling, distribution and marketing expenses decreased by approximately 41.1% from approximately HK\$17.0 million for the year ended 31 March 2016 to approximately HK\$10.0 million for the year ended 31 March 2017. The decrease was mainly due to the reduction in staff costs following the decrease in the number of selling, distribution and marketing employees for the Export Business.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by approximately 12.4% from approximately HK\$32.2 million for the year ended 31 March 2016 to approximately HK\$28.2 million for the year ended 31 March 2017. The decrease was mainly due to the decrease in directors' emoluments following the resignation of Mr. Wong Tek Sun, Takson and Ms. Pang Shu Yuk, Adeline Rita as executive Directors and overseas travelling expenses for the administrative and managerial staff.

FINANCE COST

Finance cost increased by approximately 16.9% from approximately HK\$2.7 million for the year ended 31 March 2016 to approximately HK\$3.2 million for the year ended 31 March 2017. This was mainly due to the addition of shareholder's loans with interest rate at 4.25% p.a. for general working capital.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Since the Export Business is weak and securing sustainably profitable sales orders is becoming more difficult, the Board intends to allocate more resources in developing the property investment and financial services. The Group will focus on investing in high-end properties, specialized properties, new industry cities or park projects within, including but not limited to, the areas covered in the “One Belt, One Road”. Since the Group will make use of property fund model in order to expand the Group’s property asset management arm that may help diversify the Group’s property portfolio and hence improve the Group’s profitability. Our financial services shall include but is not limited to the commencement of our asset management business based on the national “One Belt One Road” strategy, setup of our own or joint venture established investment funds, as well as the acquisition of or establishment of licensed financial corporations.

In January 2017, the Group entered into a joint venture agreement with Xuzhou Coal Mining. The joint venture company principally engaged in the construction of integrated new logistics towns.

In April 2017, the Company entered into a memorandum of understanding with an independent third party in relation to acquisition of a hotel property in Prague, the Czech Republic.

In May 2017, the Company entered into a memorandum of understanding with an independent third party in relation to acquisition of 32% of the equity shares of a company (the “**Target Company**”). The Target Company and its subsidiaries (the “**Target Group**”) primarily engaged in the insurance brokerage service and the provision of other investment products in Hong Kong and licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO. The Target Group collaborates with leading financial institutions to provide its customers with a wide range of investment products, which include investment-linked assurance schemes, premium financing plans, life and health insurance and real estate investment plans. The Target Group also offers asset management services to its high net worth customers and those who have purchased investment-linked assurance schemes to manage their investment.

Details of the Group’s development aforementioned are set out in the announcements of the Company dated 23 January 2017, 25 April 2017 and 23 May 2017 respectively.

The Group will continue to look for new business opportunities to diversify its business in order to generate better returns for the shareholders of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND FINANCIAL RATIO

During the year ended 31 March 2017, the Group financed its operations and investments mainly by internally generated funds and debt financing.

CASH POSITION

The Group had total cash and bank balances (excluding pledged bank deposits) of approximately HK\$8.3 million as of 31 March 2017 (31 March 2016: approximately HK\$8.0 million).

BANK AND OTHER BORROWINGS

As of 31 March 2017, bank and other borrowings of the Group amounted to approximately HK\$93.3 million, including bank loans of approximately HK\$27.3 million, obligations under finance leases of approximately HK\$0.6 million and shareholder's loans of approximately HK\$65.4 million. Among total bank and other borrowings, approximately HK\$27.6 million are repayable within one year or on demand, approximately HK\$65.5 million are repayable over one year but not exceeding two years, approximately HK\$0.2 million are repayable over two years but not exceeding five years.

As of 31 March 2016, bank and other borrowings of the Group amounted to approximately HK\$91.8 million, including bank borrowings of approximately HK\$90.6 million and obligations under finance leases of approximately HK\$1.2 million. Among total bank and other borrowings, approximately HK\$79.7 million are repayable within one year, approximately HK\$2.4 million are repayable over one year but not exceeding two years, approximately HK\$9.7 million are repayable over two years but not exceeding five years.

LEVERAGE

The ratio of current assets to current liabilities of the Group was approximately 0.68 as at 31 March 2017 compared to approximately 0.38 as at 31 March 2016. The improvement in current ratio was due to the significant decrease in bank borrowings. The Group's gearing ratio as at 31 March 2017 was approximately 338.3% (31 March 2016: approximately 229.9%), which is calculated based on the Group's bank and other borrowings of approximately HK\$93.3 million (31 March 2016: approximately HK\$91.8 million) and the Group's total equity approximately HK\$27.6 million (31 March 2016: approximately HK\$39.9 million). The increase in gearing ratio was due to the increase in total borrowings (including shareholder's loans) and the decrease in equity. The net equity of the Group as at 31 March 2017 was approximately HK\$27.6 million (31 March 2016: approximately HK\$39.9 million).

The cash and bank balances together with shareholder's loans and the available banking facilities can provide adequate liquidity and capital resources for the ongoing operation needs of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

RISK MANAGEMENT

Our principal financial instruments include trade receivables, deposits, prepayments and other receivables, pledged deposits, bank borrowings and obligations under finance leases and cash and cash equivalents. We also have various financial assets and financial liabilities arising from our business operations. Our financial instruments are mainly subject to foreign currency risk, credit risk and liquidity risk. We aim to minimise these risks and hence maximise investment returns.

Foreign currency risk

The monetary assets and liabilities and business transaction of the Group are mainly based on Hong Kong dollars, Renminbi and United States dollars (“USD”). Maintaining a product strategy, the Group minimises the foreign exchange risks through balancing the monetary assets against monetary liabilities, and foreign currency revenue versus foreign currency expenditure. For example, the Group entered into a RMB/USD net-settled structured foreign currency forward contract of USD1.2 million notional amount with 14 equal monthly settlements to manage its foreign currency risk in the year ended 31 March 2016. However, the market value of the contract as at 31 March 2016 was a loss of approximately HK\$4.5 million. The contract was therefore unwound during the year ended 31 March 2017 and the resultant loss of approximately HK\$1.1 million was reflected in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2017.

Credit risk

The Group’s credit exposure generally arises from counterparty risk in the course of engaging in the Export Business and the property investment business. As at 31 March 2017, trade receivables and trade payables of the Group were approximately HK\$0.9 million and approximately HK\$0.2 million (31 March 2016: approximately HK\$0.8 million and approximately HK\$2.4 million), respectively. The Group has a policy in financial risk management to ensure settlement of all receivables and payables during the credit period.

Liquidity risk

Liquidity risk is the risk that funds will not meet liabilities as they fall due. This may arise from mismatches in amounts or time with regard to the maturity of financial assets and liabilities. The objectives of the Group’s liquidity risk management are: (1) maintaining the stability of the Group’s principal business, timely monitoring cash and bank balance position; (2) projecting cash flows; and (3) evaluating the level of current assets to maintain sufficient liquidity of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

TREASURY POLICIES

As at 31 March 2017, bank and other borrowings of approximately HK\$81.8 million (31 March 2016: approximately HK\$37.2 million) and approximately HK\$11.5 million (31 March 2016: approximately HK\$54.6 million) were denominated in Hong Kong dollars and USD, respectively. The Group's bank loans are subject to floating interest rates while obligations under finance leases and shareholder's loans are subject to fixed interest rates.

Cash and cash equivalents held by the Group were mainly denominated in USD, Renminbi and Hong Kong dollars. The Group currently does not have foreign currency and interest rate hedging policies. However, the management of the Group monitors the foreign exchange and interest rate exposure from time to time and will consider hedging significant foreign exchange and interest rate exposure if needed.

CHARGE OF ASSETS

As at 31 March 2017, the Investment Properties and leasehold land and buildings in Hong Kong and the PRC held by the Group with an aggregate carrying value of approximately HK\$102.2 million (31 March 2016: approximately HK\$101.5 million) and a fixed deposit of approximately HK\$4.5 million (31 March 2016: approximately HK\$4.5 million) were pledged as first legal charges for the Group's banking facilities.

SIGNIFICANT INVESTMENT

The Group had no significant investment during the year ended 31 March 2017.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES OR ASSOCIATED COMPANIES

The Group had no material acquisition and disposal of subsidiaries or associated companies during the year ended 31 March 2017.

OPERATING SEGMENT INFORMATION

Details of the operating segment information of the Group in the year ended 31 March 2017 are set out in note 5 to the consolidated financial statements attached to this annual report.

CAPITAL COMMITMENTS

Details of the capital commitments of the Group as at 31 March 2017 are set out in note 31 to the consolidated financial statements attached to this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES AND LITIGATION

The Company has executed guarantees for the banking facilities made by its subsidiaries. As at 31 March 2017, the utilised facilities amounted to approximately HK\$28.1 million (31 March 2016: approximately HK\$91.8 million).

Except for the foregoing, as at 31 March 2017, the Group had no other significant contingent liabilities or pending litigation.

SUBSEQUENT EVENTS

As of 31 March 2017, details of the subsequent events of the Group are set out in note 35 to the consolidated financial statements attached to this annual report.

STAFF AND REMUNERATION POLICIES

As of 31 March 2017, the Group had a total of 16 employees (31 March 2016: 45 employees). Total staff costs (including directors' emoluments) for the year ended 31 March 2017 amounted to approximately HK\$17.3 million (2016: approximately HK\$24.8 million). Primary means of remuneration include contributory provident funds, insurance and standard medical benefits. The emoluments of the directors are decided by the remuneration committee of the Company (the "**Remuneration Committee**") based on the Company's operating results, individual performance and comparable market statistics. The Group has also adopted an annual discretionary bonus scheme for management and staff subject to the performance of the Group and individual employees. As of 31 March 2017, the Group has no outstanding share options issued to the Directors and employees for the purpose of providing incentives or rewards to the eligible employees for their contribution to the Group.

AUDIT COMMITTEE

The principal responsibilities of the audit committee of the Company (the "**Audit Committee**") include reviewing and supervising of the Group's financial reporting process, risk management and internal control. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 March 2017 and decided that such statements were properly prepared in accordance with the statutory requirements and applicable accounting standards. The Audit Committee currently comprises of three independent non-executive Directors (the "**INEDs**"), namely Ms. Meng, Ms. Ni and Mr. Shen.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 March 2017.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The subsidiaries are principally engaged in the sourcing, subcontracting, marketing and selling of outerwear garments and sportswear products, and property investment.

An analysis of the Group's results, assets and liabilities by business and geographical segments is set out in note 5 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year ended 31 March 2017 attributable to the Group's major customers and suppliers are as follows:

	2017 %	2016 %
Sales		
— The largest customer	81	78
— Five largest customers combined	99	97
Purchases		
— The largest supplier	50	30
— Five largest suppliers combined	98	91

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the major customers or suppliers as mentioned above.

ANALYSIS OF THE GROUP'S PERFORMANCE

An analysis of the Group's performance is shown in the Management Discussions and Analysis on pages 8 to 14.

REPORT OF THE DIRECTORS

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 43.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2017 (2016: Nil).

RESERVES

Movements in the reserves of the Group and those of the Company during the year ended 31 March 2017 are set out in notes 25 and 32 to the consolidated financial statements respectively.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The consolidated statement of changes in equity of the Group during the year ended 31 March 2017 is shown on page 46.

DONATIONS

The Group did not make any donations during the year ended 31 March 2017 (2016: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of the investment properties held by the Group are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 24 to the consolidated financial statements.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

The Company had no distributable reserves as at 31 March 2017 (2016: Nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years ended 31 March 2017 is set out on page 99.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of its shares during the year ended 31 March 2017. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the year ended 31 March 2017.

PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2017 are set out in note 33 to the consolidated financial statements.

ANALYSIS OF BANK LOANS AND OTHER BORROWINGS

The Group's bank loans and other borrowings including shareholder's loans as at 31 March 2017 were repayable over the following periods:

	Bank borrowings <i>HK\$'000</i>	Other borrowings <i>HK\$'000</i>
Within one year or on demand	27,281	249
In the second year	—	65,506
In the third to fifth year inclusive	—	223
	<hr/> 27,281 <hr/>	<hr/> 65,978 <hr/>

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year ended 31 March 2017 and up to the date of this report are as follows:

Executive Directors

Mr. Ren Qingxin (<i>Chairman</i>)	(appointed on 22 November 2016)
Mr. Zhou Xinyu (<i>Chief executive officer</i>)	(appointed on 22 November 2016)
Ms. Niu Fang	(appointed on 22 November 2016)
Mr. Wong Tek Sun, Takson (<i>Chairman</i>)	(resigned on 22 November 2016)
Ms. Pang Shu Yuk, Adaline Rita	(resigned on 22 November 2016)

Non-Executive Directors

Mr. Wong Tak Yuen	(resigned on 22 November 2016)
Ms. Pang She Kwok, Szwina	(resigned on 22 November 2016)

Independent non-Executive Directors

Ms. Ni Lijun	(appointed on 22 November 2016)
Mr. Shen Guoquan	(appointed on 22 November 2016)
Ms. Meng Rongfang	(appointed on 22 November 2016)
Mr. Cunningham, James Patrick	(resigned on 22 November 2016)
Mr. Wong Kwok Tai	(resigned on 22 November 2016)
Dr. Motwani, Manoj Kumar	(resigned on 22 November 2016)

All the Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with Bye-law 86(2) of the Company's bye-laws (the "**Bye-laws**").

All the Directors were appointed in November 2016, and therefore all the Directors shall hold office until the forthcoming annual general meeting and shall then be eligible for re-election at that meeting.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ren, Mr. Zhou and Ms. Niu has entered into a letter of appointment with the Company on 22 November 2016, pursuant to which each of them has been appointed for a term of two years as an executive Director with effect from 22 November 2016 and renewable automatically for successive terms of one year, subject to rotation, removal, vacation and termination in accordance with the Bye-laws. Each of the independent non-executive Directors, Ms. Ni, Mr. Shen and Ms. Meng, has entered into a letter of appointment with the Company on 22 November 2016, pursuant to which each of the independent non-executive Directors has been appointed for a term of two years as an independent non-executive Director with effect from 22 November 2016, and renewable automatically for successive terms of one year, subject to rotation, removal, vacation and termination in accordance with the Bye-laws. Apart from the aforesaid, none of the existing Directors, including the Directors proposed for re-election at the forthcoming annual general meeting of the Company, has entered into any service contract with the Company.

Details of the Directors' emoluments are set out in note 9(A) to the consolidated financial statements.

CONTRACT OF SIGNIFICANCE

Save for the share purchase agreement and the mandatory unconditional cash offer as set out in the announcements of the Company dated 23 September 2016, 13 October 2016, 31 October 2016 and 21 November 2016 and the circular of the Company dated 31 October 2016 and save as disclosed in this annual report, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year nor had there been any contract of significance which had been entered into between the Company or any of its subsidiaries and a controlling shareholder of the Company during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Except for the Directors' service contracts as mentioned above, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its holding companies or its fellow subsidiaries, was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year ended 31 March 2017.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 31 March 2017, the interests and short positions of each Director, chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO (Chapter 571 of the Laws of Hong Kong)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register maintained by the Company pursuant to section 352 of Part XV of the SFO, or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") were as follows:

(I) LONG POSITIONS IN THE SHARES OR UNDERLYING SHARES OF THE COMPANY

Name of Director or chief executive	Nature of interest	Number of issued shares held	Percentage of the issued share capital
Ms. Niu	Interest in controlled corporation (<i>Note</i>)	546,448,493 (<i>Note</i>)	70.47%

Note:

These shares were held by State Energy HK Limited ("**State Energy HK**"). State Energy HK was wholly owned by National Business. National Business was owned as to approximately 66.67% and 33.33% by Shanghai Guoming Equity Investment Fund Management Co., Limited* (上海國明股權投資基金管理有限公司) ("**Shanghai Guoming**") and Shanghai Zhongshe Equity Investment Fund Co., Limited* (上海中社股權投資基金有限公司) ("**Shanghai Zhongshe**") respectively. Shanghai Zhongshe was owned as to 80% by Ms. Niu. Hence Ms. Niu was deemed to be interested in the 546,448,493 shares in the Company held by State Energy HK pursuant to the SFO.

* For identification purposes only

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(CONTINUED)*

(II) LONG POSITIONS IN THE SHARES OF THE COMPANY'S ASSOCIATED CORPORATIONS

Name of Director or chief executive	Name of associated corporation	Nature of interest	Number of issued shares held	Approximate percentage of the issued share capital of the associated corporation
Ms. Niu	State Energy HK	Interest in controlled corporation <i>(Notes 1 & 4)</i>	8,000,000	100%
	National Business	Interest in controlled corporation <i>(Notes 2 & 4)</i>	1,000,000	33.33%
	Shanghai Guoming	Beneficial owner <i>(Notes 3 and 4)</i>	3,000,000	30%

Notes:

1. State Energy HK is a company incorporated in Hong Kong with limited liability which owned 546,448,493 shares of the Company (representing 70.47% of the issued share capital of the Company), and thus was the direct holding company of the Company.
2. National Business is a company established in the PRC with limited liability. It owned the entire issued share capital of State Energy HK, and thus was an indirect holding company of the Company.
3. Shanghai Guoming is a company established in the PRC with limited liability. It owned 66.67% equity interest in National Business, and thus was an indirect holding company of the Company.
4. Ms. Niu held 80% equity interest in Shanghai Zhongshe and Shanghai Zhongshe held approximately 33.33% equity interest in National Business, and thus Ms. Niu was deemed to be interested in the equity interests of National Business held by Shanghai Zhongshe and the shares of State Energy HK held by National Business.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS *(CONTINUED)*

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 March 2017.

Save as disclosed above, as at 31 March 2017, none of the Directors or chief executives was a director or employee of a company which had an interest or short position in the shares or underlying shares of the Company in which disclosure to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO is required.

ARRANGEMENTS FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company to acquire benefits by means of an acquisition of Shares, or debentures of the Company or any other body corporate, and neither the Directors nor the chief executives of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for securities of the Company or had exercised such right during the year ended 31 March 2017.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS

So far as is known to the Directors and the chief executives of the Company, as at 31 March 2017, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

LONG POSITIONS IN THE SHARES OR UNDERLYING SHARES OF THE COMPANY

Name of shareholder	Nature of interest	Number of issued shares of the Company held	Approximate percentage of the issued share capital of the Company
State Energy HK	Beneficial owner (<i>Note 1</i>)	546,448,493	70.47%
National Business	Interest of controlled corporation (<i>Note 1</i>)	546,448,493	70.47%
Shanghai Guoming	Interest of controlled corporation (<i>Note 1</i>)	546,448,493	70.47%
Shanghai Zhongshe	Interest of controlled corporation (<i>Note 1</i>)	546,448,493	70.47%
Liu Quanhui (" Mr. Liu ")	Interest of controlled corporation (<i>Note 1</i>)	546,448,493	70.47%
Hu Zhangcui (" Ms. Hu ")	Interest of spouse (<i>Note 2</i>)	546,448,493	70.47%

Notes:

- These shares were held by State Energy HK. State Energy HK was wholly owned by National Business. National Business was owned as to approximately 66.67% and 33.33% by Shanghai Guoming and Shanghai Zhongshe respectively. Shanghai Guoming and Shanghai Zhongshe were owned as to 70% and 20% by Mr. Liu, respectively. Hence, each of National Business, Shanghai Guoming, Shanghai Zhongshe and Mr. Liu was deemed to be interested in the 546,448,493 shares in the Company held by State Energy HK pursuant to the SFO.
- Ms. Hu is the spouse of Mr. Liu, and thus she was deemed to be interested in the shares of the Company in which Mr. Liu is interested pursuant to the SFO.

Save as disclosed above, no other person (other than a Director or chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO as at 31 March 2017.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 9(A) and note 9(B) to the consolidated financial statements attached to this annual report.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 24(C) to the consolidated financial statements.

No options under the above scheme were granted nor exercised during the year ended 31 March 2017 and no options were outstanding as at 31 March 2017.

At no time during the year ended 31 March 2017 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors and chief executive of the Company or their spouse or children under 18 years of age to acquire benefits by means of an acquisition of shares in, or debentures of, the Company or any other body corporate.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Directors and the Company's auditor in matters coming within the scope of the audit of the Group. It also reviews the effectiveness of the external audit, the internal controls and risk evaluation. Currently, the Audit Committee comprises three independent non-executive directors, namely, Ms. Meng, Ms. Ni and Mr. Shen. Two meetings were held during the year ended 31 March 2017.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws and the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to the existing Shareholders.

MANAGEMENT CONTRACTS

No contracts, other than contracts of service with person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 March 2017.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely Ms. Meng, Ms. Ni and Mr. Shen, an annual confirmation of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers that all of the independent non-executive Directors are independent.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 March 2017.

AUDITOR

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

For and on behalf of the Board

Zhou Xinyu

Chief Executive Officer & Executive Director

Hong Kong, 28 June 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance. It believes that a high standard of corporate governance provides a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain a high standard of accountability and protect interests of the shareholders and other stakeholders.

The Company has applied the principles and complied with the Corporate Governance Code (“**CG Code**”) as contained in Appendix 14 of the Listing Rules during the year ended 31 March 2017 except for the following deviations:

1. Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separated. The positions of chairman and chief executive officer of the Company have been held by Mr. Wong Tek Sun, Takson (“**Mr. Wong**”) during the period from 1 April 2016 to 22 November 2016. Mr. Wong resigned as chairman, chief executive officer and executive director of the Company on 22 November 2016. After his resignation, the roles of chairman and chief executive officer of the Company are separated. The chairman and chief executive officer of the Company are taken up by Mr. Ren and Mr. Zhou respectively.
2. Under the Code Provisions A.4.1 and A.4.2, non-executive director should be appointed for a specific term and each director should be subject to retirement by rotation at least once every three years. The previous INEDs and non-executive directors (“**NEDs**”) of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws at least once every three years. All the existing INEDs have entered into a letter of appointment with the Company on 22 November 2016, pursuant to which each of the INEDs has been appointed for a term of two years as an INED with effect from 22 November 2016, and renewable automatically for successive term of one year, subject to rotation, removal, vacation and termination in accordance with the Bye-laws.
3. Under the Code Provision A.6.7, non-executive directors, including independent non-executive directors, should attend general meetings and meetings of the board and board committees. Two of the previous NEDs, Mr. Wong Tak Yuen and Ms. Pang She Kwok, Szwina, and two previous INEDs, Mr. Cunningham, James Patrick and Dr. Motwani, Manoj Kumar, were unable to attend the general meeting held on 28 September 2016 as they had other business engagements. However, they subsequently requested the company secretary (the “**Company Secretary**”) of the Company to report to them on the views of the shareholders of the Company in the aforementioned general meeting. As such, the Board considers that a mutual understanding on the views of the Company’s shareholders has been reached among the NEDs and INEDs.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

The positions of chairman and chief executive officer of the Company have been held by Mr. Wong during the period from 1 April 2016 to 22 November 2016. Mr. Wong resigned as chairman, chief executive officer and executive director of the Company on 22 November 2016. After his resignation, the roles of chairman and chief executive officer of the Company are separated and are taken up by Mr. Ren and Mr. Zhou respectively.

The key role of chairman of the Board is to provide leadership to the Board. In performing his duties, chairman of the Board shall ensure that the Board functions effectively when discharging its responsibilities. Chairman of the Board also has the responsibility of taking the lead to ensure that the Board acts in the best interests of the Group.

The key role of chief executive officer includes the day-to-day management and operations of the Company and the business of the Group. The main duties of chief executive officer are as follows:

- providing leadership and supervising the effective management of the Group and fully presiding the daily operation of the Group;
- monitoring and controlling the financial and operational performance of various divisions;
- implementing the strategy and policies adopted by the Group, setting and implementing objectives and development plans;
- signing the relevant agreement, contract and handling relevant matters according to the authorisation of the Board; and
- other matters authorised by the Board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all Directors regarding any non-compliance with the Model Code during the year ended 31 March 2017, they have all confirmed their full compliance with the required standards as set out in the Model Code throughout the year ended 31 March 2017.

The Company has also established written guidelines for senior management and employees in certain functions in respect of their dealings in the securities of the Company for their strict compliance. The Company issued notices to all Directors, senior management and relevant employees reminding them to comply with the restriction on dealing of securities of the Company under the above code and guidelines 60 days prior to the publication of the annual results and 30 days prior to the publication of the interim results.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Board currently consists of a total of six Directors, comprising three executive Directors and three INEDs. The composition of the Board during the year and up to the date of this report are:

Executive Directors

Mr. Ren Qingxin (<i>Chairman</i>)	(appointed on 22 November 2016)
Mr. Zhou Xinyu (<i>Chief executive officer</i>)	(appointed on 22 November 2016)
Ms. Niu Fang	(appointed on 22 November 2016)
Mr. Wong Tek Sun, Takson (<i>Chairman</i>)	(resigned on 22 November 2016)
Ms. Pang Shu Yuk, Adaline Rita	(resigned on 22 November 2016)

NEDs

Mr. Wong Tak Yuen	(resigned on 22 November 2016)
Ms. Pang She Kwok, Szwina	(resigned on 22 November 2016)

INEDs

Ms. Ni Lijun	(appointed on 22 November 2016)
Mr. Shen Guoquan	(appointed on 22 November 2016)
Ms. Meng Rongfang	(appointed on 22 November 2016)
Mr. Cunningham, James Patrick	(resigned on 22 November 2016)
Mr. Wong Kwok Tai	(resigned on 22 November 2016)
Dr. Motwani, Manoj Kumar	(resigned on 22 November 2016)

None of the existing Directors has any personal relationship (including financial, business, family or other material/relevant relationship), with any other existing Director.

Code provision A.4.1 stipulates that NEDs should be appointed for a specific term and are subject to re-election. The previous INEDs and NEDs are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws at least once every three years. All the existing INEDs have entered into a letter of appointment with the Company on 22 November 2016, pursuant to which each of the INEDs has been appointed for a term of two years as an INED with effect from 22 November 2016, and renewable automatically for successive term of one year, subject to rotation, removal, vacation and termination in accordance with the Bye-laws.

CORPORATE GOVERNANCE REPORT

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company encourages the Directors to participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. All the Directors have confirmed with the Company that they have participated in appropriate continuous professional development activities, which relate to financial and general management or regulatory and corporate governance, either by attending seminars or by reading materials relevant to the Group's business or to Directors' duties and responsibilities during the year.

The individual training records of each Director for the year ended 31 March 2017 are set out below:

Name of Directors	Attending seminars/ conferences/ forums	Reading newspapers, journals and updates relating to the economy, general business, accounting, laws, rules and regulations, etc.
Executive Directors		
Mr. Ren Qingxin (<i>Chairman</i>)	√	√
Mr. Zhou Xinyu	√	√
Ms. Niu Fang	√	√
Mr. Wong Tek Sun, Takson (resigned on 22 November 2016)	√	√
Ms. Pang Shu Yuk, Adeline Rita (resigned on 22 November 2016)	√	√
NEDs		
Mr. Wong Tak Yuen (resigned on 22 November 2016)	√	√
Ms. Pang She Kwok, Szwina (resigned on 22 November 2016)	√	√
INEDs		
Ms. Ni Lijun	√	√
Mr. Shen Guoquan	√	√
Ms. Meng Rongfang	√	√
Mr. Cummingham, James Patrick (resigned on 22 November 2016)	√	√
Mr. Wong Kwok Tai (resigned on 22 November 2016)	√	√
Dr. Motwani, Manoj Kumar (resigned on 22 November 2016)	√	√

CORPORATE GOVERNANCE REPORT

INEDS

Throughout the year ended 31 March 2017 and up to the date of this report, the Company has complied with the requirements under Rules 3.10A, 3.10(1) and (2) of the Listing Rules that require every board of directors of a listed issuer to include at least three INEDs and at least one of the INEDs must have appropriate professional qualifications or accounting or related financial management expertise. Two of the INEDs are qualified accountants and one of the INEDs is a practising lawyer.

The INEDs actively participated in board meetings of the Company. The Audit Committee, the Remuneration Committee, nomination committee (the “**Nomination Committee**”) of the Company comprise a majority of INEDs.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. The Board follows the requirements set out in the Listing Rules to determine the independence of Directors. The Company has received from each of its INEDs an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers all INEDs are independent.

RESPONSIBILITIES OF DIRECTORS AND MANAGEMENT

The Board is responsible for ensuring continuity of leadership, development of sound business strategies, availability of adequate capital and managerial resources to implement the adopted business strategies, adequacy of systems of financial and internal controls and conduct of business in conformity with applicable laws and regulations. All Directors have made full and active contribution to the affairs of the Board and the Board has always acted in the best interests of the Group.

All newly appointed Directors will receive a formal and tailored induction on the first occasion of their appointment in order to ensure that they will have a proper understanding of the operations and business of the Company and that they will be fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal and other regulatory requirements, and the Company’s business and governance policies.

The executive Directors and the senior management are delegated with respective levels of authorities with regard to key corporate strategies and policy and contractual commitments. Senior management is responsible for the day-to-day operations of the Group with divisional heads responsible for different aspects of the Group’s business.

The Board is also responsible for the preparation of the consolidated financial statements. The Company has adopted the generally accepted accounting standards in Hong Kong in preparing the consolidated financial statements, appropriate accounting policies have been adopted and applied consistently, and reasonable and prudent judgment and estimates have been made.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the “**Board Diversity Policy**”) which sets out the approach to achieve diversity on the Board. A summary of this policy together with the measureable objectives set for implementing the Board Diversity Policy, and the progress made towards achieving those objectives are disclosed below.

SUMMARY OF THE BOARD DIVERSITY POLICY

The Company recognizes and embraces the benefits of having a diversity to enhance the quality of its performance. When determining the composition of the Board, the Company will consider board diversity in terms of, among other things, age, experience, cultural and educational background, expertise, skills and know-how. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board.

MEASURABLE OBJECTIVES

Selection of candidates for Board membership will be based on a range of diversity perspectives, including but not limited to age, experience, cultural and educational background, expertise, skills and know-how.

MONITORING AND REPORTING

The Nomination Committee will review, as appropriate, to ensure the effectiveness of the Board Diversity Policy and monitor the implementation of this policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval. The Nomination Committee considers that the current Board composition has provided the Company with a good balance and diversity of skill and experience appropriate for the business of the Company.

CORPORATE GOVERNANCE REPORT

BOARD MEETING

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, in addition to the meetings for reviewing and approving the Group's annual and interim results. During the year ended 31 March 2017, nine meetings have been held by the Board and the attendance of each of the Directors is as follows:

Name of Directors	Attendance/number of meetings held during the year ended 31 March 2017 (during appointment period)				
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Nomination Committee Meeting	AGM
Executive Directors					
Mr. Ren Qingxin (<i>Chairman</i>) (<i>Note 1</i>)	6/6	n/a	n/a	0/0	n/a
Mr. Zhou Xinyu (<i>Note 1</i>)	6/6	n/a	n/a	n/a	n/a
Ms. Niu Fang (<i>Note 1</i>)	6/6	n/a	2/2	n/a	n/a
Mr. Wong Tek Sun, Takson (<i>Note 2</i>)	3/3	n/a	0/0	1/1	1/1
Ms. Pang Shu Yuk, Adeline Rita (<i>Note 2</i>)	3/3	n/a	n/a	n/a	0/1
NEDs					
Mr. Wong Tak Yuen (<i>Note 2</i>)	1/3	2/2	n/a	n/a	0/1
Ms. Pang She Kwok, Szwina (<i>Note 2</i>)	3/3	n/a	n/a	n/a	0/1
INEDs					
Ms. Ni Lijun (<i>Note 1</i>)	6/6	0/0	2/2	0/0	n/a
Mr. Shen Guoquan (<i>Note 1</i>)	6/6	0/0	2/2	0/0	n/a
Ms. Meng Rongfang (<i>Note 1</i>)	6/6	0/0	n/a	n/a	n/a
Mr. Cunningham, James Patrick (<i>Note 2</i>)	3/3	n/a	n/a	1/1	0/1
Mr. Wong Kwok Tai (<i>Note 2</i>)	3/3	2/2	0/0	1/1	1/1
Dr. Motwani, Manoj Kumar (<i>Note 2</i>)	1/3	1/2	0/0	n/a	0/1

Notes:

- Each of Mr. Ren, Mr. Zhou, Ms. Niu, Ms. Ni, Mr. Shen and Ms. Meng was appointed on 22 November 2016.
- Each of Mr. Wong Tek Sun, Takson, Ms. Pang Shu Yuk, Adeline Rita, Mr. Wong Tak Yuen, Ms. Pang She Kwok, Szwina, Mr. Cunningham, James Patrick, Mr. Wong Kwok Tai and Dr. Motwani, Manoj Kumar resigned on 22 November 2016.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Audit Committee comprises three INEDs:

Ms. Meng Rongfang (<i>Chairman</i>)	(appointed on 22 November 2016)
Ms. Ni Lijun	(appointed on 22 November 2016)
Mr. Shen Guoquan	(appointed on 22 November 2016)
Mr. Wong Kwok Tai	(resigned on 22 November 2016)
Mr. Wong Tak Yuen	(resigned on 22 November 2016)
Dr. Motwani, Manoj Kumar	(resigned on 22 November 2016)

The Audit Committee was responsible for overseeing the audit process and reviewing the effectiveness of the financial reporting process, internal control and risk management systems of the Company. The Audit Committee has reviewed the interim results of the Company for the six months ended 30 September 2016 and the annual consolidated results of the Company for the year ended 31 March 2017.

The terms of reference of the Audit Committee, which describe its authority and duties, are available on the Company's website.

During the year ended 31 March 2017, there was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor. The Audit Committee is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements.

During the year ended 31 March 2017, two Audit Committee meeting were held and the attendance of each of the committee members at the Audit Committee meeting has been disclosed earlier in this report.

REMUNERATION COMMITTEE

The Remuneration Committee comprises two INEDs and one executive Director:

Mr. Shen Guoquan (<i>Chairman</i>)	(appointed on 22 November 2016)
Ms. Ni Lijun	(appointed on 22 November 2016)
Ms. Niu Fang	(appointed on 22 November 2016)
Dr. Motwani, Manoj Kumar	(resigned on 22 November 2016)
Mr. Wong Kwok Tai	(resigned on 22 November 2016)
Mr. Wong Tek Sun, Takson	(resigned on 22 November 2016)

The objectives of the Remuneration Committee are to determine and maintain an appropriate and competitive level of remuneration to attract, retain and motivate Directors and key executives to operate the Company successfully. The Remuneration Committee also ensures that the remuneration policies and systems of the Group support the Group's objectives and strategies. The Remuneration Committee is provided with other resources to enable it to fully discharge its duties.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE (*CONTINUED*)

The terms of reference of the Remuneration Committee, which describe its authority and duties, are available on the Company's website.

During the year ended 31 March 2017, two Remuneration Committee meetings were held and the attendance of each of the members of the Remuneration Committee has been disclosed earlier in this report. The Remuneration Committee has considered the remuneration of the executive Directors and senior management and made recommendations to the Board. The Board has no disagreement with the Remuneration Committee on remuneration or compensation arrangements with regard to executive Directors and senior management.

Directors' emoluments comprise payments to the Directors by the Group in connection with the management of the affairs of the Group and other benefits. Further particulars regarding directors' remuneration and the five highest paid employees are shown in note 9 to the consolidated financial statements.

The emoluments of two senior managements who are not executive Directors for the year ended 31 March 2017 are within the emoluments band ranging from HK\$500,000 to HK\$1,000,000.

NOMINATION COMMITTEE

The Nomination Committee comprises two INEDs and one executive director:

Mr. Ren Qingxin (<i>Chairman</i>)	(appointed on 22 November 2016)
Mr. Shen Guoquan	(appointed on 22 November 2016)
Ms. Ni Lijun	(appointed on 22 November 2016)
Mr. Cunningham, James Patrick	(resigned on 22 November 2016)
Mr. Wong Kwok Tai	(resigned on 22 November 2016)
Mr. Wong Tek Sun, Takson	(resigned on 22 November 2016)

The objectives of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes. The Nomination Committee should identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals eligible for nomination of directorships, assess the independence of the INEDs, and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. A new Director will be informed of the role of the Board and his/her duties and obligation of being a director of a listed company.

The terms of reference of the Nomination Committee, which describe its authority and duties, are available on the Company's website.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE *(CONTINUED)*

During the year ended 31 March 2017, one Nomination Committee meeting has been held to consider the revision of the structure, size and composition of the Board, qualifications for all Directors and senior management of the Group and independence of the INEDs. The attendance of each of the members of the Nomination Committee has been disclosed earlier in this report.

COMPANY SECRETARY

Mr. Au Yeung was appointed as the Company Secretary to replace Mr. Tong Yat Chong (“**Mr. Tong**”) on 7 April 2017. Mr. Au Yeung is a full time employee of the Company. During the year ended 31 March 2017, Mr. Tong has been the Company Secretary. The role of the Company Secretary is to ensure that the Directors have access to all necessary information and that all Board procedures are followed. He also advises the Board on corporate governance matters and facilitates induction and professional development of the Directors. Mr. Au Yeung reports directly to the chairman and the chief executive officers of the Company, and all Directors have access to the advice and services of the Company Secretary at any time in relation to their duties and operation of the Board. Mr. Au Yeung and Mr. Tong have confirmed that they have fulfilled the requirement of taking no less than 15 hours of relevant professional training during the year ended 31 March 2017.

AUDITOR’S REMUNERATION

The fees paid to the external auditor of the Company, for audit and non-audit services including taxation services for the year ended 31 March 2017 amounted to approximately HK\$533,000.

In considering the re-appointment of the external auditor, the Audit Committee has taken into consideration their relationship with the Company and their independence in the provision of non-audit services. Based on the results of the review and after taking into account the opinion of the management of the Group, the Audit Committee recommended the Board to re-appoint Cheng & Cheng Limited as the external auditor of the Company for the year ending 31 March 2018, subject to approval by the shareholders of the Company at the forthcoming annual general meeting to be held on 22 August 2017. There is no external auditors of the Company acting as a member of the Audit Committee within one year commencing on the date of his ceasing to be a partner of the firm. In addition, the Audit Committee is of the view that the auditor’s independence is not affected by the non-audit services rendered.

ACCOUNTABILITY

Being accountable for the proper stewardship of the Group’s affairs, the Directors acknowledge their responsibility for ensuring that proper accounting records are kept and relevant consolidated financial statements, as in the annual report and the interim report of the Company, are prepared to give a true and fair view of the state of affairs of the Group for each of the financial periods.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY *(CONTINUED)*

In preparing the consolidated financial statements for the year ended 31 March 2017, the Directors have:

- approved the adoption of all applicable Hong Kong Financial Reporting Standards which are issued by the Hong Kong Institute of Certified Public Accountants
- selected and applied consistently the appropriate accounting policies
- made judgments and estimates that are prudent and reasonable
- prepared the consolidated financial statements on the going concern basis

The management provides the Board with such information and explanations necessary to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The statement by the auditor of the Company about their reporting responsibilities are set out on pages 38 to 42 of this report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledges its responsibility for the integrity of the Group's financial information and the effectiveness of the Group's system of internal controls and risk management processes. Accordingly, the Board established a clear organisational structure with appropriate delegation of responsibility to satisfy changing business needs while managing risks that are critical to the achievement of business objectives.

While the Audit Committee conducts continuous review on the adequacy and effectiveness of existing internal controls and risk management systems of the Company on behalf of the Board, the day-to-day responsibility for the conduct of these control procedures, the on-going monitoring of risks and the effectiveness of the corresponding internal controls rest with the management of each business units.

The Board hereby confirms that there is a process for identifying, evaluating and managing the significant risks that are critical to the achievement of the Groups' strategic objectives. The Board communicates on a regular basis with the Audit Committee on risk exposure. During the year ended 31 March 2017, the Board has reviewed the effectiveness of the system of internal control and risk management of the Group.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board has established a shareholders' communication policy to maintain an on-going dialogue with its shareholders and investors in a timely and transparent manner. The Board reviews the policy on a regular basis to ensure effective communication between the Company, its shareholders and investors.

The Board communicates with its shareholders and investors through various channels. The Board members meet and communicate with shareholders and investors at AGMs and other general meetings. Corporate communications (such as interim and annual reports, notices, circulars and announcements) are sent to shareholders in a timely manner and are available on the websites of the Company and the Stock Exchange.

SHAREHOLDERS' RIGHTS

PROCEDURES FOR NOMINATION OF A DIRECTOR

A notice in writing of the intention to propose a person for election as a director of the Company and a notice in writing by that person of his/her willingness to be elected together with his/her personal particulars and information required to be disclosed under Rule 13.51(2) of the Listing Rules shall be lodged at the Company's principal place of business (Unit 2307 – 10, 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong) or at its branch share registrar in Hong Kong, Tricor Abacus Limited (Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong). The period for lodgment of the notices required will commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting, and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

RIGHT AND PROCEDURES FOR SHAREHOLDERS TO CONVENE A GENERAL MEETING

Special general meetings shall be convened on the written requisition of one or more shareholders of the Company holding, at the date of requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board of Directors or the Company Secretary (Unit 2307 – 10, 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong) for the purpose of requiring a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may convene such meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company. Such meeting shall be held within 2 months after the deposit of such requisition.

INDEPENDENT AUDITOR'S REPORT



CHENG & CHENG LIMITED

CERTIFIED PUBLIC ACCOUNTANTS

10th Floor, Allied Kajima Building
138 Gloucester Road, Wanchai, Hong Kong

TO THE SHAREHOLDERS OF STATE ENERGY GROUP INTERNATIONAL ASSETS HOLDINGS LIMITED (FORMERLY KNOWN AS “TAKSON HOLDINGS LIMITED”)

(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of State Energy Group International Assets Holdings Limited (formerly known as “Takson Holdings Limited”) (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 43 to 98, which comprise the consolidated statement of financial position as at 31 March 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT

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.

Key Audit Matter

How the matter was addressed in our audit

Valuation of investment properties

Refer to note 17 in the consolidated financial statements. As at 31 March 2017, the fair value of investment properties of the Group was HK\$79,741,000.

Significant estimation and judgement are required by management to determine the fair value of the investment properties. To support management's determination of the fair value, the Group engaged an external valuer to perform valuations on the investment properties at the end of the reporting period.

The accounting policies and disclosures for the estimation of fair value of investment properties are included in notes 2, 4 and 17.

We have performed the following procedures to address this key audit risk:

- Evaluated the objectivity, independence and competency of the valuer;
- Compared inputs to the valuation model, on a sample basis, with the Group's records, which included comparable recent market transactions; and
- Discussed with the valuer regarding the reasonableness of methodology and key assumptions being used in the fair value exercise.

We also reviewed the disclosures presented in note 17 to the financial statements to confirm compliance with the accounting policies.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How the matter was addressed in our audit
<p><i>Valuation of buildings included in property, plant and equipment</i></p> <p>Refer to note 15 in the consolidated financial statements</p> <p>As at 31 March 2017, the fair value of buildings included in property, plant and equipment of the Group was HK\$ 7,517,000.</p> <p>Significant estimation and judgement are required by management to determine the fair value of the buildings. To support management's determination of the fair value, the Group engaged an external valuer to perform valuations on the building at the end of the reporting period.</p> <p>The accounting policies and disclosures for the estimation of fair value of buildings are included in notes 2, 4 and 15.</p>	<p>We have performed the following procedures to address this key audit risk:</p> <ul style="list-style-type: none"> – Evaluated the objectivity, independence and competency of the valuer.; – Compared inputs to the valuation model, on a sample basis, with the Group's records, which included comparable recent market transactions; and – Discussed with the valuer regarding the reasonableness of methodology and key assumptions being used in the fair value exercise; <p>We also reviewed the disclosures presented in note 15 to the financial statements to confirm compliance with the accounting policies.</p>

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

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

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

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

INDEPENDENT AUDITOR'S REPORT

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

The Audit Committee assists the directors of the Company in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

- 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 Audit Committee, 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.

Cheng & Cheng Limited

Certified Public Accountants

Chan Shek Chi

Practising Certificate number P05540

Hong Kong, 28 June 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Turnover	5	112,447	158,354
Cost of sales		(82,542)	(118,680)
Gross profit		29,905	39,674
Other income	5	911	711
Selling, distribution and marketing expenses		(10,036)	(17,047)
Administrative expenses		(28,185)	(32,158)
Net loss on foreign currency forward contracts	5	(1,071)	(8,262)
Changes in fair value of investment properties	17	951	(3,536)
Operating loss		(7,525)	(20,618)
Finance costs	6	(3,169)	(2,711)
Loss before taxation	7	(10,694)	(23,329)
Income tax expense	10	(2,055)	(2,264)
Loss for the year		(12,749)	(25,593)
Other comprehensive income for the year (net of tax)			
Items that will not be reclassified to profit or loss:			
Surplus on revaluation of buildings held for own use	12	392	301
Total comprehensive loss for the year		(12,357)	(25,292)
Loss for the year attributable to:			
Equity holders of the Company		(12,749)	(25,593)
Total comprehensive loss attributable to:			
Equity holders of the Company		(12,357)	(25,292)
Loss per share attributable to equity holders of the Company			
– basic (HK cents)	13	(1.64)	(3.30)
– diluted (HK cents)	13	(1.64)	(3.30)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Notes	2017 HK\$'000	2016 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	12,581	11,452
Leasehold land	16	14,975	15,467
Investment properties	17	79,741	78,790
Deferred tax assets	27	1,052	3,107
		108,349	108,816
Current assets			
Inventories	18	11	1,260
Trade receivables	19	887	759
Deposits, prepayments and other receivables	19	6,673	25,101
Pledged bank deposit	20	4,510	4,509
Cash and cash equivalents	20	8,328	8,009
		20,409	39,638
Total assets		128,758	148,454
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	24	77,540	77,540
Reserves	25	(49,977)	(37,620)
Total equity		27,563	39,920
LIABILITIES			
Non-current liabilities			
Bank borrowings and obligations under finance leases	26	365	614
Amounts due to a shareholder	28	66,047	—
Deferred tax liabilities	27	4,858	4,780
		71,270	5,394

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current liabilities			
Trade payables	21	200	2,407
Other payables and accrued charges	22	2,195	5,070
Derivative financial liability	23	—	4,499
Bank borrowings and obligations under finance leases	26	27,530	91,164
		29,925	103,140
Total liabilities		101,195	108,534
Total equity and liabilities		128,758	148,454
Net current liabilities		(9,516)	(63,502)
Total assets less current liabilities		98,833	45,314

Approved and authorised for issue by the Board of Directors on 28 June 2017 and are signed on its behalf by:

Ren Qingxin
Chairman

Zhou Xinyu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

	Attributable to equity holders of the Company		Total HK\$'000
	Share capital HK\$'000	Reserves HK\$'000	
Balance at 1 April 2015	77,540	(12,328)	65,212
Total comprehensive loss for the year	—	(25,292)	(25,292)
Balance at 31 March 2016	77,540	(37,620)	39,920
Balance at 1 April 2016	77,540	(37,620)	39,920
Total comprehensive loss for the year	—	(12,357)	(12,357)
Balance at 31 March 2017	77,540	(49,977)	27,563

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2017

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Operating activities			
Cash generated from operations	<i>30(a)</i>	8,574	3,806
Tax paid			
– Overseas tax paid		–	(15)
Net cash flows from operating activities		8,574	3,791
Investing activities			
Placement of pledged bank deposit		(1)	(9)
Interest received		16	154
Proceeds from disposal of property, plant and equipment		–	432
Purchases of property, plant and equipment		(1,695)	(664)
Payment to settlement of derivative financial instrument		(5,570)	–
Net cash flows used in investing activities		(7,250)	(87)
Financing activities			
Proceeds from bank borrowings		134,287	189,039
Repayment of bank borrowings		(197,599)	(189,721)
Capital element of finance lease obligations paid		(571)	(715)
Amount due to a shareholder		65,363	–
Interest paid		(2,456)	(2,672)
Interest element of finance lease obligations		(29)	(39)
Net cash flow used in financing activities		(1,005)	(4,108)
Net increase/(decrease) in cash and cash equivalents		319	(404)
Cash and cash equivalents at the beginning of the year		8,009	8,413
Cash and cash equivalents at the end of the year	<i>30(b)</i>	8,328	8,009

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

1. GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares (the “**Share**”) are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The address of its principal place of business is Unit 2307 - 10, 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong.

During the year ended 31 March 2017, the Group remains principally engaged in sourcing, subcontracting, marketing and selling of garments and sportswear products and property investment.

Pursuant to the special resolution passed at the special general meeting of the Company on 21 April 2017, the Certificate of Incorporation on Change of Name of the Company issued by the Registrar of Companies in Bermuda on 18 May 2017 and the Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company issued by the Registrar of Companies in Hong Kong on 8 June 2017, the English name of the Company has been changed from “Takson Holdings Limited” to “State Energy Group International Assets Holdings Limited” and the Chinese name “國能集團國際資產控股有限公司” has been adopted as the secondary name of the Company to replace its existing name in Chinese “第一德勝控股有限公司” which had been used for identification purpose only.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) (which include Hong Kong Accounting Standards (“**HKASs**”) and Interpretations), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and buildings.

The Group had net current liabilities of approximately HK\$9,516,000 as at 31 March 2017 (2016: HK\$63,502,000). The directors are taking steps to improve the Group’s liquidity and financial performance including active cost-saving and other measures to improve the Group’s operating cash flows and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 BASIS OF PREPARATION *(CONTINUED)*

The directors have given careful consideration to the Group's financial performance and liquidity position. On the basis that the Group's operating results and cash flows will be improved through the implementation of the measures described above and having considered the Group's current operation and business plan as well as the currently available banking facilities, the directors are satisfied that the Group will be able to meet in full its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

New and amended Standards applied in the current year

In the current year, the Group has applied for the following new and amended HKFRSs issued by the HKICPA for the first time for the financial year beginning 1 April 2016:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012- 2014 cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKAS 28, HKFRS 10 and HKFRS 12	Investment Entities: Applying the Consolidation Exemption
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

The adoption of the above new and amended standards did not have any material impact on the preparation and presentation of the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

New and amended Standards issued but not yet effective

The Group and the Company have not early applied the following new and amended Standards that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to HKAS 7	Statement of Cash Flows – Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ²

¹ Effective for accounting periods beginning on or after 1 January 2017

² Effective for accounting periods beginning on or after 1 January 2018

³ Effective for accounting periods beginning on or after 1 January 2019

⁴ Effective date to be determined

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

2.2 CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up for the year ended 31 March 2017.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 CONSOLIDATION (CONTINUED)

Subsidiaries (continued)

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2.8), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2.3 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 FOREIGN CURRENCY TRANSLATION

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in thousands of units of Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 FOREIGN CURRENCY TRANSLATION (CONTINUED)

(c) Group companies

The results and financial position of the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised directly in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences that were recognised in other comprehensive income are recognised in the statement of profit or loss and other comprehensive income as part of the gain or loss on sale.

2.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses except for buildings which are stated at revalued carrying amount. Historical cost includes expenditure that is 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. All other repairs and maintenance are included in the profit or loss during the financial year in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are recognised in other comprehensive income. Decreases that offset previous increases of the same asset are charged against other comprehensive income; all other decreases are included in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation of property, plant and equipment is calculated to write off their cost over their expected useful lives as follows:

	Depreciation rates	Method
– Buildings	over the lease terms	straight-line
– Leasehold improvements	10-15% or over the lease terms, whichever is shorter	straight-line
– Furniture and fixtures	10-20%	reducing balance
– Machinery, equipment and tools	10-18%	reducing balance
– Motor vehicles	10-18%	reducing balance
– Office and computer equipment	10-33%	reducing balance

The assets' residual values and useful lives are reviewed, and adjusted as appropriate, at the end of each reporting period.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss and other comprehensive income. When revalued assets are sold, the revaluation surplus included in reserves is transferred to retained earnings/accumulated losses.

2.6 LEASEHOLD LAND

Lease premium for land are up-front payment to acquire long-term interest in lease-occupied properties. The premium is stated at cost less accumulated amortisation and accumulated impairment losses (if any). Cost mainly represents consideration paid for the rights to use the land on which various buildings are situated. Amortisation of lease premium for land is calculated on a straight-line basis over the period of the lease.

2.7 INVESTMENT PROPERTIES

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 INVESTMENT PROPERTIES (CONTINUED)

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. These valuations are performed by external valuers at least annually. Fair value is based on market prices, as adjusted (if necessary) for any difference in the nature, location or condition of the specific asset. If this information is not available, alternative valuation methods such as recent prices on less active markets or discounted cash flow projections are used.

Subsequent expenditure is charged to the asset's carrying amount 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. All other repairs and maintenance costs are included in profit or loss during the period in which they are incurred.

Changes in fair values are included in profit or loss.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment and/or leasehold land becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is accounted for in accordance with HKAS 16.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.8 IMPAIRMENT OF ASSETS

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work-in-progress comprise direct materials, shipment costs and subcontracting expenses.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the trade and other receivables is reduced through the use of an allowance account, and the amount of the loss is included in profit or loss. When a trade/other receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are included in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

2.12 BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

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

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

2.13 SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 TRADE AND OTHER PAYABLES

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 INCOME TAX (CONTINUED)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous year.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 EMPLOYEE BENEFITS

(a) Pension obligation

The Group continues to operate an occupational retirement scheme (a defined contribution plan) which has been granted exemption pursuant to Section 5 of the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the scheme, both the employers and employees are required to contribute an amount equal to 5% of the basic salary of the employees on a monthly basis. The Group's contributions to the scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contribution.

Besides, the Group operates a mandatory provident fund scheme (the "MPF Scheme"; a defined contribution plan) under which the Group and its employees are required to contribute 5% (subject to an aggregate maximum of HK\$1,500 per month) of the employees' relevant income. Contributions from the employer are 100% vested in the employees as soon as they are paid to the MPF Scheme.

Contributions for the above schemes are recognised as employee benefit expenses when they are due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 EMPLOYEE BENEFITS (CONTINUED)

(b) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) *Share-based compensation*

The Group operates a share option scheme, being an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of share options under the share option scheme is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumption about the number of share options that are expected to become exercisable. At the end of each reporting period, the entity revises its estimates of the number of share options that are expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the consolidated statement of profit or loss and other comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the share options are exercised.

2.17 PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of past events; it is probable that an outflow of resource will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.18 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating the sales within the Group.

The Group recognises revenue when the amount of the revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sales have been resolved.

(a) Sale of goods

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) Rental income from operating leases

Rental income receivable under operating leases is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the period of lease. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(d) Other income

Other income not stated above is recognised whenever it is received or receivable.

2.19 LEASES

(a) Operating lease

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 LEASES (CONTINUED)

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding liabilities, net of finance charges, are included in current and non-current borrowings, as appropriate. The interest element of the finance cost is recognised in the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.20 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, they will then be recognised as a provision.

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

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

2.21 EQUITY INSTRUMENTS

Equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.22 RELATED PARTIES

A related party is a person or entity that is related to the Group in these consolidated financial statements, as follows:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose to a variety of financial risks including foreign exchange risk, liquidity risk, cash flow and fair value interest rate risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks.

(A) FOREIGN EXCHANGE RISK

Foreign exchange risk arises from recognized assets and liabilities, primarily with respect to the United States Dollars ("US\$") and Renminbi ("RMB"). Any changes in the exchange rates of HK\$ to US\$ and RMB will impact the Group's operating results.

As HK\$ is pegged to US\$, foreign exchange exposure on US\$ denominated transactions, assets or liabilities is considered as minimal. The volume of RMB denominated transactions and recognized assets and liabilities is not significant, therefore, the foreign exchange risk is still considered as minimal. The Group currently does not undertake any foreign currency hedging.

(B) LIQUIDITY RISK

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents, bank and other borrowings and banking facilities deemed adequate by the management to finance the Group's operations and mitigate the effects of change in cash flow needs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(B) LIQUIDITY RISK (CONTINUED)

	2017					Carrying amount at 31 March HK\$'000
	Contractual undiscounted cash outflow					
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	
Bank borrowings	28,428	—	—	—	28,428	27,281
Finance lease liabilities	265	152	229	—	646	614
Trade payables	200	—	—	—	200	200
Other payables and accrued charges	2,195	—	—	—	2,195	2,195
Derivative financial liability	—	—	—	—	—	—
Amounts due to a shareholder	—	70,920	—	—	70,920	66,047
	31,088	71,072	229	—	102,389	96,337

	2016					Carrying amount at 31 March HK\$'000
	Contractual undiscounted cash outflow					
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total HK\$'000	
Bank borrowings	95,832	—	—	—	95,832	90,593
Finance lease liabilities	600	265	381	—	1,246	1,185
Trade payables	2,407	—	—	—	2,407	2,407
Other payables and accrued charges	5,070	—	—	—	5,070	5,070
Derivative financial liability	4,499	—	—	—	4,499	4,499
	108,408	265	381	—	109,054	103,754

The Directors have given careful consideration on the measures currently undertaken by the Group in respect of the Group's liquidity position. As detailed in note 2, the Directors believe that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(C) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

The Group's exposure to changes in interest rates is mainly attributable to its cash and cash equivalents and bank borrowings. Cash and cash equivalents and bank borrowings that are subject to floating rates expose the Group to cash flow interest rate risk. The Group has not hedged its exposure to interest rate risk. The Group regularly seeks out the most favorable interest rates available for its bank borrowings.

The following table indicates the approximate change in the loss after tax in response to reasonably possible changes in interest rate to which the Group has significant exposure at the end of the reporting period. In determining the effect on loss after tax on the next accounting year, management of the Company assumed that the change in interest rate had occurred at the end of the reporting period and all other variables remain constant. There is no change in the methods and assumptions used in 2017 and 2016.

	2017 Effect on loss after tax HK\$'000	2016 Effect on loss after tax HK\$'000
HIBOR		
Increase by 100 basis point	+1,140	+918
Decrease by 100 basis point	-1,140	-918

(D) CREDIT RISK

The Group is exposed to concentrations of credit risk. The carrying amounts of the trade receivables and deposits and other receivables included in the consolidated statement of financial position represent the Group's maximum exposure to credit risk. To minimize the risk, the Group regularly reviews the credit terms and credit limits granted to individual customers. There are policies in place to ensure that sales are made to customers with satisfactory credit record.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

(E) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES CARRIED AT OTHER THAN FAIR VALUE

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 March 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(A) IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

Management judgement is required in the area of asset impairment particularly in assessing:

(i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continuing use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to recognise an impairment loss in the consolidated statement of profit or loss and other comprehensive income.

(B) WRITE-DOWN OF INVENTORIES

Inventories are written down to net realisable value based on an assessment of the realisability of inventories. The identification of write-down requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories in the periods in which such estimate has been changed.

(C) DEFERRED TAXATION ON INVESTMENT PROPERTIES

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the management has reviewed the Group's investment properties portfolios and concluded that while the Group's investment properties located in Hong Kong are depreciable, they are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred taxation arising from these investment properties located in Hong Kong, the management determined that the presumption that these investment properties measured using the fair value model are recovered through sale is not rebutted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(CONTINUED)*

(C) DEFERRED TAXATION ON INVESTMENT PROPERTIES *(CONTINUED)*

For the Group's investment properties located in the People's Republic of China (the "PRC"), the management concluded that they are depreciable and are being held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred taxation arising from investment properties located in the PRC, the management determined that the presumption that these investment properties measured using the fair value model are recovered through sale is rebutted.

(D) ESTIMATE OF FAIR VALUE OF INVESTMENT PROPERTIES

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), with adjustments to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions occurred since the date of the relevant transactions; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows derived from the terms of any existing lease and other contracts and, where possible, from external evidence such as current market rents for similar properties in the same location and condition, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the sourcing, subcontracting, marketing and selling of garments and sportswear products, and property investment. Revenue recognised during the year is as follows:

	Export business		Property investment		Consolidated	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Turnover						
Sales of goods/rental income	109,018	155,468	3,429	2,886	112,447	158,354
Other income						
Interest income	16	154	—	—	16	154
Income from sample sales	36	121	—	—	36	121
Sundry income	859	436	—	—	859	436
	911	711	—	—	911	711
Net loss on foreign currency forward contracts	(1,071)	(8,262)	—	—	(1,071)	(8,262)
Changes in fair value of investment properties	—	—	951	(3,536)	951	(3,536)

The Group operates mainly in Hong Kong and the PRC and in the following business segments:

Export business — Sales of outerwear and other garments to overseas customers.

Property investment — Investing and letting of properties.

Segment profit or loss represents the profit or loss from each segment without allocation of central administrative costs, finance cost and professional charges which are for corporate use purpose.

Segment assets consist primarily of property, plant and equipment, investment properties, inventories, trade receivables, deposits, prepayments and other receivables and mainly exclude deferred tax assets, pledged bank deposit and cash and cash equivalents. They excluded assets used for corporate functions.

Segment liabilities consist primarily of trade payables, other payables and accrued charges, bank borrowings and obligations under finance leases. They excluded liabilities which are used for corporate functions including shareholder's loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

5. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

	2017		
	Export business HK\$'000	Property investment HK\$'000	Total HK\$'000
Turnover	109,018	3,429	112,447
Segment operating profit	8,336	2,834	11,170
Unallocated corporate expenses			(18,695)
Operating loss			(7,525)
Finance costs			(3,169)
Loss before taxation			(10,694)
Income tax expense			(2,055)
Loss for the year			(12,749)
Segment assets	6,750	80,107	86,857
Unallocated assets			41,901
Total assets			128,758
Segment liabilities	16,950	12,471	29,421
Unallocated liabilities			71,774
Total liabilities			101,195

	Export business HK\$'000	Property investment HK\$'000	Corporate HK\$'000	Total HK\$'000
Capital expenditure	8	141	1,546	1,695
Depreciation of property, plant and equipment	586	163	287	1,036
Amortisation of leasehold land	—	492	—	492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

5. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS (CONTINUED)

	2016			Total HK\$'000
	Export business HK\$'000	Property investment HK\$'000		
Turnover	155,468	2,886		158,354
Segment operating loss	(194)	(14,320)		(14,514)
Unallocated corporate expenses				(6,104)
Operating loss				(20,618)
Finance costs				(2,711)
Loss before taxation				(23,329)
Income tax expense				(2,264)
Loss for the year				(25,593)
Segment assets	45,561	102,293		147,854
Unallocated assets				600
Total assets				148,454
Segment liabilities	88,333	18,455		106,788
Unallocated liabilities				1,746
Total liabilities				108,534
	Export business HK\$'000	Property investment HK\$'000	Corporate HK\$'000	Total HK\$'000
Capital expenditure	927	436	—	1,363
Depreciation of property, plant and equipment	656	334	—	990
Amortisation of leasehold land	—	492	—	492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

5. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

	2017	
	Turnover <i>HK\$'000</i>	Specified non-current assets <i>HK\$'000</i>
Hong Kong	1,188	61,937
PRC	2,241	45,360
United States of America	109,018	—
	112,447	107,297

	2016	
	Turnover <i>HK\$'000</i>	Specified non-current assets <i>HK\$'000</i>
Hong Kong	812	59,061
PRC	2,075	46,648
United States of America	150,949	—
Canada	4,518	—
	158,354	105,709

Revenue is allocated based on the country in which the customers are located. Specified non-current assets and capital expenditure are allocated based on where the assets are located.

INFORMATION ABOUT MAJOR CUSTOMER

Revenue from customer in the corresponding years contributing over 10% of the total sales of the Group from the export business is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Customer A	91,617	123,961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

6. FINANCE COSTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest on bank loans and overdrafts	2,456	2,667
Interest element of finance lease obligations	29	39
Interest on other loans	684	5
	3,169	2,711

7. LOSS BEFORE TAXATION

Loss before taxation is stated after charging/(crediting) the following:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cost of inventories sold	82,542	118,680
Amortisation of leasehold land	492	492
Auditor's remuneration	480	550
Depreciation	1,036	990
Fair value change of investment properties	(951)	3,536
Net exchange loss	196	748
Loss on disposal of property, plant and equipment	—	53
Operating lease rentals in respect of land and buildings	1,749	1,733
Unrealised loss on foreign currency forward contract	—	4,499
Realised loss on foreign currency forward contract	1,071	3,763
Rental receivables from investment properties less direct outgoings	(3,141)	(2,046)
Staff costs, including directors' emoluments	17,300	24,798

8. STAFF COSTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Salaries, wages and other benefits (including directors' emoluments)	16,826	24,216
Retirement benefit costs	474	582
	17,300	24,798

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(A) DIRECTORS' EMOLUMENTS

The remuneration of each director of the Company for the year ended 31 March 2017 is set out below:

	Fee <i>HK\$'000</i>	Salaries <i>HK\$'000</i>	Other benefits <i>HK\$'000</i>	Contributions to defined contribution scheme <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors:					
Ren Qingxin ¹	—	—	—	—	—
Zhou Xinyu ¹	968	—	—	—	968
Niu Fang ¹	—	—	—	—	—
Wong Tek Sun, Takson ²	—	2,394	539	14	2,947
Pang Shu Yuk, Adeline Rita ²	—	3,743	539	14	4,296
Non-executive directors:					
Wong Tak Yuen ²	—	155	—	—	155
Pang She Kwok, Szwina ²	—	77	—	—	77
Independent non-executive directors:					
Ni Lijun ¹	40	—	—	—	40
Shen Guoquan ¹	40	—	—	—	40
Meng Rongfang ¹	40	—	—	—	40
Cunningham, James Patrick ²	—	77	—	—	77
Motwani, Manoj Kumar ²	—	77	—	—	77
Wong Kwok Tai ²	—	77	—	—	77
Total	1,088	6,600	1,078	28	8,794

¹ Appointed on 22 November 2016

² Resigned on 22 November 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(A) DIRECTORS' EMOLUMENTS (CONTINUED)

The remuneration of each director of the Company for the year ended 31 March 2016 is set out below:

	Fee <i>HK\$'000</i>	Salaries <i>HK\$'000</i>	Other benefits <i>HK\$'000</i>	Contributions to defined contribution scheme <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors:					
Wong Tek Sun, Takson	—	4,201	893	27	5,121
Pang Shu Yuk, Adeline Rita	—	6,576	893	27	7,496
Non-executive directors:					
Wong Tak Yuen	240	—	—	—	240
Pang She Kwok, Szwina ¹	65	—	—	—	65
Chau Yu-lung, Jimmy ²	60	—	—	—	60
Independent non-executive directors:					
Cunningham, James Patrick	120	—	—	—	120
Wong Kwok Tai	120	—	—	—	120
Motwani, Manoj Kumar ¹	65	—	—	—	65
	<u>670</u>	<u>10,777</u>	<u>1,786</u>	<u>54</u>	<u>13,287</u>

¹ Appointed on 15 September 2015

² Resigned on 15 September 2015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(B) FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include three (2016: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2016: three) individuals during the year are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries and other benefits	1,410	2,134
Pensions	15	54
	<u>1,425</u>	<u>2,188</u>

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Emolument bands		
Below HK\$1,000,000	<u>2</u>	<u>3</u>

10. INCOME TAX

- (a) The amount of taxation charged to the consolidated statement of profit or loss and other comprehensive income represents:

	2017 HK\$'000	2016 HK\$'000
Current tax - Hong Kong	—	—
Current tax - overseas	—	15
Deferred tax		
Tax losses recognized	1,961	1,914
Origination and reversal of temporary differences	94	335
	<u>2,055</u>	<u>2,264</u>

No provision for Hong Kong profits tax has been made as the current year's taxable profits has been set-off by previous years' loss (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

10. INCOME TAX (CONTINUED)

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rate of taxation prevailing in the countries in which the Group operates.

- (b) At the end of the reporting period, the Group has unused tax losses of HK\$162,249,000 (2016: HK\$153,872,000) available for offset against future profits that may be carried forward indefinitely.

The tax on the Group's loss before taxation differs from the theoretical amount that would arise using Hong Kong profits tax rate as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss before taxation	(10,694)	(23,329)
Tax at Hong Kong profits tax rate of 16.5% (2016: 16.5%)	(1,765)	(3,849)
Effect of different tax rate in other countries	4	3
Tax effect of non-taxable revenue	(743)	(360)
Tax effect of non-deductible expenses	448	481
Tax effect of unused tax losses not recognised	4,145	5,228
Tax effect of prior year's unrecognised tax losses utilised in this year	(277)	—
Tax effect of origination and reversal of temporary differences	243	761
Income tax	2,055	2,264

11. DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2017 (2016: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

12. OTHER COMPREHENSIVE INCOME

Tax effect relating to each component of other comprehensive income is as follows:

	2017			2016		
	Before tax amount <i>HK\$'000</i>	Tax expense <i>HK\$'000</i>	Net of tax amount <i>HK\$'000</i>	Before tax amount <i>HK\$'000</i>	Tax expense <i>HK\$'000</i>	Net of tax amount <i>HK\$'000</i>
Surplus on revaluation of buildings held for own use	470	(78)	392	360	(59)	301
Other comprehensive income	470	(78)	392	360	(59)	301

13. LOSS PER SHARE

	2017	2016
Loss attributable to equity holders of the Company (<i>HK\$'000</i>)	(12,749)	(25,593)
Weighted average number of ordinary shares in issue for the purpose of basic loss per share (<i>thousands</i>)	775,406	775,406
Basic loss per share (<i>HK cents</i>)	(1.64)	(3.30)
Diluted loss per share (<i>HK cents</i>)	(1.64)	(3.30)

There was no dilutive potential ordinary shares outstanding during the years.

14. RETIREMENT BENEFIT COSTS

The retirement benefit costs charged to the consolidated statement of profit or loss and other comprehensive income represent gross contributions payable by the Group to the retirement scheme of HK\$474,000 (2016: HK\$582,000). At the end of the reporting period, there was no forfeited contribution available to reduce future contributions in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Machinery equipment and tools <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Office and computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
As 31 March 2015							
Cost or valuation	8,863	1,571	1,269	503	4,725	5,382	22,313
Accumulated depreciation	(1,725)	(1,223)	(1,042)	(342)	(1,915)	(4,862)	(11,109)
Net book amount	<u>7,138</u>	<u>348</u>	<u>227</u>	<u>161</u>	<u>2,810</u>	<u>520</u>	<u>11,204</u>
Year ended 31 March 2016							
Opening net book amount	7,138	348	227	161	2,810	520	11,204
Surplus on revaluation	360	—	—	—	—	—	360
Additions	—	436	34	100	699	94	1,363
Disposals	—	—	—	(3)	(862)	—	(865)
Depreciation	(220)	(114)	(38)	(37)	(423)	(158)	(990)
Depreciation written back	—	—	—	2	378	—	380
Closing net book amount	<u>7,278</u>	<u>670</u>	<u>223</u>	<u>223</u>	<u>2,602</u>	<u>456</u>	<u>11,452</u>
As 31 March 2016							
Cost or valuation	9,158	2,007	1,303	600	4,562	5,476	23,106
Accumulated depreciation	(1,880)	(1,337)	(1,080)	(377)	(1,960)	(5,020)	(11,654)
Net book amount	<u>7,278</u>	<u>670</u>	<u>223</u>	<u>223</u>	<u>2,602</u>	<u>456</u>	<u>11,452</u>
Year ended 31 March 2017							
Opening net book amount	7,278	670	223	223	2,602	456	11,452
Surplus on revaluation	470	—	—	—	—	—	470
Additions	—	683	406	—	—	606	1,695
Depreciation	(231)	(174)	(46)	(34)	(390)	(161)	(1,036)
Closing net book amount	<u>7,517</u>	<u>1,179</u>	<u>583</u>	<u>189</u>	<u>2,212</u>	<u>901</u>	<u>12,581</u>
As 31 March 2017							
Cost or valuation	9,540	2,690	1,709	600	4,562	6,082	25,183
Accumulated depreciation	(2,023)	(1,511)	(1,126)	(411)	(2,350)	(5,181)	(12,602)
Net book amount	<u>7,517</u>	<u>1,179</u>	<u>583</u>	<u>189</u>	<u>2,212</u>	<u>901</u>	<u>12,581</u>

(a) Buildings were pledged to secure certain banking facilities (Note 29) granted to the Group.

(b) As at 31 March 2017, the net book value of motor vehicles includes assets held by the Group under finance leases which amounted to HK\$1,676,000 (2016: HK\$1,971,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- (c) The Group's buildings were last revalued on 31 March 2017 by an independent valuer. Valuations were carried out by RHL Appraisal Limited, an independent firm of The Hong Kong Institute of Surveyors. If the buildings were stated on the historical cost basis, the amounts would be as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cost	6,972	6,972
Accumulated depreciation	<u>(2,771)</u>	<u>(2,634)</u>
Net book amount	<u>4,201</u>	<u>4,338</u>

16. LEASEHOLD LAND

The Group's interests in leasehold land represent prepaid operating lease payments and their net book value are analysed as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
In Hong Kong held on:		
Leases of between 10 to 50 years		
At the beginning of the year	15,467	15,959
Amortisation	<u>(492)</u>	<u>(492)</u>
At the end of the year	<u>14,975</u>	<u>15,467</u>

Leasehold land were pledged to secure certain banking facilities (Note 29) granted to the Group.

17. INVESTMENT PROPERTIES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
At the beginning of the year	78,790	82,326
Changes in fair value included in profit or loss	951	(3,536)
At the end of the year	<u>79,741</u>	<u>78,790</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

17. INVESTMENT PROPERTIES (CONTINUED)

- (A) Investment properties were revalued as at 31 March 2017 on the basis of their open market value by RHL Appraisal Limited, an independent firm of The Hong Kong Institute of Surveyors and Savills Property Services (Shanghai) Company Limited (2016: RHL Appraisal Limited). Revaluation gain recognised in the profit or loss for the year ended 31 March 2017 amounted to HK\$951,000 (2016: loss of HK\$3,536,000).
- (B) The investment properties were pledged to secure certain banking facilities (Note 29) granted to the Group.
- (C) FAIR VALUE MEASUREMENT OF PROPERTIES

(i) *Fair value hierarchy*

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation techniques as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

17. INVESTMENT PROPERTIES (CONTINUED)

(C) FAIR VALUE MEASUREMENT OF PROPERTIES (CONTINUED)

(i) Fair value hierarchy (continued)

- Level 3 valuations: Fair value measured using significant unobservable inputs.

Fair value at 31 March 2017 HK\$'000	Fair value measurements as at 31 March 2017 categorised into		
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement			
Investment properties:			
– Commercial – Mainland China	45,360	–	45,360
– Commercial – Hong Kong	34,381	–	34,381
	79,741	–	79,741
Properties held for own use:			
– Buildings – Hong Kong (Note 15)	7,517	–	7,517

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

17. INVESTMENT PROPERTIES (CONTINUED)

(C) FAIR VALUE MEASUREMENT OF PROPERTIES (CONTINUED)

(i) Fair value hierarchy (continued)

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur. There is no transfer of financial assets between level 1, level 2 and level 3 fair value hierarchy classifications.

Fair value at 31 March 2016 HK\$'000	Fair value measurements as at 31 March 2016 categorised into			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Recurring fair value measurement				
Investment properties:				
– Commercial – Mainland China	46,648	–	46,648	–
– Commercial – Hong Kong	32,142	–	32,142	–
	78,790	–	78,790	–
Properties held for own use:				
– Buildings – Hong Kong (Note 15)	7,278	–	7,278	–
	7,278	–	7,278	–

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of investment properties and properties held for own use located in Hong Kong and Mainland China is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis using market data which is publicly available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

17. INVESTMENT PROPERTIES (CONTINUED)

(D) THE ANALYSIS OF NET BOOK VALUE OF PROPERTIES IS AS FOLLOWS:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
In Hong Kong		
– medium-term leases	56,873	54,887
Outside Hong Kong		
– medium-term leases	45,360	46,648
	102,233	101,535
Representing:		
Buildings and investment properties carried at fair value	87,258	86,068
Interest in leasehold land held for own use under operating leases	14,975	15,467
	102,233	101,535

18. INVENTORIES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Raw materials	11	1,233
Finished goods	–	27
	11	1,260

19. TRADE RECEIVABLES AND DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables	887	759
Trade deposits and other receivables	1,805	18,571
Prepayments	2,013	4,297
Rental, utility and sundry deposits	2,855	2,233
	6,673	25,101
Total	7,560	25,860

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

19. TRADE RECEIVABLES AND DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

(A) AGEING ANALYSIS

As at the end of reporting period, the ageing analysis of trade receivables based on the invoice date and net of allowance for doubtful debts, is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
0 to 30 days	273	—
1 to 3 months	614	—
Over 3 months	—	759
	887	759

All trade receivables were denominated in US dollars.

Majority of the Group's export sales are generally on open account of 30 days and letter of credit at sight. The Group considers that the trade receivables as at 31 March 2017 are fully recoverable and believes that no impairment allowance is necessary.

(B) TRADE RECEIVABLES THAT ARE NOT IMPAIRED

As at the end of reporting period, trade receivables of HK\$614,000 (2016: HK\$759,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Less than 1 month past due	614	—
1 to 2 months past due	—	759
	614	759

All of the trade receivables are not impaired and relate to two independent customers for whom there is no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

20. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSIT

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cash and bank balances	8,328	8,009
Pledged bank deposit	4,510	4,509
	12,838	12,518

Cash and cash equivalents and pledged bank deposit are denominated in the following currencies:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
United States dollars	2,180	3,973
Renminbi (i)	1,037	1,003
Hong Kong dollars	9,619	7,540
Euros and others	2	2
	12,838	12,518
Less: Pledged bank deposit (ii)	(4,510)	(4,509)
Total cash and cash equivalents	8,328	8,009

(i) The conversion of bank balances and cash of the Group denominated in Renminbi into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC.

(ii) As at 31 March 2017, the pledged bank deposit mainly refers to a deposit placed at designated bank account as guarantee deposit to secure the banking facilities granted to the Group (Note 29).

21. TRADE PAYABLES

As at the end of reporting period, the ageing analysis of trade payables is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
0 to 30 days	200	2,289
Over 6 months	—	118
	200	2,407

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

21. TRADE PAYABLES (CONTINUED)

Trade payables as at 31 March 2017 and 31 March 2016 were all denominated in US\$.

Payment terms with suppliers are generally on letters of credit and open account. Certain suppliers grant credit terms between 30 to 60 days.

22. OTHER PAYABLES AND ACCRUED CHARGES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Rental deposits received	864	978
Accrued expenses	1,229	3,125
Other payables	102	967
	2,195	5,070

23. DERIVATIVE FINANCIAL LIABILITY

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Derivative financial liability:		
– Foreign currency forward contract	–	4,499

For the year ended 31 March 2016, the Group entered into a RMB/US\$ net-settled structured foreign currency forward contract of US\$1.2 million notional amount with 14 equal monthly settlements to manage its foreign currency risk. The market value of the contract as at 31 March 2016 was a loss of HK\$4,499,000 and the contract was unwound during the year and the resultant loss of HK\$1,071,000 reflected in the consolidated statement of other comprehensive income for the year ended 31 March 2017.

With respect to the settlement:

- (a) if, at or about the expiration time on the expiration date, the spot rate of RMB against US\$ equals to or is lower than the capped rate, then the bank shall pay to the Group by RMB1,200,000* (6.60 – 6.57); or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

23. DERIVATIVE FINANCIAL LIABILITY (CONTINUED)

- (b) If, at or about the expiration time on the expiration date, the spot rate of RMB against US\$ equals to or is lower than the forward rate but greater than the capped rate, then the bank shall pay to the Group by RMB1,200,000* (6.60 – spot rate); or
- (c) if, at or about the expiration time on the expiration date, the spot rate of RMB against US\$ is greater than the forward rate, then the Group shall pay to the bank by RMB2,400,000* (spot rate – 6.60).

FAIR VALUE MEASUREMENT OF DERIVATIVE FINANCIAL LIABILITY

The Group's derivative financial liability is measured at fair value at 31 March 2016. The following table gives information about how the fair value of this financial instrument is determined.

Fair value at 31 March 2016 HK\$'000	Fair value measurements as at 31 March 2016 categorised into		
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Financial liability			
Foreign currency forward contract	4,499	—	4,499
	<u>4,499</u>	<u>—</u>	<u>4,499</u>

VALUATION TECHNIQUES AND KEY INPUTS

Valuation techniques: Discounted cash flow and option pricing model.

Key inputs: Forward exchange rate, contracted exchange rate and discount rate.

There is no transfer of financial liability between level 1, level 2 and level 3 fair value hierarchy classifications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

24. SHARE CAPITAL

(A) AUTHORISED AND ISSUED CAPITAL

	Number of shares	Ordinary shares <i>HK\$'000</i>
Authorised:		
At 31 March 2017 and 2016		
Ordinary shares of HK\$0.1 each	3,000,000,000	300,000
Issued and fully paid:		
At 31 March 2017 and 2016	775,406,000	77,540

The holders of ordinary shares are entitled to receive dividends as declared from time to time and entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(B) CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of equity attributable to equity holders of the Company comprising share capital and reserves.

The Board of the Company reviews the capital structure periodically. As part of the review, the Board assesses the annual budget prepared by the finance department taking into account the provision of funding.

(C) SHARE OPTION SCHEME

The share option scheme (the "**Share Option Scheme**") which became effective on 26 August 2006 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at the date of adoption of the Share Option Scheme. The offer of a grant may be accepted upon payment of a nominal consideration of HK\$1 per acceptance. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options. The exercise price will be determined by the Board, but shall not be less than the highest of (i) the closing prices of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing prices of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

24. SHARE CAPITAL (CONTINUED)

(C) SHARE OPTION SCHEME (CONTINUED)

A new share option scheme (the “**New Share Option Scheme**”) which became effective on 28 September 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at the date of adoption of the New Share Option Scheme. The offer of a grant may be accepted upon payment of a nominal consideration of HK\$1 per acceptance. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options. The exercise price will be determined by the Board, but shall not be less than the highest of (i) the closing prices of the Company’s shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing prices of the Company’s shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company’s share.

No share options were granted nor exercised during each of the two years ended 31 March 2017 and 31 March 2016. No share options were outstanding as at 31 March 2017 and 31 March 2016.

25. RESERVES

	Share Premium HK\$'000	Revaluation Reserve HK\$'000	Consolidation Reserve HK\$'000	Translation Reserve HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
Balance at 1 April 2015	66,894	11,162	2,214	(988)	(91,610)	(12,328)
Total comprehensive income/(loss) for the year	—	301	—	—	(25,593)	(25,292)
Balance at 31 March 2016	66,894	11,463	2,214	(988)	(117,203)	(37,620)
Balance at 1 April 2016	66,894	11,463	2,214	(988)	(117,203)	(37,620)
Total comprehensive income/(loss) for the year	—	392	—	—	(12,749)	(12,357)
Balance at 31 March 2017	66,894	11,855	2,214	(988)	(129,952)	(49,977)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

25. RESERVES (*CONTINUED*)

NATURE AND PURPOSE OF RESERVES

a) *Share premium*

The application of the share premium is governed by section 40 of the Companies Act 1981 of Bermuda.

b) *Revaluation reserve*

It represents gains/losses arising on the revaluation of the Group's buildings (other than investment properties). The balance on this reserve is wholly non-distributable.

c) *Consolidation reserve*

It represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the exchange of shares on group reorganization.

d) *Translation reserve*

It represents all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2.4 (c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

26. BANK BORROWINGS AND OBLIGATIONS UNDER FINANCE LEASES

- (a) At 31 March 2017, the Group's bank borrowings and obligations under finance leases are repayable as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Obligations under finance leases (<i>note d</i>)	614	1,185
Bank borrowings – secured	27,281	90,593
	27,895	91,778
Obligations under finance leases repayable:		
Within one year	249	571
In the second year	142	249
In the third to fifth years, inclusive	223	365
	614	1,185
Secured bank borrowings repayable within one year or on demand	27,281	90,593
	27,895	91,778
Amount repayable within one year included under current liabilities	(27,530)	(91,164)
Amount repayable after one year	365	614

- (b) The carrying amounts of the bank borrowings and obligations under finance leases are denominated in the following currencies:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Hong Kong dollars	16,432	37,185
United States dollars	11,463	54,593
	27,895	91,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

26. BANK BORROWINGS AND OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

- (c) The effective interest rates for the Group's bank borrowings at the end of the reporting period were as follows:

	2017	2016
Hong Kong dollars	3.7%	3.3%
United States dollars	4.6%	3.5%

(d) OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2017, the Group had obligations under finance leases repayable as follows:

	2017		2016	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	249	265	571	600
In the second year	142	152	249	265
In the third to fifth years, inclusive	223	229	365	381
	365	381	614	646
	614	646	1,185	1,246
<i>Less: total future interest expenses</i>		(32)		(61)
Present value of lease obligations		614		1,185

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

27. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal tax rate of 16.5% (2016: 16.5%) for the subsidiaries operating in Hong Kong. Deferred taxation for subsidiaries operating in overseas is calculated at the rates of taxation prevailing in the countries in which the subsidiaries operate.

The movements on the deferred tax liabilities/(assets) are as follows:

	Depreciation allowance in excess of the related depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Unused tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2015	(875)	4,721	(4,481)	(635)
Charge to reserve	—	59	—	59
Charge to profit or loss	335	—	1,914	2,249
At 31 March 2016 and 1 April 2016	(540)	4,780	(2,567)	1,673
Charge to reserve	—	78	—	78
Charge to profit or loss	94	—	1,961	2,055
At 31 March 2017	(446)	4,858	(606)	3,806
			2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Deferred tax assets recognised			(1,052)	(3,107)
Deferred tax liabilities recognised			4,858	4,780

28. AMOUNTS DUE TO A SHAREHOLDER

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Shareholder's loans	65,363	—
Accrued interests	684	—
	66,047	—

The shareholder's loans are unsecured with fixed annual interest rate at 4.25% and a term of 24 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

29. BANKING FACILITIES

As at 31 March 2017, the Group's banking facilities amounting to approximately HK\$144,077,000 (2016: HK\$146,967,000) were secured by the following:

- (a) first legal charge over the Group's investment properties and leasehold land and buildings in Hong Kong and the PRC with an aggregate carrying value of approximately HK\$102,233,000 (2016: approximately HK\$101,535,000) and a fixed deposit of HK\$4,510,000 (2016: HK\$4,509,000); and
- (b) corporate guarantees from the Company and certain of its subsidiaries.

The Company has executed guarantees with respect to certain banking facilities of its subsidiaries. Such facilities utilized as at 31 March 2017 amounted to HK\$28,077,000 (2016: HK\$91,778,000).

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATIONS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss before taxation	(10,694)	(23,329)
Amortisation of leasehold land	492	492
Depreciation	1,036	990
Loss on disposal of property, plant and equipment	—	53
Unrealized loss on foreign currency forward contract	—	4,499
Realized loss on foreign currency forward contract	1,071	—
Changes in fair value of investment properties	(951)	3,536
Interest income	(16)	(154)
Interest on bank borrowings and overdrafts	2,456	2,667
Interest element of finance lease obligations	29	39
Interest on other loan	684	5
Operating cash flow before movements in working capital	(5,893)	(11,202)
Decrease in inventories	1,249	5,079
Decrease in trade receivables, deposits, prepayments and other receivables	18,300	8,107
(Decrease)/increase in trade payables, other payables and accrued charges	(5,082)	1,822
Cash generated from operations	8,574	3,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(B) ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Cash and cash equivalents (<i>Note 20</i>)	8,328	8,009

31. COMMITMENTS

(A) CAPITAL COMMITMENTS

As at 31 March 2017 and 2016, the Group did not have any material capital commitments.

(B) COMMITMENTS UNDER OPERATING LEASES

The Group as lessee:

The Group rented certain office premises and director's quarter under operating lease arrangement, with the leases negotiated for a term within half to three years (2016: one to two years).

- (i) At 31 March 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within one year	3,566	463
In the second to fifth years, inclusive	5,639	54
	9,205	517

The Group as lessor:

The Group leases its investment properties (note 17) under operating lease arrangement, with leases negotiated for terms ranging between two to four years (2016: two to four years).

- (ii) At 31 March 2017, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of investment properties as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within one year	3,124	3,641
In the second to fifth years, inclusive	1,500	1,594
	4,624	5,235

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

32. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	1,471	—
Investment in subsidiaries	1	1
	1,472	1
Current assets		
Deposits, prepayments and other receivables	2,795	516
Amounts due from subsidiaries	83,989	83,234
Cash and cash equivalents	2,943	3
	89,727	83,753
Total assets	91,199	83,754
Capital and reserves attributable to the Company's equity holders		
Share capital	77,540	77,540
Reserves (<i>Note</i>)	(82,296)	(66,785)
Total (deficits)/equity	(4,756)	10,755
LIABILITIES		
Non-current liabilities		
Amounts due to a shareholder	66,047	—
Current liabilities		
Other payables and accrued charges	846	1,659
Amounts due to subsidiaries	29,062	71,340
	29,908	72,999
Total liabilities	95,955	72,999
Total equity and liabilities	91,199	83,754
Net current assets	59,819	10,754
Total assets less current liabilities	61,291	10,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

32. SUMMARY FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

Note: The Company's reserves movement is as follows:

	Share Premium	Contributed Surplus Reserve	Accumulated Losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note a)</i>	<i>HK\$'000</i> <i>(Note b)</i>	<i>HK\$'000</i>
Balance at 1 April 2015	66,894	67,992	(191,481)	(56,595)
Total comprehensive loss for the year	—	—	(10,190)	(10,190)
Balance at 31 March 2016	66,894	67,992	(201,671)	(66,785)
Balance at 1 April 2016	66,894	67,992	(201,671)	(66,785)
Total comprehensive loss for the year	—	—	(15,511)	(15,511)
Balance at 31 March 2017	66,894	67,992	(217,182)	(82,296)

a. Contributed surplus reserve

It represents the excess of the consolidated net assets value of Takson (B.V.I.) Limited upon its merger with the Company over the nominal value of the Company's shares issued in the exchange thereof. Under the Companies Act 1981 of Bermuda (as amended) and the Bye-laws of the Company, the contributed surplus is distributable to the equity holders, unless there are reasonable grounds for believing that (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

b. Accumulated losses

At 31 March 2017, the Company had no reserves available for distribution to shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

33. PARTICULARS OF SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group:

Name of subsidiary	Country/ Place of incorporation/ establishment	Principal activities and place of operation (if different from place of incorporation/ establishment)	Particulars of issued share capital/ registered capital	Attributable equity interest
<i>Interest held directly</i>				
Global Sportswear Inc.	British Virgin Islands ("BVI")	Investment holding	1 ordinary share of US\$1	100%
Takson (B.V.I.) Limited	BVI	Investment holding	1,000 ordinary shares of US\$1 each	100%
<i>Interest held indirectly</i>				
Takson Garment Manufacturing Company, Limited	Hong Kong	Sourcing and sales of outerwear garments, property investment in the PRC and provision of management and accounting services to fellow subsidiaries	20 ordinary shares	100%
Takson Sportswear Limited	BVI	Properties investment in Hong Kong	1 ordinary share of US\$1	100%
Takson Sourcing Limited	Hong Kong	Sourcing, subcontracting and selling of garments	500 ordinary shares	100%
Global Sportswear Corporation	USA	Garment trading	Registered capital of US\$50,000	100%

34. IMMEDIATE, INTERMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 March 2017, the Directors consider the immediate parent of the Company to be State Energy HK Limited which is incorporated in Hong Kong, the intermediate parent of the Company to be National Business Holdings Group Co., Limited* (國能商業集團有限公司) which is incorporated in the PRC and the ultimate controlling parties of the Company to be Shanghai Guoming Equity Investment Fund Management Co., Limited* (上海國明股權投資基金管理有限公司) and Shanghai Zhongshe Equity Investment Fund Co., Limited* (上海中社股權投資基金管理有限公司) which are both incorporated in the PRC. These entities did not produce financial statements available for public use.

* For identification purposes only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2017

35. EVENT AFTER THE REPORTING PERIOD

(A) MOU1 IN RESPECT OF THE POSSIBLE ACQUISITION OF ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY 1 WHICH HOLDS THE LEGAL AND BENEFICIAL OWNERSHIP OF THE HOTEL PROPERTY

On 25 April 2017, the Company entered into, memorandum of understanding (the “**MOU1**”) in relation to a possible acquisition. The MOU1 contemplates the prospective purchase of the entire issued share capital of a target company (“**Target Company 1**”) which holds the legal and beneficial ownership of a hotel property by one of the wholly-owned subsidiaries of the Company to be determined by the Company.

The MOU1 further contemplates that the consideration for the possible acquisition and the manner of payment shall be further negotiated between the vendor and the Company and be determined upon the signing of the formal agreement by the vendor and the Company’s wholly-owned subsidiary.

The reason for the acquisition is to provide an opportunity for the Company to invest in a hotel property which is well established with a potential for further development by strengthening in management and operation which is expected to benefit the Company and the shareholders as a whole.

Further details are set out in the Company’s announcement dated 25 April 2017.

(B) MOU2 IN RESPECT OF THE PROPOSED ACQUISITION OF 32% SHARES OF THE TARGET COMPANY 2

On 22 May 2017, the Company entered into a memorandum of understanding (the “**MOU2**”) in relation to a proposed acquisition. The MOU2 contemplates the prospective purchase of 32% shares of a target company (“**Target Company 2**”) by the Company from potential vendors.

The MOU2 contemplates that the consideration for the proposed acquisition shall be further negotiated and determined by the parties to the MOU2 subject to the results of the legal and financial due diligence on the Target Company 2 and its subsidiaries and any profit guarantee that may be given under the formal agreement.

The reason for the acquisition is to provide a good investment opportunity for the Group to expand into the insurance and securities industry. Moreover, it also serves the Group to access fully to the investment opportunities brought along by the “One Belt, One Road” initiative, enhance the Group’s growth potential and create new business growing points for the Group which is expected to benefit the Company and the shareholders as a whole.

Further details are set out in the Company’s announcement dated 23 May 2017.

36. COMPARATIVES FIGURES

Certain comparative figures have been reclassified in order to conform with the current year’s presentation.

FIVE-YEAR FINANCIAL SUMMARY

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Turnover	112,447	158,354	255,135	183,726	153,464
(Loss)/profit attributable to equity holders	(12,749)	(25,593)	510	1,248	13,935
Assets and Liabilities					
Total assets	128,758	148,454	168,064	155,045	143,535
Total liabilities	(101,195)	(108,534)	(102,852)	(92,229)	(82,105)
Net assets	27,563	39,920	65,212	62,816	61,430

INVESTMENT PROPERTIES

Particulars of investment properties held by the Group at 31 March 2017 are as follows:

Location	Gross floor area (sq. ft.)	Type	Tenure
Workshop Unit No. 11 On 5th Floor, South Wing, Harbour Centre, Tower One, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong	7,068	Commercial	Medium Lease
中華人民共和國 上海市 延安西路726號 華敏翰尊國際大廈東樓 23層 E室, F室, G室, H室, I室及L室	11,116	Commercial	Medium Lease