Synergy Group

Low carbon economy: our new economy

Synergy Group Holdings International Limited

滙能集團控股國際有限公司

(incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立的有限公司)

Stock Code 股份代號 : 1539

2018/19

Annual Report

年報

Synergy Group Holdings International Limited
Annual Report 2018/2019

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FINANCIAL SUMMARY

	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	**246,536**	278,137	256,607	130,068	111,494
Leasing services of energy saving systems	**15,344**	8,550	97,198	21,383	8,831
Trading of energy saving products	**208,249**	242,937	137,440	78,896	74,856
Consultancy service	**21,788**	26,650	21,969	29,789	27,807
Building AI (artificial intelligence) SaaS (Software-as-a-Service)	**1,155**	–	–	–	–
Gross profit	**105,698**	147,729	124,975	69,213	63,839
EBITDA (note 1)	**79,007**	159,418	91,811	46,840	38,857
EBIT (note 1)	**68,425**	158,354	90,752	45,035	36,071
Profit attributable to the owners of Synergy Group Holdings International Limited (the "**Company**")	**44,554**	125,704	74,072	35,402	26,229
Basic earnings per share (HK cents)	**8.1**	25.1	14.8	7.1	6.3
Diluted earnings per share (HK cents)	**8.1**	25.1	14.8	7.1	6.3
Adjusted profit attributable to the owners of the Company excluding some major extraordinary or non-operating income and expenses (note 2)	**60,287**	86,720	n/a	n/a	n/a
Adjusted basic earnings per share (HK cents) (note 2)	**11.0**	17.3	n/a	n/a	n/a
Adjusted diluted earnings per share (HK cents) (note 2)	**11.0**	17.3	n/a	n/a	n/a
Total assets	**777,569**	707,626	409,782	189,416	118,713
Total liabilities	**346,672**	377,724	204,072	57,180	21,810
Net assets	**430,897**	329,902	205,710	132,236	96,903

Note 1: EBITDA is defined as earnings before interest expenses and other finance costs, tax, depreciation and amortisation. EBIT is defined as earnings before interest expenses and other finance costs and tax.

Note 2: Amounts are calculated based on adjusted profit after excluding some major extraordinary or non-operating income and expenses as defined by the Group's management. Details of which can be referred to pages 14 to 15 of this report.

– Revenue decreased by 11.4% from approximately HK$278.1 million for the year ended 31 March 2018 to approximately HK$246.5 million for the year ended 31 March 2019.

– Gross profit decreased by 28.5% from approximately HK$147.7 million for the year ended 31 March 2018 to approximately HK$105.7 million for the year ended 31 March 2019.

– Profit attributable to the owners of the Company decreased by 64.6% from approximately HK$125.7 million for the year ended 31 March 2018 to approximately HK$44.6 million for the year ended 31 March 2019.

– Adjusted profit attributable to the owners of the Company excluding some major extraordinary or non-operating income and expenses decreased by 30.5% from approximately HK$86.7 million for the year ended 31 March 2018 to approximately HK$60.3 million for the year ended 31 March 2019.

– Basic or diluted earnings per share decreased by 67.7% from approximately HK25.1 cents for the year ended 31 March 2018 to approximately HK8.1 cents for the year ended 31 March 2019. Adjusted basic or diluted earnings per share calculated with reference to the adjusted profit decreased by 36.4% from approximately HK17.3 cents for the year ended 31 March 2018 to approximately HK11.0 cents for the year ended 31 March 2019.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of my fellow members of the board (the "**Board**") of directors (the "**Directors**") of Synergy Group Holdings International Limited (the "**Company**"), I am pleased to present the Annual Report of the Company for the year ended 31 March 2019.

2018 was a year of entangling risks and volatility in the capital market owing to the escalating uncertainty in the international trade policy, tightening of global financial conditions as well as weakening economic activity and globalisation. Notwithstanding this growing conflict and concern in global economic growth prospects, the long-term fundamental growth drivers for the energy saving and management industry are expected to remain prosperous, continuing to bring economic, social and environmental benefits to the world. As the world energy demand continues to increase mainly arising from the emerging economies, more energy efficiency products will be required to unlock the saving potential and offset this adverse impact in order to meet the ultimate climate change target to achieve sustainable growth.

The year 2018 marks the 10th anniversary of the Group since its establishment. The Group has significantly grown over the past decade, with geological and business footprints in over 25 countries. Due to the increasing competitive landscape and uncertainty in the global economy, the Group continued to maintain steady performance with the realisation of HK$246.5 million revenue during the reporting year, yet a 11.4% decrease as compared to last year. The revenue mainly arises from our ongoing energy saving project for a retail conglomerate in South Africa with over 2,500 stores. The decrease in revenue is observed due to the adjustment in the sales strategy limiting the sales on credit and therefore sales acceptance as a conservative approach to global economic uncertainty. We will continue to preserve a healthy financial position by exploring new markets and broaden customer base with the view to achieve sustainable growth.

In 2018, the Group achieved a significant milestone to acquire Negawatt Utility Limited, a company which uses artificial intelligence and big data analytics to reduce energy, operational and maintenance costs for buildings. The acquisition not only creates synergy which further energises our service portfolio to reinforce our position in the energy saving and management market, but also accelerates our technological development to increase our market competitiveness. The system provided by Negawatt Utility Limited has repeatedly gained customers acclaim and recognitions from industry experts. The extensive integration of digital infrastructure into daily life is emerging both globally and locally. Strategies and initiatives for smart city development were published in the Smart City Blueprint for Hong Kong, particularly for advocating green and intelligent buildings. Huge energy consumption in buildings in major cities leads to the development of smart buildings to optimise the use of resources to curb greenhouse gas emissions. The Group believes that this strategic investment capitalises the growing aspiration of digital transformation which in turn enhancing profit dynamics in the long term.

I would like to take this opportunity to express my sincere appreciation to our management and dedicated staff for their continued loyalty and outstanding contributions to the Group. I would also like to thank our Board for its leadership and efforts, as well as to all our stakeholders for their staunch support to the Group. The Board will continue to maintain the highest standards of corporate governance, guiding the use of capital in the most efficient way to safeguard the shareholders' interests. Looking forward, the core businesses of the Group will continue to generate stable income and deliver sustainable growth and returns to our shareholders. Additionally, the Group is now embarking on this new journey of development era to create an intelligent and connected society. The Group will strive to foster further success as the leading technology-driven enterprise on the global stage by persistent pursuit of excellence and value creation.

Wong Man Fai Mansfield
Chairman, Chief Executive Officer and Executive Director

Hong Kong
28 June 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 March 2019, the Company, together with its subsidiaries (the "**Group**") continued to maintain steady performance with the realisation of HK$246.5 million revenue. 2018 was a year of entangling risks and volatility in the capital market owing to the escalating uncertainty in the international trade policy, tightening of global financial conditions as well as weakening economic activity and globalisation.

Revenue generated from our trading segment decreased by 14.3% from approximately HK$242.9 million for the year ended 31 March 2018 to approximately HK$208.2 million for the year ended 31 March 2019 mainly due to the decrease in sales of LED products as affected by the weakening economic activities and tighten credit limit policy to customers. Revenue generated from our leasing service segment increased by 79.5% from approximately HK$8.6 million for the year ended 31 March 2018 to approximately HK$15.3 million for the year ended 31 March 2019 as a result of the effect from the business combination of Synergy Cooling Management Limited ("**SCML**") and its subsidiaries ("**SCML Group**"). Revenue generated from our consultancy service segment decreased by 18.2% from approximately HK$26.7 million for the year ended 31 March 2018 to approximately HK$21.8 million for the year ended 31 March 2019 due to the decrease in demand of consultancy services by our customer during the year. During the year ended 31 March 2019, an additional segment, namely Building AI (artificial intelligence) SaaS (Software-as-a-Service), was introduced with reference to the newly acquired subsidiary, Negawatt Utility Limited ("**NU**"). This segment immediately contributed an income of approximately HK$1.2 million to the Group.

Details of segment information are set out in Note 6 to the consolidated financial statements in this report.

KEY FINANCIAL INFORMATION AND RATIOS

	Year ended 31 March	
	2019	2018
Gross profit (HK$'000)	**105,698**	147,729
Net profit (HK$'000)	**41,238**	125,555
Gross profit margin	**42.9%**	53.1%
Net profit margin	**16.7%**	45.1%

Details of adjusted profit after excluding some major extraordinary or non-operating income and expenses as defined by the Group's management can be referred to pages 14 to 15 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES

– Our consultancy services (the "**Consultancy service**"), which are provided by our Group to third parties in assisting them in providing energy saving services in their markets, provided to our customers were project-based, hence the demand for our Consultancy services may fluctuate.

– We rely on our sub-contractors for providing services of deployment and installation of lighting products to customers.

– We rely on our key management to conduct the Group's business. The inability to retain or attract senior management personnel will adversely affect our performance.

– There may be changes in consumer preferences and habits in green technologies.

– Our borrowings, finance lease obligations and notes issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively.

– We are exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate.

FINANCIAL REVIEW

The total revenue of the Group was approximately HK$246.5 million for the year ended 31 March 2019, representing a decrease of approximately 11.4% as compared to that for the year ended 31 March 2018. The decrease in revenue was due to the escalating uncertainty in the international trade policy and the global financial conditions as well as weakening economic activities. The Group decided to tighten the credit limit with some of the existing customers in view of their existing significant amounts of receivables in order to initiate new businesses with some new customers, causing a slight decrease in revenue. Gross profit margin decreased from approximately 53.1% for the year ended 31 March 2018 to approximately 42.9% for the year ended 31 March 2019. The decrease was due to the co-investment arrangement with an associate for its business in South Africa, while the Group benefits from the sharing of profit earned by the associate according to our shareholding proportion instead of being rewarded through the sales of the lighting products to the associate.

Other income and gains for the year ended 31 March 2019 of approximately HK$48.4 million mainly included the gain on deemed disposal of associates of approximately HK$47.2 million, while the other income and gains for the year ended 31 March 2018 of approximately HK$28.0 million mainly included the gain on step acquisition derived from the further acquisition of interest in another associate of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution costs

The Group's selling and distribution costs for the year ended 31 March 2019 were approximately HK$6.2 million, representing a decrease of approximately 9.3% from approximately HK$6.9 million for the year ended 31 March 2018. The decrease was mainly due to the net effect of (i) the decrease in amount of samples given to potential customers, some of which may enter into contracts with the Group and contribute to an increase in revenue in the future; and (ii) the increase in salaries as a result of the effect from the business combination of SCML.

Administrative expenses

The Group's administrative expenses for the year ended 31 March 2019 were approximately HK$49.1 million, representing an increase of approximately 77.1% from approximately HK$27.7 million for the year ended 31 March 2018. The increase was mainly due to (i) the increase in Directors' remuneration and salary expenses as a result of the increase in headcount due to the Group's expansion, salary increment and the effect from the business combination of SCML Group; (ii) the share-based payment expenses during the year ended 31 March 2019 as a result of the share options granted by the Company in April 2018; (iii) the increase in unrealised foreign exchange loss derived from the revaluation of balances in foreign currencies mainly as a result of the depreciation of Indonesian rupiah against Hong Kong dollar as at year end date; and (iv) the increase in the amortisation of intangible assets derived from the business combination of SCML Group.

Finance costs

The Group's finance costs increased from approximately HK$13.0 million for the year ended 31 March 2018 to approximately HK$18.2 million for the year ended 31 March 2019. The increase of approximately 40.3% was due to the full year effect of interest expenses arising from the bank and other borrowings and notes payable that had been drawn down in the year ended 31 March 2018, and the new note payable that was drawn down in the year ended 31 March 2019.

Other expenses

The Group's other expenses increased to approximately HK$45.9 million for the year ended 31 March 2019 from approximately HK$0.9 million for the year ended 31 March 2018. The increase was mainly due to the provision for impairment of goodwill of SCML Group of approximately HK$25.8 million and fair value loss on the equity investment in Invinity Energy Group Limited ("**Invinity**") of HK$19.0 million during the year ended 31 March 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Impairment of goodwill of SCML Group

The Group acquired further 13.20% equity interest of SCML on 20 March 2018 (the "**Transaction**"), after which the Group became interested in an aggregate of approximately 63.04% interest in SCML, and SCML became an indirect non-wholly owned subsidiary of the Group. Details of the Transaction were set out in the announcements of the Company dated 19 March 2018 and 21 March 2018.

The Directors performed impairment test on the goodwill of HK$92,794,000 attributed to the cash-generating unit of SCML Group following the principles and requirements in HKAS 36 "Impairment of Assets". In accordance with HKAS 36.90, a cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognise the impairment loss.

As SCML Group generated cash inflows largely independent from the other assets of the Group, the recoverable amount of SCML Group was estimated on its own. According to HKAS 36.74, the recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs of disposal and its value in use. The Directors consider that the recoverable amount of the SCML Group as at 31 March 2019 is determined using the value-in-use calculation based on cash flow projections from financial budgets approved by management covering a five-year period. In respect of the determination of the value in use of the cash-generating unit of SCML Group as at 31 March 2019 for financial reporting purpose, the Group has engaged an independent valuer to assist the Company in the relevant calculation of the value in use.

The financial performance of SCML Group is project driven. In view of the uncertainty in current economic environment as a result of escalating uncertainty in the international trade conflicts since April 2018, and the delay in the project development of the projects, the value in use of the cash-generating unit of SCML Group was lowered from approximately HK$226 million as at 31 March 2018 to approximately HK$140 million as at 31 March 2019. Taking into account of the above factors, an impairment loss of approximately HK$25.8 million (the "**Impairment Loss**") was recognised for the year ended 31 March 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the calculation of the Impairment Loss:

		HK$'000
Carrying amount:		
Goodwill (grossed up)	*Note (a)*	147,190
Intangible asset		6,115
Other non-financial assets		27,669
		180,974
Recoverable amount		140,000
Difference in recoverable amount and carrying amount		40,974
Goodwill impairment	*Note (b)*	25,831

Note (a) The goodwill derived from the further acquisition of SCML Group recorded on the books of the Group as at 31 March 2019 was approximately HK$92.8 million, which was calculated as the excess of (i) the consideration transferred for the further acquisition of approximately 13.20% equity interest in SCML Group on 20 March 2018; and (ii) the fair value of the Company's approximately 49.84% previously held equity interest in SCML Group, over the fair value amount of the net identifiable assets of SCML Group attributable to the approximately 63.04% interest owned by the Group.

As the Group measured a non-controlling interest as its proportionate interest in the net identifiable assets of SCML Group as at the acquisition date, therefore, only the Group's share (i.e. approximately 63.04%) of the goodwill was recognised.

The impairment loss represents the amount by which the carrying amount of the cash-generating unit of SCML Group exceeds its recoverable amount. For the purpose of the calculation of the difference between the recoverable amount and carrying amount of the cash-generating unit of SCML Group, the goodwill amount is grossed up, which includes the non-controlling interest's share.

Note (b) The difference is multiplied by the acquirer's (i.e. the Group's) share (i.e. approximately 63.04%) in calculating the impairment of goodwill as only the acquirer's share of the goodwill would be recognised in the book of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Ever since SCML Group had become a non-wholly owned subsidiary of the Company in March 2018, the Company's management had been working regularly with SCML Group's management exploring various business opportunities in Asia-Pacific region. In early 2018, the Directors were of the view that the trade war between the U.S. and China showed positive signs and the trading negotiation with the potential customers based in China was in good progress.

However, the US-China trade war escalated since late 2018. Therefore, SCML Group's management intends to explore further trading opportunities in its core business in Malaysia and has assigned more resources to speed up the advanced negotiation with the potential Malaysian customers and positive feedbacks were received from the potential customers. Benefited from the existing network SCML Group has in Malaysia, SCML Group grasped more business opportunities in Malaysia during the year ended 31 March 2019 and had been actively negotiating for energy saving projects at different premises such as government buildings in Malaysia, which contributed a significant part to the business of SCML Group. However, in light of the Malaysian general election in 2018, there was a delay in the development of the then existing projects in Malaysia as the major projects of SCML Group in Malaysia were related to the Malaysian government.

The Company started to consider the further acquisition of 13.20% equity interest in SCML since early 2018. Meanwhile, the international trade conflicts between China and the U.S. began in March 2018, when President Trump first threatened imposing tariffs on US$50-60 billion worth of Chinese goods.

The Company considered acquiring the further 13.20% equity interest in SCML as it was expected that there would be a synergy effect by integrating SCML into the Group's existing businesses and future market development, since, to the understanding of the Company at the relevant time, SCML Group was discussing several valuable projects with its potential clients at that time. It was also noted that there were positive milestones achieved by SCML Group, such as having entered into the contracting stage with the Malaysia government hospitals and clinics in relation to the provision of energy saving services and having commenced the supply of energy saving equipment in small scale to a subsidiary of state-owned telecommunications enterprise in China for trial and testing purposes. The Directors were confident in the prospect of SCML and believed that the acquisition could further strengthen the Group's market position as a one-stop energy saving solutions provider due to the sharing of customer base of SCML Group and the Group, and the synergy created between the lighting business and the cooling business carried out by the Group and SCML Group respectively. The Directors believed that it was an appropriate timing to acquire SCML Group in March 2018, taking into account that the major projects would start to bring in significant cash flow to the SCML Group. Also, by acquiring the further 13.20% equity interest in SCML, the Group could obtain control over the SCML Group.

In early 2018, the Directors considered that there had been no sign showing that there would be an economic downturn in China and believed that the threat to impose tariffs on Chinese goods in March 2018 was merely negotiating tactics solely to increase the bargaining power of the U.S.. As such, the Directors did not expect the trade conflicts at that time would materialise and have significant impact on the economy of China, and therefore, continued to be optimistic towards the Chinese market. Therefore, the Company proceeded with the further acquisition of 13.20% equity interest in SCML on 20 March 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

After the further acquisition of 13.20% equity interest in SCML, the development of the trade conflicts became unfavourable to the economy of China, especially towards the end of 2018 as shown by the declining composite purchase managers' index. The market tends to be pessimistic about the economy of China, and companies had become more conservative in making investments and procurements. Therefore, there were delays in the development of the projects in China, and the SCML Group strategically assigned more resources to speed up the negotiation with its potential Malaysia customers since late 2018. However, in light of the Malaysian general election in 2018, there was a delay in the development of the existing projects in Malaysia as most of them were related to the Malaysian government.

In view of the uncertainty in the current economic environment as a result of escalating uncertainty in the international trade conflicts since late 2018 and the delay in the project development of the projects, the value in use of the cash-generating unit of SCML Group was lowered from approximately HK$226 million as at 31 March 2018 to approximately HK$140 million as at 31 March 2019. Taking into account of the above factors, the Impairment Loss of approximately HK$25.8 million was recognised for the year ended 31 March 2019.

In the determination of the value in use of the cash-generating unit of SCML Group, the Directors and the accounting team had prepared the relevant business plan and forecast of SCML Group to the best of their knowledge, information and belief, and had taken into account the macro-economic factors faced by SCML Group in 2018 and 2019 and the change in the business strategies of SCML Group as mentioned above.

The generally accepted business enterprise appraisal approach, namely the income approach ("**Income Approach**"), was used in determining the amount of the value in use of the cash-generating unit of SCML Group as at 31 March 2019 (i.e. HK$140 million) and 31 March 2018. The valuation approach has been consistently applied as at 31 March 2019 and 2018.

The Income Approach focuses on the economic benefits generated by the income-producing capability of a business enterprise. The underlying theory of this approach is that the value of a business enterprise would be measured by the present worth of the economic benefits to be received over the useful life of the business enterprise. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate suitable for the risks associated with realising those benefits.

The discounted cash flow analysis of the Income Approach, in particular, the free cash flows to the firm technique ("**FCFF**", invested capital as a whole) is used in the valuation – valuing the total sum of money to be received during the useful life of the business enterprise by investing certain amount of capital after considering the time value of money. To compute the FCFF from the projected net income, non-cash charges such as depreciation and amortisation expenses, and after-tax interest cost are added back to the projected net income. After that, fixed capital investment and the investment in net working capital are subtracted from the projected net income to estimate FCFF. The estimated future FCFF is then discounted at the weighted average cost of capital ("**WACC**"). A 5-year discounted cash flow calculation is prepared in the relevant valuation of value in use of the cash-generating unit of SCML Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Projected net cash flows used in the valuation of value in use of the cash-generating unit of SCML Group are as follows:

	HK$'000	Net cash flow growth
Year ending 31 March 2020 ("**FY2020**")	32,131	N/A
Year ending 31 March 2021 ("**FY2021**")	79,356	147%
Year ending 31 March 2022 ("**FY2022**")	80,362	1%
Year ending 31 March 2023 ("**FY2023**")	19,766	-75%
Year ending 31 March 2024 ("**FY2024**")	697	-96%

The table below sets out the comparable inputs used in the valuation of SCML Group as at 31 March 2019 and 31 March 2018:

	Valuation as at 31 March 2019	Valuation as at 31 March 2018
WACC (pre-tax)	**27%**	21%
Long-term terminal growth rate	**2%**	3%
Net cash flow, in HK$'000:		
Year 1 to Year 3	**191,849**	220,860
Year 4 to Year 5	**20,463**	47,622

There were several major projects which were expected to bring significant net cash flows to SCML Group, including energy saving projects in government buildings, hospitals and clinics in Malaysia, energy saving project at base stations in China, and energy saving project at portable data centers provided by a Hong Kong-listed company principally engaged in the manufacturing and sale of transportation equipment. Due to the delay in the project development of these projects and in view of the uncertainty in the current economic environment as a result of the escalating uncertainty in the international trade conflicts, the expected cash flows contributed to SCML Group were reduced.

Key parameters used in the valuation as at 31 March 2019 are as follows:

WACC

WACC is the average rate of return a company expects to compensate all its different investors representing the expected return on all of a company's capital. Each source of capital, such as equity and debt, is assigned with a required rate of return, and then these required rates of return are weighted in proportion to the share of each source of capital contributes to the company's capital structure. The cost of equity was estimated using the capital asset pricing model based on the betas of identified listed comparable companies which are engaged in similar business with SCML Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The increase in the estimated WACC from 21% as at 31 March 2018 to 27% as at 31 March 2019 was mainly due to the increase in expected income tax in Malaysia and the drop in the expected debt-to-equity ratio of SCML Group which was referenced from the historical and forecasted capital structure of SCML Group in conducting its business operations.

Long-term terminal growth rate

The long-term terminal growth rate of 2% was referenced to the changes in consumer price indices of Hong Kong, Malaysia and China, in which SCML Group is expected to mainly derive its revenue from and incur operating expenses, as sourced from Bloomberg L.P.. The long-term terminal growth rate represents the inflation effect and does not exceed the long-term growth rate for the business in which SCML Group operates. The long-term terminal growth rate was lowered from 3% to 2% as at 31 March 2019 mainly due to the decrease in forecasted inflation rates sourced from Bloomberg L.P..

Fair value loss on the equity investment in Invinity

The Equity Investment (as hereinafter defined) represents the 2,400 shares of Invinity owned by the Group.

As disclosed in the announcement of the Company dated 4 May 2018, Invinity is an investment holding company incorporated in the British Virgin Islands with three subsidiaries, namely Invinity Energy Limited, Gu Zhang County Vanadium Industry Company Limited (古丈縣宏源釩業有限責任公司), and Hunan Hongyuan New Energy Technology Company Limited (湖南宏源新能源科技有限公司), together as "**Invinity Group**". Invinity Group is principally engaged in mining, processing and sales of vanadium materials.

In respect of the determination of the fair value of the Equity Investment as at 31 March 2019, the Group has engaged an independent valuer to assist the Company in the relevant calculation of the fair value. Discounted cash flow method under the Income Approach is used in the valuation. The fair value was arrived at based on the present value of all future economic benefits generated and attributable to the shareholders by applying an appropriate discount rate and discount for lack of marketability. The discount rate adopted is the weighted average cost of capital which comprises the cost of equity and the cost of debt, taking into account an appropriate debt-to-equity ratio: (i) the cost of equity was derived using the Capital Asset Pricing Model, which assumes that an investor requires excess returns to compensate systematic risks and an efficient market provides no excess return for any risks other than systematic risks; (ii) the cost of debt was referenced to the actual and expected interest rates of the loans of Invinity Group; and (iii) the debt-to-equity ratio was referenced to the average capital structure of the comparable companies. A discounted cash flow calculation was adopted in the relevant valuation of fair value of the Equity Investment. The discounted cash flow calculation has taken into account factors such as the capacity of the reserve of vanadium-containing ore, which is expected to be utilised under a 10-year production plan. The forecasted annual production volume used in the valuation had drawn reference to the designated processing capacity of the production facilities. In the calculation of the future economic benefits, the price of the commodity was one of the inputs, which the valuer had studied and considered the expected market trend and historical patterns of the price obtained from the available market sources. The Directors believe the commodity price as at 31 March 2019 is under a decreasing trend in view of the historical price pattern and other industry parameters observed in both the domestic and international markets. In addition, the Company has made reference to the cost and budget mechanism for the production/processing plan prepared by the management of Invinity.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets out the comparison in certain inputs used in the valuation of Invinity Group as at 31 March 2019 and 30 September 2018:

	Valuation as at 31 March 2019	Valuation as at 30 September 2018
Weighted average cost of capital	**14%**	15%
Discount for lack of marketability	**35%**	35%
Commodity price *(note)*	**Ranging from RMB185,000/tonne to RMB234,000/tonne**	Ranging from RMB225,000/tonne to RMB294,000/tonne

Note: The commodity price was made reference to the expected market trend, historical patterns of the price obtained from the available market sources and other industry parameters observed in both the domestic and international markets. Annual growth rate on commodity price of 2.5% (30 September 2018: 3.0%) was adopted over the valuation period.

The fair value of the Equity Investment decreased from HK$90,000,000 as at 30 September 2018 to HK$71,000,000 as at 31 March 2019 and fair value loss of HK$19.0 million was recognised during the year. There has been a decreasing trend in the commodity price since November 2018, which is one of the explanations to a decrease in fair value of the Equity Investment.

Income tax expense

The Group's income tax expense for the year ended 31 March 2019 was approximately HK$9.0 million, representing a decrease of approximately 54.7% from approximately HK$19.8 million for the year ended 31 March 2018. The decrease was mainly due to the decrease in taxable income.

Share of results of associates

The Group's share of results of associates for the year ended 31 March 2019 was approximately HK$15.6 million gain, decreased from approximately HK$18.1 million gain for the year ended 31 March 2018. The decrease was mainly due to the net effect of (i) the absence of the share of results from Invinity which was contributed by the non-recurring gain on bargain purchase of approximately HK$18.4 million from the acquisition of interest recorded within Invinity Group for the year ended 31 March 2018; and (ii) the increase in the amount of sharing of results of an associate and its subsidiaries, namely KSL Group (as defined below), as a result of the continuous development in South Africa.

EBITDA/EBIT

As a result of the foregoing, the Group's EBITDA decreased from approximately HK$159.4 million for the year ended 31 March 2018 to approximately HK$79.0 million for the year ended 31 March 2019. The Group's EBIT decreased from approximately HK$158.4 million for the year ended 31 March 2018 to approximately HK$68.4 million for the year ended 31 March 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the year attributable to the owners of the Company

As a result of the foregoing, our profit attributable to the owners of the Company decreased by approximately 64.6% from approximately HK$125.7 million for the year ended 31 March 2018 to approximately HK$44.6 million for the year ended 31 March 2019.

Excluding some major extraordinary or non-operating income and expenses, the adjusted profit attributable to the owners of the Company decreased by approximately 30.5% from approximately HK$86.7 million for the year ended 31 March 2018 to approximately HK$60.3 million for the year ended 31 March 2019. The following table reconciles the adjusted profit attributable to the owners of the Company excluding some major extraordinary or non-operating income and expenses as defined by the Group's management for the years presented to the audited profit attributable to the owners of the Company for the years indicated:

	Year ended 31 March	
	2019	2018
	HK$'000	HK$'000
Profit for the year attributable to the owners of the Company	**44,554**	125,704
Add major extraordinary or non-operating expenses:		
Amortisation of intangible assets (included in administrative expenses)	**3,491**	219
Loss on fair value changes of the equity investment in Invinity	**19,000**	–
Unrealised net foreign exchange loss	**8,122**	5,644
Provision for expected credit loss on financial assets, net of deferred tax	**580**	–
Provision for impairment of goodwill allocated to the cash generating unit of SCML	**25,831**	–
Share-based payment expenses in respect of share options	**5,949**	–
	107,527	131,567
Less major extraordinary or non-operating income:		
Gain on deemed disposal of Invinity	**(47,240)**	–
Gain on step acquisition of SCML	**–**	(26,438)
Share of results of associate contributed by the gain on bargain purchase from the acquisition of interest recorded within Invinity Group	**–**	(18,409)
Adjusted profit attributable to the owners of the Company excluding some major extraordinary or non-operating income and expenses	**60,287**	86,720

MANAGEMENT DISCUSSION AND ANALYSIS

Basic earnings per share and diluted earnings per share calculated with reference to the adjusted profit attributable to the owners of the Company excluding some major extraordinary or non-operating income and expenses are as follows:

	Year ended 31 March	
	2019	2018
Adjusted basic earnings per share (HK cents)	**11.0**	17.3
Adjusted diluted earnings per share (HK cents)	**11.0**	17.3

Potential investors should be aware that this adjusted profit attributable to the owners of the Company excluding some major extraordinary or non-operating income and expenses presented in this report may not be comparable to similar titled measures reported by other companies due to differences in the components of the calculations.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group mainly finances its business with internally generated cash flows and bank and other borrowings. As at 31 March 2019, currents assets of the Group amounted to approximately HK$417.0 million, representing an increase of 28.5% from approximately HK$324.6 million as at 31 March 2018. The current assets mainly comprised cash and bank balances (including pledged bank deposits) of approximately HK$28.9 million (2018: approximately HK$39.5 million), trade receivables of approximately HK$322.2 million (2018: approximately HK$229.5 million), and amount due from an associate of approximately HK$30.4 million (2018: approximately HK$16.5 million).

As at 31 March 2019, the Group's current liabilities mainly comprised borrowings of approximately HK$65.1 million (2018: approximately HK$91.7 million), notes payable of HK$140.0 million (2018: HK$80.0 million), trade payables of approximately HK$11.4 million (2018: approximately HK$10.5 million) and accruals, other payables and deposits received of approximately HK$34.6 million (2018: approximately HK$49.1 million).

The Group's current ratio increased from approximately 1.3 times as at 31 March 2018 to approximately 1.5 times as at 31 March 2019. The Group has prepared cash flow projection for the year ending 31 March 2020, which demonstrates the Group has sufficient working capital to meet the current liquidity demand within at least 12 months from the date of this report.

The total outstanding notes payable and borrowings of the Group as at 31 March 2019 was approximately HK$254.3 million (31 March 2018: approximately HK$282.5 million), of which approximately HK$93.6 million (31 March 2018: approximately HK$121.4 million) was due to banks, approximately HK$20.7 million (31 March 2018: approximately HK$31.1 million) was due to independent third parties, and notes payable of approximately HK$140.0 million (31 March 2018: HK$130.0 million). The decrease was due to the net effect of repayment of bank and other borrowings and notes payable and new notes payable drawn during the year ended 31 March 2019.

As at 31 March 2019, the Group's net assets was approximately HK$430.9 million, representing an increase of 30.6% from approximately HK$329.9 million as at 31 March 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 March 2019, a time deposit of HK$2.5 million was pledged as a security for the bank facilities (31 March 2018: HK$2.5 million). There is an assignment of receivables from one of the customers of the Group and an assignment of investment in life insurance policy of the Group to the bank. Save as disclosed above, the Group has no other charges on its assets as at 31 March 2019.

PLACEMENT OF NEW SHARES AND USE OF PROCEEDS

On 4 April 2018, the Company successfully placed 50 million new shares of the Company, which represented approximately 9.09% of the issued share capital of the Company as enlarged by the placing, to not less than six placees at the placing price of HK$1.09 per placing share. The placing shares rank pari passu in all respects among themselves and with the issued ordinary shares of the Company. The aggregate nominal value of placing shares is HK$500,000. The net price per placing share was approximately HK$1.06. The placing price of HK$1.09 per placing share represents: (a) a discount of approximately 12.8% to the closing price of HK$1.25 per share as quoted on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") on 14 March 2018, being the date of the relevant placing agreement; and (b) a discount of approximately 18.4% to the average closing price of HK$1.336 per share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the date of the relevant placing agreement. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the placees and their respective ultimate beneficial owners were independent third parties, and that none of the placees had, immediately upon completion of the placing of 50 million new shares, become a substantial shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") of the Company. The net proceeds from the placing was approximately HK$52.9 million. The Company intended to use the net proceeds for general working capital of the Group.

The Directors consider the placing offers a good opportunity for the Group to raise further capital and broaden the shareholders base of the Company, thereby increasing the liquidity of the shares as well as strengthening the financial position of the Group.

As of 31 March 2019, all the net proceeds from the placing were utilised in accordance with the intended use.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 March 2019.

GUARANTEES

The Group had no material guarantees as at 31 March 2019.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY OR ASSOCIATED COMPANY

On 4 July 2018, Synergy Group Worldwide Limited ("**Synergy Worldwide**"), a wholly-owned subsidiary of the Company, entered into an agreement with, among others, NU and its shareholders, pursuant to which Synergy Worldwide agreed to subscribe for new shares in NU at a consideration of HK$1.2 million payable in installments, and Synergy Worldwide became interested in approximately 60.0% of the shareholding in NU. Details of the acquisition are set out in the announcement of the Company dated 4 July 2018. On 8 January 2019 and 29 March 2019, some independent third parties agreed to subscribe for new shares in NU and Synergy Worldwide became interested in approximately 51.9% of the shareholding in NU upon completion of these subscriptions.

MANAGEMENT DISCUSSION AND ANALYSIS

On 7 March 2018, Synergy Worldwide completed the subscription for 2,400 shares of Invinity (representing approximately 23.6% of the issued shares of Invinity at the relevant time) at the consideration of US$3,200,000 ("**Subscription in Invinity**"). Upon the Subscription in Invinity in March 2018 as part of the understanding among our Group and other shareholders of Invinity, our Group involved in the management of Invinity Group. Details of the subscription are set out in the announcement of the Company dated 4 May 2018.

Since the completion of the Subscription in Invinity in March 2018, our Group had participated in determining the overall policies and objectives of Invinity Group and had also been involved in its business planning and decision-making processes in operating and financial aspects. Invinity Group had been seeking for the most effective way to manage and operate the business, such as streamlining and shortening the decision making process. After careful consideration, on 26 September 2018, there was a consensus among other shareholders of Invinity that our Group would not have involvement in the board of directors of Invinity, and operational and financial policy-making processes of Invinity Group since then. Our Group no longer has the right to appoint a director to the board of Invinity and continues to hold approximately 23.6% equity interest in Invinity. Since our Group has lost the significant influence over Invinity Group, Invinity Group was no longer as associates of the Group from 26 September 2018 and a gain of approximately HK$47,240,000, being the difference between the fair value and the carrying amount of the approximately 23.6% retained equity interest in Invinity as at 26 September 2018 was recognised. As such, the Group's equity interest in Invinity was accounted for as an equity investment of the Group at fair value through profit or loss (the "**Equity Investment**") under the relevant accounting principle.

The fair value of the Equity Investment was approximately HK$71,000,000 as at 31 March 2019, representing approximately 9% of the Group's total assets as at 31 March 2019, and fair value loss of HK$19.0 million was recognised during the year. The Invinity Group is principally engaged in investing in mining and processing assets including exploration, development, mining and extraction as well as production and financing of various vanadium products and battery-grade vanadium electrolyte to support the vanadium flow batteries energy storage industry. No dividend from Invinity was received by the Group and no dividend income from Invinity was recognised during the year ended 31 March 2019.

Pursuant to the relevant subscription agreement dated 2 March 2018 entered into between, among others, Synergy Worldwide, Invinity and the shareholders of Invinity, the total consideration in relation to the subscription of shares in Invinity amounted to US$3,200,000.

As at 31 March 2019, US$1,600,000, being half of the subscription monies, had been paid and the balance of the consideration (US$1,600,000) is payable only upon the fulfilment of certain conditions precedent as provided in the relevant subscription agreement, including but not limited to the completion of the due diligence on, among others, the business operation and assets of Invinity Group and the achievement of a number of milestones in relation to the production and operation of Invinity Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, the Directors have no further plans in relation to further investments regarding the Equity Investment.

Saved as disclosed above, the Group had no material acquisitions and disposal of subsidiaries and affiliated companies during the year ended 31 March 2019.

ASSOCIATED COMPANY

Kedah Synergy Limited ("**KSL**"), together with its subsidiaries (the "**KSL Group**"), are associated companies of the Group which was owned as to 47.5% by the Group. KSL Group is principally engaged in the business of energy saving management in South Africa.

The revenue of KSL Group for the year ended 31 March 2019 was approximately HK$98.0 million (for the year ended 31 March 2018: approximately HK$37.0 million). The net profit attributable to the shareholders of KSL Group for the year ended 31 March 2019 was HK$33.7 million, increased from approximately HK$14.3 million for the year ended 31 March 2018, as the installation of the customised LED products in the retail outlets of a major retailer in South Africa had been commenced during the year ended 31 March 2018 and there was full year effect during the year ended 31 March 2019.

As disclosed above, during the year ended 31 March 2019, Invinity Group ceased to be associates of the Group, details of which are set out in the paragraph headed "Material Acquisition and Disposal of Subsidiary or Associated Company" in the section headed "Management Discussion and Analysis" in this report.

Saved as disclosed above, there were no other significant investments held, and other plans for material investments or capital assets during the year ended 31 March 2019.

EMPLOYEES AND REMUNERATION POLICIES

As of 31 March 2019, the Group had 73 full-time employees. The Group offers a competitive remuneration package commensurate with industry practice and provides benefits to its employees, including bonuses, medical coverage and provident fund contributions.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("**MPF Scheme**") . Under the MPF Scheme, each of the Group companies (i.e. the employer) and its employees make monthly contributions to the scheme at 5% of the employees' monthly earnings as defined under the Mandatory Provident Fund Legislation. The contributions from each of the employers and employees are subject to a cap of HK$1,500 per month and thereafter contributions are voluntary. Except for voluntary contribution, no forfeited contribution under the MPF Scheme is available to reduce the contribution payable in future years.

The Group also operates a number of defined contribution retirement schemes outside Hong Kong in accordance with local statutory requirements. The assets of these schemes are generally held in separate administered funds and are generally funded by payments from employees and by the relevant group companies.

The Company has adopted a share option scheme as an incentive to its Directors and eligible employees of the Group, details of which are set out in the paragraph headed "Share Option Scheme" below.

On 19 April 2018, the Company granted a total of 21,532,400 share options to subscribe for an aggregate of 21,532,400 ordinary shares of HK$0.01 each in the share capital of the Company, comprising (i) 11,150,000 share options to five Directors; and (ii) 10,382,400 share options

MANAGEMENT DISCUSSION AND ANALYSIS

to certain qualified participants (as defined below), being employees of the Group, under the share option scheme adopted by the Company on 5 March 2015 (as amended on 26 October 2016) (the "**Grant**"). Details of the grant are set out in the Company's announcement dated 19 April 2018.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 5 March 2015 (which was amended on 26 October 2016) ("**Share Option Scheme**"). Under the Share Option Scheme, the Board may in its absolute discretion grant options to directors or employees (whether full time or part time) of our Company and its subsidiaries and associated companies (the "**Qualified Participants**") subscribe for its shares. The purpose of the Share Option Scheme is to enable the Company to provide an incentive for the Qualified Participants to work with commitment towards enhancing the value of our Company and its shares for the benefit of the shareholders, and to maintain or attract business relationships with the Qualified Participants whose contributions are or may be beneficial to the growth of our Group.

The following table discloses movements in the Company's share options during the year ended 31 March 2019:

				Number of share options				
Grantees	Date of grant	Exercise period	Exercise price	Outstanding as at 1 April 2018	Granted during the year	Lapsed/ forfeited during the year	Cancelled during the year	Outstanding as at 31 March 2019
Directors								
Wong Man Fai Mansfield	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	5,500,000	–	–	**5,500,000***
Lam Arthur	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	5,500,000	–	–	**5,500,000***
Chung Koon Yan	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	50,000	–	–	**50,000***
Cheung Yick Hung Jackie	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	50,000	–	–	**50,000***
Wong Chi Ying Anthony	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	50,000	–	–	**50,000***
Employees								
Employees in aggregate	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	5,500,000	–	–	**5,500,000***
	19 April 2018	19 April 2019 to 18 April 2020	HK$1.268 per share	–	3,232,400	26,200	–	**3,206,200**
	19 April 2018	19 April 2020 to 18 April 2021	HK$1.268 per share	–	1,650,000	–	–	**1,650,000**
				–	21,532,400	26,200	–	**21,506,200**

* Such outstanding share options lapsed on 19 April 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN CURRENCY EXPOSURE

The Group's revenue and expenses are mainly in Hong Kong dollar which is the functional currency of most of the entities making up the Group. As it is expected that there will be a continuously increase in revenue from overseas markets, the Directors believe that the Group will be exposed to foreign exchange risk due to exchange rate fluctuations. After considering the current and future exchange rate level and the foreign currency market, the Group does not adopt any foreign currency hedging measure as at the date of this report. However, the Group will monitor its foreign exchange exposure and will consider hedging the foreign currency exposure should the need arises.

GEARING RATIO

As at 31 March 2019, the gearing ratio of the Group was 59.7% (31 March 2018: 86.7%), which is calculated on the basis of the amount of total debts divided by the total equity. The decrease was due to the placing of 50 million new shares and repayment of bank and other borrowings and notes payable during the year ended 31 March 2019.

DIVIDEND

The Board did not recommend the payment of any dividend for the year ended 31 March 2019 (31 March 2018: Nil).

The Company is not aware of any arrangement under which a shareholder has waived or agreed to waive any dividends.

FUTURE OUTLOOK

The Group expects the operating environment in 2019 and the near future to remain challenging. The instability in the global economy and political environment is increasing with the rising global tensions and intensifying climate risks. The Sino-US trade dispute has given rise to uncertainty in China's economic development and new challenges at macroeconomic level. On the other hand, there is intensified competition with other energy service companies with increasing number of competitors in the Asia-Pacific region. Although the environment remain difficult and unstable, countries across the globe are determined to take active and prudent efforts to resolve the global energy crisis and problems posed by climate change. The perseverance in tackling climate change was also seen in global leaders and officials gathering at the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change in December 2018, in order to establish rules and put Paris Agreement into practice. The Group believes this momentum will continue to support the growth of energy saving and management industry, in turn offering us opportunities to capture the market.

Providing discrete energy saving product is not enough to prevail in such a competitive and complex market. The Group needs to handle competition with innovative solutions and diversified business strategies. Therefore, the Group invested in NU, a company which uses artificial intelligence and big data analytics to reduce energy, operational and maintenance costs for buildings. The investment represents a further step towards achieving

MANAGEMENT DISCUSSION AND ANALYSIS

the Group's goals – enabling the world with greater efficiency and productivity to vitalise a sustainable world. At the dawn of digital era, the growing demand in smart processing on data and information for effective building operations and management as well as energy consumption reduction provides ample opportunities for the Group to utilise its competitive edges in terms of enhanced technology, service portfolio and talent to deliver comprehensive intelligent solutions to both existing and potential new clients.

The Group is confident in surmounting every challenge by leveraging its strong market position and diverse customer base to expand its revenue stream through launching of new technologies and services. The Group will strive to maintain its performance in its core business to generate recurring and stable income while undertake business expansion in accelerating the company growth.

DIRECTORS' REPORT

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 March 2019.

PRINCIPAL BUSINESSES

The principal business of the Company is investment holding and the principal businesses of the Company's subsidiaries are set out in Note 38 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal businesses during the year ended 31 March 2019.

ANNUAL RESULTS AND DISTRIBUTIONS

The annual results of the Group for the year ended 31 March 2019 are set out in the consolidated statement of comprehensive income on page 87. The Directors do not recommend the payment of a final dividend for the year ended 31 March 2019.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on page 2. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

During the year, the Company placed a total of 50 million new ordinary shares to a number of independent third parties in April 2018 pursuant to the placing agreement dated 14 March 2018, representing approximately 9.09% of the enlarged share capital of the Company. The net proceeds of approximately HK$52.9 million from the placing had been utilised for general working capital of the Group.

Details of the movements in share capital of the Group during the year ended 31 March 2019 are set out in Note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group are set out in Note 33 to the consolidated financial statements. As at 31 March 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounting to approximately HK$67.2 million (31 March 2018: approximately HK$12.4 million). This includes the Company's share premium, contributed surplus and share options reserve in the amounts of HK$87.2 million, HK$3.2 million and HK$5.9 million, respectively as at 31 March 2019, which may be distributable to the shareholders of the Company subject to the provisions of the Company's memorandum and articles of association ("**Articles of Association**") and provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

BANK AND OTHER BORROWINGS

The total borrowings of the Group as at 31 March 2019 amounted to HK$114.3 million (31 March 2018: HK$152.5 million). Particulars of borrowings are set out in Note 29 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year ended 31 March 2019 are set out in Note 14 to the consolidated financial statements.

DIRECTORS' REPORT

DIRECTORS

The Directors during the year ended 31 March 2019 and as at the date of this report are as follows:

Executive Directors

Mr. Wong Man Fai Mansfield
(Chairman and Chief Executive Officer)

Mr. Lam Arthur *(Vice Chairman)*

Independent non-executive Directors

Mr. Chung Koon Yan

Mr. Cheung Yick Hung Jackie

Dr. Wong Chi Ying Anthony

In accordance with the Articles of Association, at each annual general meeting, at least one-third of the Directors for the time being shall retire from office by rotation, provided that every Director shall be subject to retirement at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

In accordance with Articles 84(1) and (2) of the Articles of Association, Mr. Lam Arthur and Mr. Chung Koon Yan shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into any service contract with any member of the Group which in order to entitle the Company to terminate the service contract, expressly requires the Company to give a period of notice of more than one year or to pay compensation or make other payments equivalent to more than one year's remuneration, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 77 to 79 of this Annual Report.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors a written annual confirmation of his independence in relation to their services for the year ended 31 March 2019 pursuant to Rule 3.13 of the Listing Rules and the Company considers all independent non-executive Directors are independent in accordance with the independence guidelines as set out in the Listing Rules.

DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out in Note 10(a) to the consolidated financial statements. Details of emolument policy are set out in the section headed "Remuneration Committee" to Corporate Governance Report in this Annual Report.

DIRECTORS' REPORT

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

As at 31 March 2019, the interests and short positions of the Directors and chief executives of our Company in the shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) which were notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules required to be notified to our Company and the Stock Exchange, were as follows:

Interests or short positions in shares and underlying shares of the Company

Name of Director	Nature of interest and capacity	Number of Shares (Note 1)	Approximate percentage of issued share capital (Note 3)
Mr. Wong Man Fai Mansfield (Note 2)	Beneficial owner	5,500,000 (L) (Note 4)	1.00%
	Interest in controlled corporation	53,249,204 (S)	9.68%
Mr. Lam Arthur	Beneficial owner	7,550,000 (L) (Note 5)	1.37%
		35,464,437 (S)	6.45%
Mr. Cheung Yick Hung Jackie	Beneficial owner	150,000 (L) (Note 6)	0.03%
Mr. Chung Koon Yan	Beneficial owner	50,000 (L) (Note 4)	0.01%
Dr. Wong Chi Ying Anthony	Beneficial owner	50,000 (L) (Note 4)	0.01%

Notes:

1. The letters "L" and "S" denote the person's long position and short position in such shares respectively.

2. Abundance Development Limited is wholly-owned by Mr. Wong Man Fai Mansfield. Under the SFO, Mr. Wong Man Fai Mansfield is deemed to be interested in all the shares of the Company owned by Abundance Development Limited.

3. The total number of issued shares of the Company as at 31 March 2019 was 550,000,000.

4. These shares represented the underlying shares under the options granted by the Company on 19 April 2018 pursuant to the Share Option Scheme.

5. These shares represented 5,500,000 underlying shares under the options granted by the Company on 19 April 2018 pursuant to the Share Option Scheme and 2,000,000 shares of the Company beneficially owned by Mr. Lam Arthur.

6. These shares represented 50,000 underlying shares under the options granted by the Company on 19 April 2018 pursuant to the Share Option Scheme and 100,000 shares beneficially owned by Mr. Cheung Yick Hung Jackie.

DIRECTORS' REPORT

Save as disclosed above, as at 31 March 2019, none of the Directors or chief executives of our Company had any interest or short position in the shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as our Directors are aware, as at 31 March 2019, the persons/entities (other than the Directors or chief executives of our Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of our Company required to be kept under section 336 of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group were as follows:

Interests or short positions in shares and underlying shares of the Company

Name of Shareholder	Nature of interest and capacity	Number of Shares (Note 1)	Approximate percentage of issued share capital (Note 6)
Abundance Development Limited (Note 2)	Beneficial owner	53,249,204 (S)	9.68%
Ms. Cai Linda Xin Xin (Note 3)	Interest of spouse	5,500,000 (L)	1.00%
		53,249,204 (S)	9.68%
Ms. Liang Wai Yun Fiona (Note 4)	Interest of spouse	7,550,000 (L)	1.37%
		35,464,437 (S)	6.45%
Central Huijin Investment Ltd. (Note 5)	Interest of controlled corporation	110,001,641 (L)	20.00%
China Construction Bank Corporation (Note 5)	Interest of controlled corporation	110,001,641 (L)	20.00%
CCB International Group Holdings Limited (Note 5)	Interest of controlled corporation	110,001,641 (L)	20.00%
CCB Financial Holdings Limited (Note 5)	Interest of controlled corporation	110,001,641 (L)	20.00%
CCB International (Holdings) Limited (Note 5)	Interest of controlled corporation	110,001,641 (L)	20.00%
CCBI Investments Limited (Note 5)	Interest of controlled corporation	110,001,641 (L)	20.00%
Wan Tai Investments Limited (Note 5)	Person having a security interest in shares	110,001,641 (L)	20.00%

DIRECTORS' REPORT

Notes:

1. The letters "L" and "S" denote the person's long position and short position in such shares respectively.

2. Abundance Development Limited is wholly-owned by Mr. Wong Man Fai Mansfield.

3. Ms. Cai Linda Xin Xin is the spouse of Mr. Wong Man Fai Mansfield. Under the SFO, Mr. Wong Man Fai Mansfield is deemed to be interested in all the shares of the Company owned by Abundance Development Limited, and Ms. Cai Linda Xin Xin is deemed to be interested in all the shares and underlying shares of the Company in which Mr. Wong Man Fai Mansfield is interested.

4. Ms. Liang Wai Yun Fiona is the spouse of Mr. Lam Arthur. Under the SFO, Ms. Liang Wai Yun Fiona is deemed to be interested in all the shares and underlying shares of the Company in which Mr. Lam Arthur is interested.

5. Wan Tai Investments Limited is wholly controlled by CCBI Investments Limited, which is in turn wholly controlled by CCB International (Holdings) Limited, which is in turn wholly controlled by CCB Financial Holdings Limited, which is in turn wholly controlled by CCB International Group Holdings Limited, which is in turn wholly controlled by China Construction Bank Corporation, which 57.11% shares in turn controlled by Central Huijin Investment Ltd..

6. The total number of issued shares of the Company as at 31 March 2019 was 550,000,000.

Save as disclosed above, as at 31 March 2019, the Directors were not aware of any persons/entities who had any interest or short position in the securities in the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of the Company required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 5 March 2015 (which was amended on 26 October 2016). The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme:

(a) The purpose of the Share Option Scheme

The Share Option Scheme seeks to provide an incentive for the Qualified Participants (as hereinafter defined) to work with commitment towards enhancing the value of our Company and the shares ("**Shares**") for the benefit of the shareholders, and to maintain or attract business relationships with the Qualified Participants whose contributions are or may be beneficial to the growth of our Group.

(b) Who may join

The Board may at its discretion grant options to any director or employee (whether full time or part time) of our Company and its subsidiaries and associated companies (as defined under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) (collectively, "**Qualified Participants**").

DIRECTORS' REPORT

(c) **Grant of Option**

An offer of the grant of an option shall be made to the Qualified Participants by letter in such form as the Board may from time to time determine, requiring the Qualified Participants to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme (including any operational rules). The offer shall remain open for acceptance for a period of twenty business days from the date on which it is made. Subject to the terms of the offer letter, there shall be no general performance target to or minimum holding period for the vesting or exercise of options. An option shall be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the option-holder together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant of the option shall have been received by our Company on or before the last day for acceptance as set out in the offer letter. The remittance is not in any circumstances refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Qualified Participant.

(d) **Subscription Price**

The subscription price ("**Subscription Price**") shall be a price determined by the Board but in any event shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered to a Qualified Participant ("**Offer Date**"); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the Shares.

(e) **Maximum number of shares**

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company shall not in aggregate exceed the number of shares that shall represent 10% of the total number of shares in issue as at 24 March 2015 (i.e. the date of listing of the shares of the Company in GEM, "**Listing Date**"), i.e. 50,000,000 shares. For the purpose of calculating the scheme mandate ("**Scheme Mandate**"), options which have been lapsed in accordance with the terms of the relevant scheme shall not be counted.

(f) **Maximum entitlement of shares of each Qualified Participant**

Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any option-holder if the acceptance of those options would result in the total number of Shares issued and to be issued to that Qualified Participant on exercise of his options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) during any 12-month period exceeding 1% of the total Shares then in issue.

(g) **Timing for exercise of options**

The period during which an option may be exercised in accordance with the terms of the Share Option Scheme ("**Option Period**") shall be a period of time to be notified by the Board to each option-holder, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the Offer Date.

DIRECTORS' REPORT

(h) Life of the Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing from 5 March 2015, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. In particular, all options granted before the end of such period shall continue to be valid and exercisable after the end of such period in accordance with the terms of the Share Option Scheme. As at the date of this report, the Share Option Scheme has remaining life of approximately six years.

The following table discloses movements in the Company's share options during the year ended 31 March 2019:

				Number of share options				
Grantees	**Date of grant**	**Exercise period**	**Exercise price**	**Outstanding as at 1 April 2018**	**Granted during the year**	**Lapsed/ forfeited during the year**	**Cancelled during the year**	**Outstanding as at 31 March 2019**
Directors								
Wong Man Fai Mansfield	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	5,500,000	–	–	**5,500,000***
Lam Arthur	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	5,500,000	–	–	**5,500,000***
Chung Koon Yan	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	50,000	–	–	**50,000***
Cheung Yick Hung Jackie	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	50,000	–	–	**50,000***
Wong Chi Ying Anthony	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	50,000	–	–	**50,000***
Employees								
Employees in aggregate	19 April 2018	19 April 2018 to 18 April 2019*	HK$1.268 per share	–	5,500,000	–	–	**5,500,000***
	19 April 2018	19 April 2019 to 18 April 2020	HK$1.268 per share	–	3,232,400	26,200	–	**3,206,200**
	19 April 2018	19 April 2020 to 18 April 2021	HK$1.268 per share	–	1,650,000	–	–	**1,650,000**
				–	21,532,400	26,200	–	**21,506,200**

* Such outstanding share options lapsed on 19 April 2019.

DIRECTORS' REPORT

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the Share Option Scheme disclosed above, at no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which any member of the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 March 2019.

No contract of significance between the Company, or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries subsisted during the year ended 31 March 2019.

No contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries subsisted during the year ended 31 March 2019.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As of 31 March 2019, none of the Directors, the substantial shareholders or their respective close associates (as defined under the Listing Rules) had held any position or had any interest in any businesses or companies that were or might be materially, either directly or indirectly, competing with the business of the Group, or gave rise to any concern regarding conflict of interests during the year ended 31 March 2019.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2019, the aggregate percentage of purchase attributable to the Group's five largest suppliers is approximately 99.6% of the total purchases of the Group and the largest supplier included therein amounted to approximately 99.9%.

For the year ended 31 March 2019, the aggregate percentage of sales attributable to the Group's five largest customers is approximately 72.1% of the total sales of the Group and the largest customer included therein amounted to approximately 18.6%.

At no time during the year have the Directors, chief executive, substantial shareholders of the Company or any of its subsidiaries or their associates (which to the knowledge of the Directors own more than 5% of the Company's issued shares) had any interest in these major customers and suppliers.

DIRECTORS' REPORT

RELATED PARTY TRANSACTIONS

Details of the Group's related party transaction are set out in Note 39 to the consolidated financial statements. Save for transactions disclosed under Note 39(a)(iv) which are continuing connected transactions that are exempt from annual reporting requirements under Chapter 14A of the Listing Rules, such related party transactions do not fall under the definition of connected transaction or continuing connected transaction under the Listing Rules.

Saved as disclosed above, there were no other transactions which are required to be disclosed as continuing connected transactions in accordance with the requirements of the Listing Rules. The Board confirms that the Company has complied with the applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules.

ISSUE OF PROMISSORY NOTE

On 7 January 2019, the Company issued promissory note with a principal amount of HK$20,000,000 with the interest rate of 2.5% per annum, with a term of 12 months, to an independent third party. The Company intended to use the amount for general working capital of the Group. Details of the note are set out in Note 31(c) of the consolidated financial statements.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2019.

CORPORATE GOVERNANCE

The Company had complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the year ended 31 March 2019.

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 59 to 74 of this Annual Report.

AUDIT COMMITTEE

The Audit Committee of the Board was established with its written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules and code provision C.3.3 of the Corporate Governance Code. The Audit Committee comprises three independent non-executive Directors, namely Mr. Chung Koon Yan (Chairman of the Audit Committee), Mr. Cheung Yick Hung Jackie and Dr. Wong Chi Ying Anthony.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the consolidated financial statements for the year ended 31 March 2019.

BUSINESS REVIEW

A fair review of the Group's businesses and the analysis of its performance as well as prospects of the Group's businesses are provided in the "Chairman's Statement" and "Management Discussion and Analysis" sections of this Annual Report (which form part of this Directors' Report).

DIRECTORS' REPORT

Risks and uncertainties

The principal risks and uncertainties facing the Group have been addressed in the "Management Discussion and Analysis" section in this Annual Report.

In addition, various financial risks have been disclosed in the notes to the consolidated financial statements of this Annual Report.

An analysis using financial key performance indicators

The relevant financial key performance indicators relating to the business of the Group are set out in the "Financial Review" section in the "Management Discussion and Analysis" and the consolidated financial statements in this Annual Report.

Environmental policies and performance

The Group recognises its responsibility to protect the environment from its business activities. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities in order to minimise these impacts if possible. The Group aims to maximise energy conversation in its offices by promoting efficient use of resources and adopting green technologies. For instance, the Group seeks to upgrade equipments such as lighting and air-conditioning systems in order to increase overall operating efficiency. To identify energy efficiency opportunities, the Group measures and records the energy consumption intensity from time to time.

The environment policies and performance of the Group for the year ended 31 March 2019 is set out in the "Environmental, Social and Governance Report" section on pages 33 to 58 of this Annual Report.

Relationships with employees, customers, suppliers and other stakeholders

The Group ensures all staff is reasonably remunerated and regularly reviews the employment policies on remuneration and other benefits.

The Group maintains a good relationship with its customers and suppliers. The Group maintains close contacts with the customers and has regular review of requirements of customers and complaints. The Group will conduct appraisal of the performance of suppliers on regular basis.

Compliance with laws and regulations

The Group recognises the importance of compliance with regulatory requirements and risks of non-compliance with such requirements. The Group has in an on-going fashion reviewed the newly enacted laws and regulations affecting the operations of the Group. The Group is not aware of any material non-compliance with the laws and regulations that have significant impact on the business of the Group.

Permitted indemnity provision

Pursuant to the Articles of Association, the Directors and other officers, for the time being acting in relation to the affairs of the Company, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

DIRECTORS' REPORT

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group to protect the Directors and officers of the Group against any potential liability arising from the Group's activities which such Directors and officers may be held liable.

Charitable donations

The Group did not make any charitable donation for the year ended 31 March 2019.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the public float requirement under the Listing Rules.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

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

INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 March 2019 have been audited by BDO Limited, who shall retire and, being eligible, offer themselves for re-appointment at the forthcoming 2019 AGM (as defined in section headed "Corporate Governance Report"). A resolution for the re-appointment of BDO Limited as auditor of the Company will be proposed at the 2019 AGM.

There has been no change in auditor of the Company in the three years ended 31 March 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Welcome to our Environmental, Social and Governance Report (the "**ESG Report**") for the year ended 31 March 2019. The ESG Report provides a review of our ESG progress and key business initiatives on improving sustainability performance, as well as an update on our sustainability achievements throughout the year. The ESG Report is prepared in accordance with Environmental, Social and Governance Reporting Guide (the "**ESG Guide**") as set out in Appendix 27 of the Listing Rules. The ESG Guide Content Index can be found in Section 8 of this Report.

The data and statistics in the Report mainly covers the operations in Hong Kong, unless otherwise stated. The scope has expanded during this reporting year with the acquisition of Negawatt Utility Limited ("**Negawatt**" or "**NU**") in 2018. The financial data and corporate governance report are detailed in other sections of the 2018/2019 Annual Report.

We value and welcome any comments and suggestions in relation to this ESG Report. Should you have any feedback on the Report, please contact us via info@synergy-group.com.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. WHO WE ARE

Synergy Group Holdings International Limited and together with its subsidiaries (the "**Group**") is one of the first Energy Service Company ("**ESCO**") listed on The Stock Exchange of Hong Kong Limited, with a dominant position in Asia Pacific. The Group places the highest priority in upholding the stewardship of protecting the environment and bringing positive impact to the community, which is also emphasised in its vision and mission statements as a guide for day to day operations.

VISION

We aspire to be the global leader of ESCO, disrupting the energy industry with proven technology solutions, continuous technology innovations and enabling the world with greater energy efficiency and productivity

MISSION

Exploit Wasted Energy,
Harness Clean Energy,
Reduce Consumed Energy,
Vitalise a Sustainable World!

CORE VALUES

Infinity & Sustainability
With Quality & Integrity
Synergising Resources
Innovation & Striving for Excellence
Respect & Caring

COMMITMENT

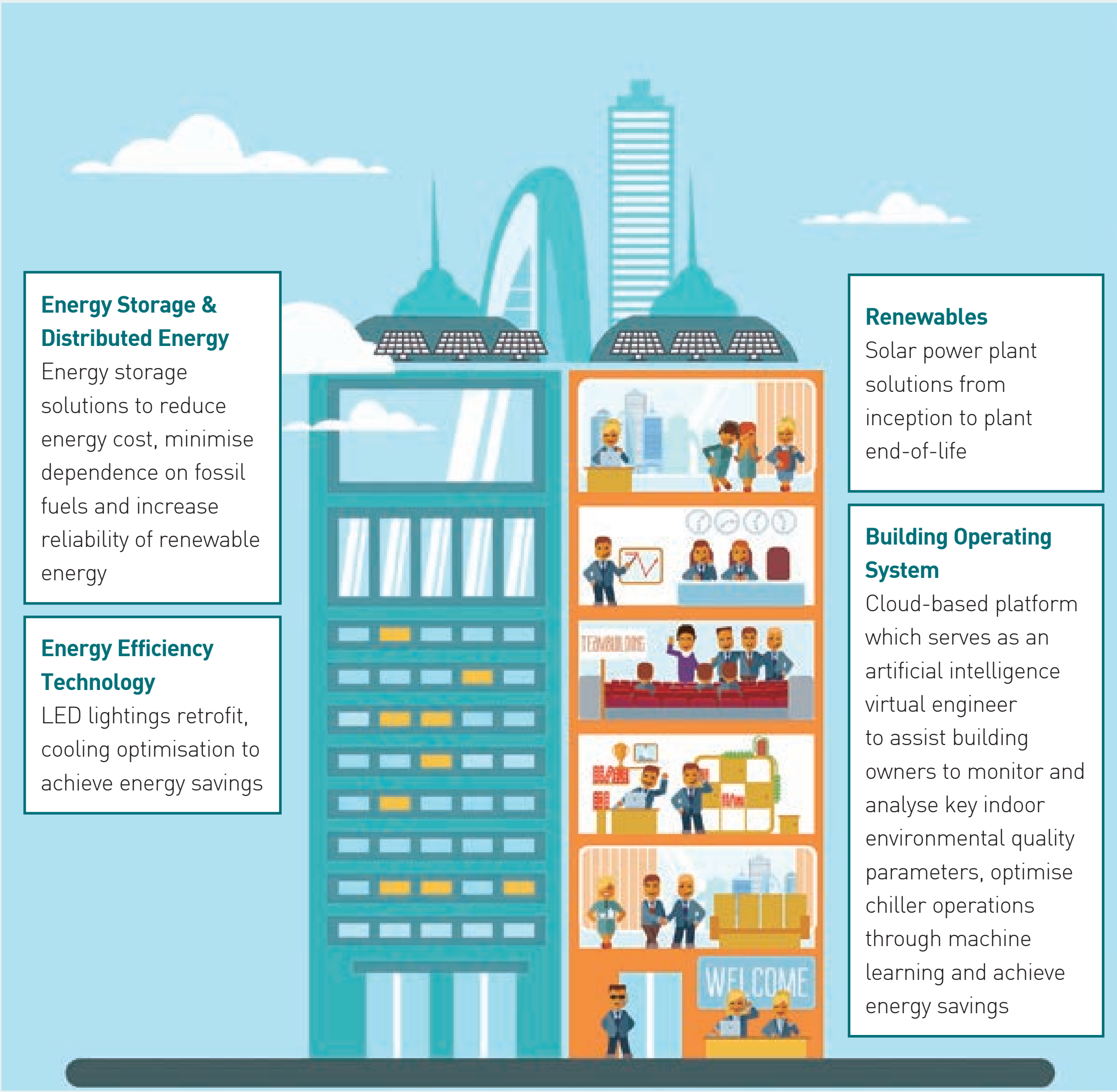
To ensure effective management and monitoring of strategically significant ESG issues with integration into our daily operations and decision-making processes, so as to create a truly sustainable business

CORPORATE RESPONSIBILITY

To act with integrity, fairness and in ethical manner. To promote community development and environmental protection, employee care and development, clients' rights and interests protection, value enhancement for stakeholders, while complying with the laws and regulations

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As one of the leading Energy Service Companies in Asia, the Group acknowledges the importance of planning for the transition towards the big data era in energy by investment, research and technology development. Over the past decade, Synergy has transformed from a small energy efficiency lighting focus supplier into a leading ESCO providing a wide range of services to support the building of sustainable cities:



Energy Storage & Distributed Energy
Energy storage solutions to reduce energy cost, minimise dependence on fossil fuels and increase reliability of renewable energy

Energy Efficiency Technology
LED lightings retrofit, cooling optimisation to achieve energy savings

Renewables
Solar power plant solutions from inception to plant end-of-life

Building Operating System
Cloud-based platform which serves as an artificial intelligence virtual engineer to assist building owners to monitor and analyse key indoor environmental quality parameters, optimise chiller operations through machine learning and achieve energy savings

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. HOW WE CHANGE THE WORLD

Global climate change and energy crisis have evolved into a critical issue in sustaining the future. As the Group continues in its quest to become a global service provider in energy saving and efficiency technologies as well as clean energy solutions, we are committed to embracing new technologies and investing in continual research and development to provide innovative green solutions to tackle the problems posed by climate change.

55%+

Increase in CO_2 concentration since 10,000 years ago

275M

No. of people that is estimated to be flooded in areas including Hong Kong by 2100

~4X

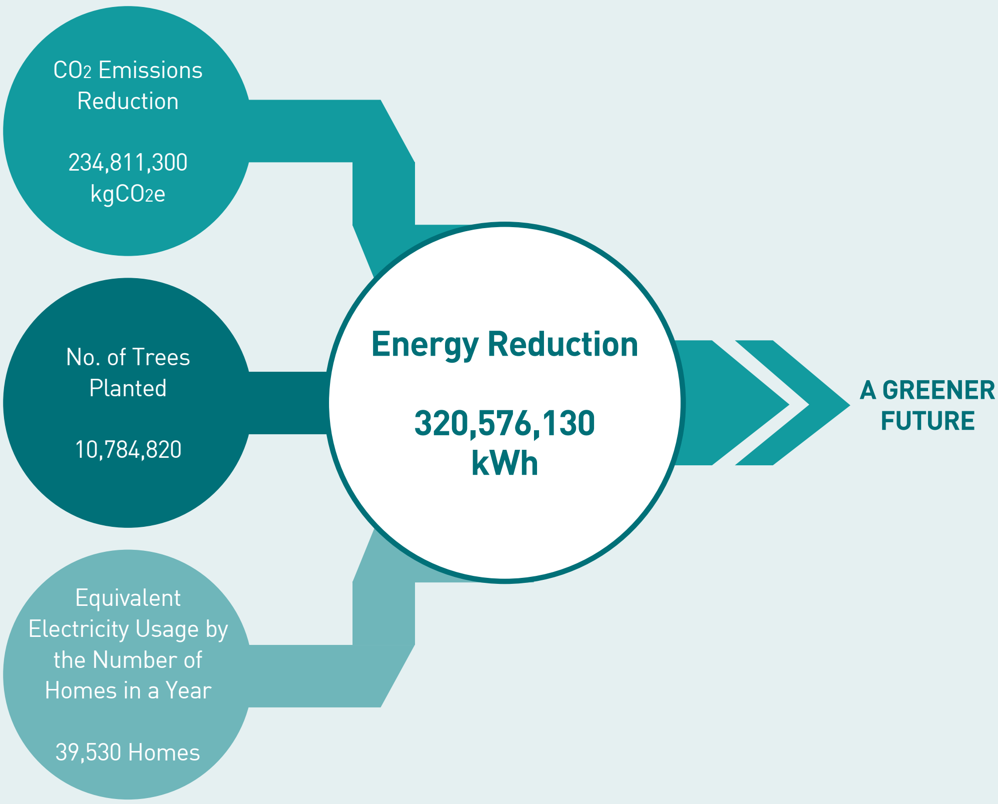
Estimated increase in annual no. of Very Hot Days by 2100

0 (ZERO)

Estimated No. of cold days in Hong Kong by 2100

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In the past decade, our minimum estimated cumulative environmental contribution is illustrated in the figure below[1,2]:



Strategic Roadmap to a Sustainable Future

The acquisition of Negawatt has further diversified our service portfolio in energy saving and energy management improvement. The cloud-based Negawatt's building operating platform has been implemented in a number of notable buildings in Hong Kong. The platform monitors power consumption of various systems such as chiller plant, air conditioning, and lighting as well as analyses and benchmarks energy consumption performances. This leads to optimisation of chiller plant and power usage, resulting in significant energy savings. Negawatt's platform has also won a number of awards including the Climate Ready@HK Energy Saving Championship – Hanson I&T Merit Awards, as organised by the Environment Bureau and Electrical and Mechanical Services Department (EMSD).

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1 The energy savings include all the EMC contracts within Synergy Group as a whole and there is uncertainty in the value due to variation in electricity price and actual monthly energy savings. Direct product trading will also contribute to energy savings but yet we have not included due to different contractual arrangements

2 The estimation on the equivalent emissions, number of trees plant, etc. is based on general online calculation approaches

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. AWARDS & RECOGNITION

We are encouraged by the prestigious awards and recognition we received over the past years, with the positive acknowledgement of our dedication in low carbon technology development and environmental protection.

2018/19 Hong Kong Awards for Environmental Excellence – Certificate of Merit

by Environment Campaign Committee

One of the 12 service & trading companies to win this award in recognition of all-round and outstanding environmental performance

2018 Sustainable Business Award

by World Green Organisation (WGO)

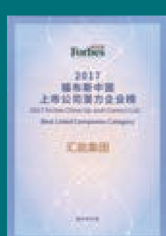
Sustainable Business Award
World Green Organisation

2018 BOCHK Corporate Environmental Leadership Awards – EcoChallenger

by the Federation of Hong Kong Industries and the Bank of China (Hong Kong) Limited

2017 Forbes China Up-and-Comers List Top 100 Best Listed Company

by Forbes China



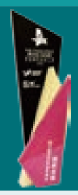
2016 Social Caring Awards for Green Excellence

by United Nations and Social Enterprise Research Institute (SERI)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2016 The Excellence Brand Award

by PCCW & YP



2016 Sustainable Business Awards

by WGO

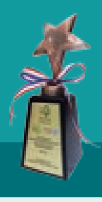
2015 BOCHK Corporate Environmental Leadership Awards – EcoPartner

by The Federation of Hong Kong Industries and the Bank of China (Hong Kong) Limited

2013 Green Partners EARTH

by WGO

2013 United Nations Millennium Development Goals Green Office Awards Labelling Scheme



by WGO

2011 Green Manufacturing Network Appreciation of our continued pursuit of Green Manufacturing Initiative and Participation in the Green Manufacturing Network

by Hong Kong Productivity Council

2011 Caring Company Certificate

by The Hong Kong Council of Social Service

2010 Green Enterprise Award

by CAPITAL Entrepreneur

2010 Productwi$e Label of the Hong Kong Awards for Environmental Excellence

by Hong Kong Productivity Council

2010 Prime Awards for ECO Business

by Business Environment Council and Prime Magazine

2010 Outstanding Green Excellence Awards

by CAPITAL Weekly

2010 The Best SME Partners

by Economic Digest

2009 Outstanding Chinese Patented Invention Award

by The State Intellectual Property Office (SIPO) of the PRC

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. OUR APPROACH TO ESG

Synergy integrated ESG responsibilities into its corporate strategy and operations to create shared value for the society, and achieve sustainable growth. The Board and management oversee the ESG issues and take responsibility to control the related risks and deploy ESG plan and strategy. The established Key Performance Indicators (KPIs) and advices from various stakeholders help the Group steer its corporate responsibility activities.

4.1 Stakeholder Engagement

Listening to our stakeholders is an ongoing process that is important for understanding the impacts of the business operations and identifying the critical environmental and social issues at stakeholders' perspective in order to address their concerns properly. The Group's major stakeholders and the associated channel of communications are presented below.

Investors & Shareholders	Employees
Achieve and maintain high standards of corporate governance with sustainable business development and return, enhancing corporate value, transparency and accountability	• Establish and continuously improving the employment policies and remuneration system • Provide on-going training and development on improving employees' knowledge and skills • All employment-related matter are in compliance with relevant laws and regulations
• Annual/Special General Meeting • Interim and Annual Reports • Company Website • Investor Meetings • Security Analyst Posts • Press Release/Announcements	• Annual Performance Appraisal • Face-to-face Talks • Internal Newsletters • Irregular Event Sessions

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Suppliers, Contractors and Agents	Customers
Maintain good relationships and help in supporting ESG adoption and in compliance with relevant standards	Offer wide range of eco-friendly and energy saving products and services with quality guarantee
• Supplier Assessment • Site Inspection Visits • Regular Supplier Meetings and Dialogues	• Site Visits and Meetings • Company Website • Company Booklet and Product Catalogue

NGOs, Professional Organisations and the Community
• Proactively collaborate with the organisations to promote sustainable development • Support activities associated with these organisations
• Irregular Charity Events • Partnership Programs • Organisation Annual Dinner • Memberships

4.2 Materiality Assessment

As a business with diverse operations, the Group conducted an internal analysis to ensure the relevant material topics with major environmental and social impacts are addressed in this Report. This exercise also sets forth the strategic direction to achieve our sustainability goals. The internal analysis takes into account various facets including impact of our operations and products on environmental and social aspects, our Group's key policy, target and strategy, competencies of the Group, interests of stakeholders, relevant laws and regulations, the degree of ESG impacts, risks and opportunities, industrial views and practices from peers and competitors as well as any location-specific issues.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Material Aspects	Boundaries					Major Impacts
	Investors & Shareholders	Employees	Suppliers & Contractors	Customers	Organisations & The Community	
Environment						
Environmental Emissions	✓	✓	✓	✓	✓	Normal business operations leading to indirect emissions, however support of creating a low-carbon future by providing clean energy, energy saving and management services to customers
Use of Resources						Normal business operations leading to resource use and management, however support of creating a low-carbon future by providing clean energy, energy saving and management services to customers
• Energy	✓	✓	✓	✓		
• Material (e.g. packaging)	✓	✓	✓	✓		
General Impact on Environment & Natural Resources and Mitigation Policies	✓	✓	✓			Resource management in place
Social						
Employment						Creating a diverse harmonious working environment
• General Working Conditions		✓	✓			
• Benefits and Compensation		✓	✓			
• Equal Opportunity, Diversity and Anti-Discrimination		✓	✓			

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Material Aspects	Boundaries					Major Impacts
	Investors & Shareholders	Employees	Suppliers & Contractors	Customers	Organisations & The Community	
Occupational Health & Safety		✓	✓			A safe working environment and healthy life
Development & Training		✓	✓			Creating strong learning and development culture
Labour Standards						Fully complied with labour regulations and maintained a high standard
• Child Labour		✓	✓		✓	
• Forced Labour		✓	✓		✓	
Supply Chain Management		✓	✓			Good corporate-supplier relationship with regular communications
Product Responsibility						Good relationships with customers by maintaining high product quality and protecting customers' data privacy
• Quality Assurance, Customer Health and Safety		✓	✓	✓		
• Advertising		✓	✓	✓		
• Product Labelling		✓	✓	✓		
• Data Privacy		✓	✓	✓		
Anti-Corruption		✓	✓	✓	✓	Adhering to the highest standards of anti-bribery, anti-corruption and prevention of money laundering, etc.
Community Investment		✓			✓	Supporting the local community through donations and social activities

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. SUSTAINABLE ENVIRONMENT

We are tireless in our efforts to reduce greenhouse gas emissions to contribute towards a greener and brighter future. Sustainability is critical to all aspects of our operations and it is important to mitigate our own impact as far as possible.

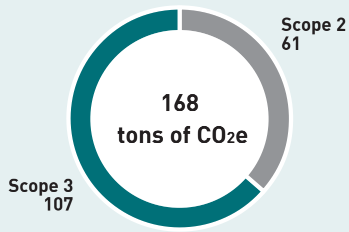
As a green business by its nature with no manufacturing facilities, the Group does not produce material amounts of pollution. We actively explore ways in addressing major environmental risks, both internally and externally. Our environmental stewardship approach, which is underpinned by the 4Rs principles (Reduce, Reuse, Recycle, Recover), is depicted in the Group's Environmental Policy. We aim to integrate environmental issues into our daily operations and corporate culture with regular review and monitoring to ensure our adherence to our sustainability objectives. The Group complies with relevant laws and regulations relating to air and greenhouse gas ("**GHG**") emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes that have significant impact on the Group.

5.1 Carbon Footprint Summary

We measure our environmental performance with the following Key Performance Indicators:

Category	2019	2018
Electricity Usage	85,396 kWh	53,789 kWh
Electricity Usage Intensity	2,135 kWh/person	1,855 kWh/person
Paper Usage	361 kg	454 kg
Recycled Materials	133 kg	97 kg
Hazardous Waste Produced	1.1 tons	5.6 tons
Non-Hazardous Waste Produced[3]	7.7 tons	5.8 tons
Packaging Material Used	58 tons	153 tons

Tons of CO_2e	2019	2018
Scope 2 Emissions[4]	61	42
Scope 3 Emissions[5]	107	151
Total GHG Emissions	168	193



3 Non-hazardous waste is the spent lighting tubes (with the hazardous materials removed) as disposed to the authorised collector during retrofitting for customers

4 Emissions produced as a result of electricity; no significant scope 1 direct emissions arise from our operations as compared to other emissions

5 Emissions produced indirectly from paper usage, commercial business air travel and product transportation

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The carbon emissions footprint is largely from the electricity usage in offices, overseas business travel and product transportation activities. The increase in Scope 2 emissions is mainly due to the completion of the acquisition of Negawatt in 2018 resulted in higher total emission footprint of the Group. The total electricity consumption was over 85 MWh, an increase from 54 MWh the previous year due to office expansion. However, the total greenhouse gas emissions has reduced by approximately 13% due to the decrease in number of long-haul travels with better utilisation of video conferencing as well as decrease in overseas product shipment by air. Higher awareness in environmental protection among our employees is also developed with the notable increase in materials recycled in our Group by more than 30%.

5.2 Our Green Office

We urge our employees to practise environmental conservation to achieve an eco-friendly workplace by introducing a paperless office, reinforcing energy saving concepts, using energy-efficient facilities, promoting waste reduction and recycling.

Energy Conservation	Waste Reduction	Paper Reduction
• Regularly clean air-conditioning filters to prevent the increasing electricity consumption on cooling effect due to dust clogging • Maintain the air conditioner temperature to above 25 °C • Strengthen power saving measures including switch off lighting, electrical and electronic appliances when not in use and well maintained • Stopped using and selling Incandescent Light Bulb (ILB), which we pledged under the Energy Saving Charter on "No ILB" as hosted by EMSD	• Recycling systems in place • Reusable utensils in pantry	• Recycling/reusing papers • Printing on both sides • Using e-platforms • Use Forest Stewardship Council (FSC) certified paper to print annual and interim reports
Green Procurement	**Water Conservation**	**Education & Awareness**
• Established a purchasing mechanism and use supplies according to need • Recycle used printer toner cartridges	• Water strainers are adopted • Report leaks and drips	• Environmental Policy is made available to each staff and posted in selected areas • Encourage employees to grow small plants in office

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5.3 Overseas Business Travel

Travel expenses shall be reasonable with assessment on the necessity, appropriateness of the frequency and mode of travel adopted. The Group encourages the use of e-platforms or video conference system whenever possible to avoid any unnecessary overseas travel. Direct flights shall be chosen to reduce carbon emissions caused by inevitable business travel. It also encourages travel by railway than air flight for short distance journeys. Therefore, our carbon footprint on business air travel has reduced significantly.

5.4 Product Packaging & Transport

The Group works to cut its carbon footprint in product transport by developing efficient transport logistics plan whilst ensuring timely and accurate delivery of our products. We transport the goods by sea as far as possible, which is of a lower carbon footprint compared to air-freight, leading to a reduction in Scope 3 emissions. We also constantly review our logistics performances to improve the supply chain network design.

Synergy advocates the adoption of simple packaging to reduce the use of packaging materials. It also encourages bulk shipment volumes bundling by consolidation and optimisation of our supply chain and shipment planning. The packaging materials shall be reused or recycled to the extent as possible to avoid excessive waste generation.

5.5 Chemical Waste Treatment

Spent fluorescent tubes/lamps may sometimes be collected from our customers after lights retrofitting. These tubes are classified as hazardous due to the presence of mercury. We have implemented chemical waste handling procedures in compliance with the Waste Disposal Ordinance (Cap. 354). The hazardous wastes are handled by qualified service providers licensed by the Environmental Protection Department. The hazardous waste collected was reduced significantly as compared to last year. No significant contamination to the environment is observed during the reporting period.

LOOKING AHEAD

The Group is dedicated to practice environmental sustainability in its operations. It introduces a new technology of big data analysis on energy savings and management improvements and we will focus on developing the operating platforms in the future to enhance clients experience and minimise carbon emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6. SUSTAINABLE OPERATIONS

6.1 Employment and Labour Practice

The Group is fully committed to realising stellar ethical corporate behaviour and investing in the growth and development of their people, who are crucial to its business success. During the year, Synergy continued to cultivate a pleasant and motivated working environment and nurture a strong team with outstanding capabilities and creativity.

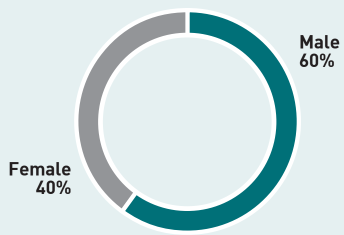
Synergy strictly abides to the local laws and regulations, including the Hong Kong Employment Ordinance (Chapter 57). The Group has not identified any breach of labour standards, including labour standards relating to preventing child and forced labour, since establishment. The Group ensures its compliance through a series of human resources policies and procedures in relation to recruitment and promotion, employment conditions, equal opportunities, anti-discrimination, compensation, benefits and dismissal in the markets where it operates. A comprehensive Staff Handbook, which includes the Code of Conduct and guiding principles on the professional ethics and other related human resources matters, is given to each employee for reference.

The Group also has a protocol to allow employees to notify the management any suspected breaches or identified issues. The management team will investigate and take remedial actions to ensure the continuity of a fair, caring and favourable workplace for the employees. Since the establishment of the Group, we do not condone any form of workplace harassment and discrimination.

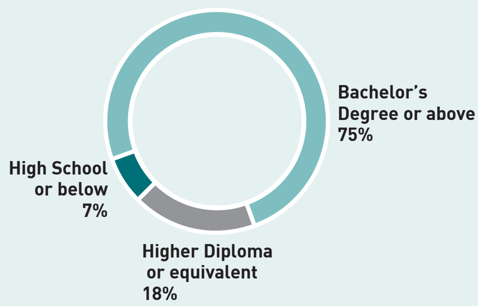
Synergy provides equal opportunities and selects the best candidate from various backgrounds based on their ability and qualifications, irrespective of factors such as gender, age, race, religion or other measures of diversity. We prohibit the use of forced labour and child as well as young workers against any hazardous work. We have low vulnerability to child and forced labour in our workspace since we will conduct interviews and background investigation to verify identities of any new joiners. In order to avoid the risk of supporting child and forced labour in our brand via our suppliers and contractors, we will enforce these legislations in our agreements and we will also carry out regular audits and inspections to assess if any potential violation of labour regulations may arise.

The following diagrams illustrate the Group's staff composition in Hong Kong as of 31 March 2019:

Employee Gender Distribution



Employee Educational Profile



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6.1.1. Employee Relations

Creating an atmosphere of trust and harmony between the Group and the staff as well as among the staff is crucial to a company success. Social events such as annual dinners, staff outings and festival gatherings are organised to allow employees interact and network, enhancing bonding among employees and relieving stress from work. Employees' families are also welcomed to join to demonstrate the Group's respect for making their family a priority.

6.1.2. Development and Training

Synergy treats their people fairly, responds to their needs and rewards their performances. We adopt an open-door communication policy and carry out regular performance review with our employees. It evaluates staff performance and recognises outstanding work of our people. It also provides the opportunity to engage staff into a meaningful consultation to their career paths and express any concerns. The "360 Feedback" scheme was introduced in 2016 to allow peer and management work reviews so as to provide a more comprehensive feedback mechanism to encourage and improve individual performances.

To prepare employees for future leadership roles, the Group supports its employees in pursue of further education. Synergy offers a number of channels for our staff development such as courses, networking events, coaching and monitoring experience. We support our staff to acquire knowledge and take specialised training relevant to their positions at external organisations. Study leaves and educational allowances are provided for employees on any job-related training and/or obtaining recognised qualifications.

Our staff also attends and speaks in large-scale exhibitions, seminars and conferences to maintain up-to-date knowledge, share experience and enhance our competitive position in the market.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6.1.3. Welfare and Benefits

In addition to competitive remuneration packages and fringe benefits to every full-time employee, the Group established a share option scheme to grant shares to employees according to the assessment of individual performance. The aim was to recognise the continuous contributions by employees and provide them with incentives to retain with a sense of belonging and unity. The Group aspires to use the scheme to motivate the people to continue to deliver to the Group's sound development and help to attract the right talent for future development of the Group.

6.1.4. Health and Safety

The Group observes the requirements under the Occupational Safety and Health Ordinance to ensure a safe and healthy workplace. Possible hazards such as trips and falls, electrical hazards, injuries during lifting operations or use of abrasive tools may rise during work. The Group adopted a structured approach to health and safety management, which a comprehensive Safety Management System was established in 2015 for implementation of the Safety and Health Policy, in accordance with local standards. Any identified violation of the safety standards will be recorded and recommendations will be provided accordingly. Accidents will also be investigated and documented. We have an excellent record of zero work injuries and fatalities since establishment.

The effective way in promoting health and safety awareness among the staff is through regular trainings. All frontline staff involving in high risk areas are well trained for the technical work. Suitable Personal Protective Equipment will be provided when necessary. Personnel entering the construction sites are required to have a Construction Industry Safety Training Certificate, in which they are trained with the latest regulations and subjects related to health and safety in construction work. Also, only registered electrical workers can work with electrical equipment.

The Group believes that having a healthy work-life balance is paramount to its employees. In 2017, the Group starts to organise sports sessions to promote physical and emotional wellness as well as supports flexible work arrangements to enhance engagement and ease work-related stress.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

6.2 Operational Practice

Synergy ensures satisfactory customer experience through effective management of the entire supply chain. Mutually beneficial relationship between the Group and the supplier is well maintained and regular feedback is obtained from customers to provide customised and quality products and services.

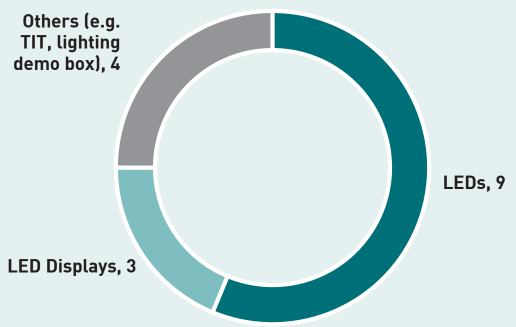
6.2.1. Anti-Corruption

The Group's commitment to anti-bribery and corruption tolerates no compromise. Anti-bribery and anti-corruption standards have been incorporated in the Group's Code of Conduct and operating practices. Clear guidelines on best practices to deal with anti-corruption, anti-fraud, whistleblowing, outside employment, handling of confidential information and computer systems usage are clearly communicated to the employees and other stakeholders. The Code also provides the mechanism to allow stakeholders to raise concerns about any misconduct, malpractice or irregularity. Any potential breach of the Code of Conduct will be fully investigated by the executive Director with proper follow up. Any non-compliance is liable to disciplinary actions. We are not aware of any incidents of non-compliance during the reporting period and no concluded legal cases regarding corruption practices are being brought against the Group.

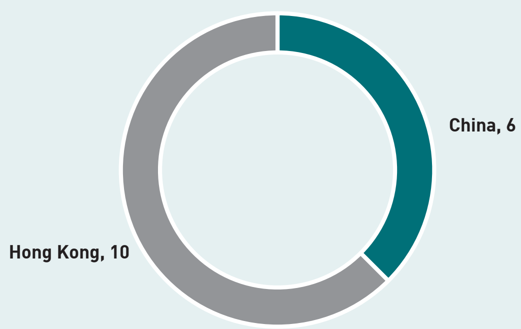
6.2.2. Supply Chain Management

Synergy has made vigorous efforts to maintain long-term partnership with the suppliers and contractors. Synergy products are mainly sourced through our Original Equipment Manufacturer (OEM) as well as some other suppliers. We engaged 16 suppliers in sourcing the lighting products:

By Lighting Type



By Geographical Region



The Group supports green procurement practices and purchase transactions are mainly carried out through electronic means which contribute to paper usage reduction and maintain a higher information security level. Synergy has not faced any material legal disputes, severe quality problem or infringement of intellectual property rights from the suppliers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Supplier Evaluation

Supplier assessment is performed taking into account the following criteria:

Parameters	Description
Company Structure	Company size, date of establishment, in compliance with all relevant laws and policies, social and environmental compliances (e.g. CSR policies, efficient use of energy and resources, raw material procurement)
Track Record	Product history and customer reference
Technical Capability	Product or service knowledge to supply to high level of specification, product certification
Operation Capability	Process knowledge to ensure consistent, responsive, dependable and reasonable cost supply
Financial Capability	Financial strength to fund the business in both the short term and the long term
Managerial Capability	Management talent and energy to develop supply potential in the future
Product Warranty	Failure rate, lifespan, lux and lead time of replacement

Regular monitoring, onsite audits and evaluations are carried out to assess the suppliers' performance. Representatives from the Group communicate with the suppliers on regular basis to ensure the requirements are well understood to deliver product of high quality.

6.2.3. Product Responsibility

Synergy pursues a high standard of product responsibility where energy efficiency is integrated in its products and services. It maintains the offered product quality and reliability through the implementation of a Quality Control Policy to ensure customer satisfaction. Periodic inspections of hardware production processes and testing are carried out by quality control staff or appointed external parties to ensure the quality and safety of product before sending to the customers in a timely manner. The Group follows recognised code of practices including EMSD Code of Practices for Energy Efficiency of Lighting Installations and normally requires the subcontractors to obtain quality certifications including RoHS, CE and UL for its quality management systems and hardware products. The Group provides warranty which replaces any malfunction of hardware products.

Clear and concise descriptions of the products are provided to the customers in accordance with worldwide standards. All lighting products will be labelled under the Synergy trademark in a standardised manner. The products will also be marked with a warning label to alert customers/users in areas of potential electrical hazards. Trainings including demos will also be provided to customers on product usage and precautions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Active and regular engagement and communication with customers are important to understand their needs and create a high satisfaction level. The Group received a number of testimonials regarding the high product quality and great service provided. During the assessment year, the Group has not recalled a substantial number of products from an individual customer or received any severe complaints from our customers on the services or the quality of our products.

6.2.4. Customer Data Privacy

As part of the business expansion plan to strengthen the Group's competitiveness and further increase its economic benefits, the Group started to provide cloud-based building operating platform services since mid-2018, which allow access to customer data and information. Therefore, highly secured customer data system is critical to fostering strong, trusting and long-lasting relationships between the Group and its customers. The Group strictly adheres to Personal Data (Privacy) Ordinance (Cap. 486) and all other relevant codes on data privacy. Suitable measures are taken to protect personal and business data through administration and security systems. In particular, the Group implemented a Building Operating System (BOS) Security Policy that demonstrates the access and compliance requirements, data protection measures, security assessment requirements and procedures. Access to these confidential data is strictly restricted to authorised personnel on a "need-to-know" basis. Data is also encrypted with several layers of protection to detect and prevent data leakage and/or loss. Technical safeguards such as password-protected screens are implemented in all workstations with access to these data.

LOOKING AHEAD

The Group will continue to develop its team to maintain a high level of professionalism, ethnicity and competency. The Group will also continue to minimise environmental and social impacts that may ensue along the supply chain by developing potential guidelines on ESG practices to subcontracting companies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

7. A BETTER COMMUNITY

Underpinning our mission to vitalise a sustainable world, Synergy not only focuses on the well-being of its employees, suppliers and clients, but also places social responsibility at the heart of its business and operations. Synergy strives to improve society through implementation of innovative energy efficiency technologies in our community and advocation of green awareness and development. Earlier this year, Vice Chairman of the Group, Arthur Lam, delivered a speech in the annual international conference on Energy 4.0, "Designing the Future of Thailand's Power Sector", jointly organised by the Asian Development Bank and the Ministry of Energy in Thailand. The aim was to share latest clean energy performance and experience across the Asia Pacific region in order to accelerate sustainable power development.

Synergy has donated LED lights to the Hong Kong Council of Social Service to assist in the development of the new farming technique – indoor vertical farming with an effort to solve world's food security issues.

The Group also took the initiative to provide opportunities for the development of the youth into future leaders by delivering speeches in universities and arranging internships in our Group.

The strategic acquisition of Negawatt has also demonstrated Synergy's reinforcement in achieving its vision. Negawatt promoted the concept of sustainability to our future generations through educational visits and collaborations over the past years. Negawatt supported Leung Shek Chee College in the Guinness World Record Breaking event – "Ride for Our Future" via implementation of renewable energy generating system with bicycles, providing insight in sustainability to students.

Representatives from Negawatt also presented in the Innovative and Green Building Conference in February to illustrate the potential opportunities offered by cloud computing and big data analysis for energy savings and occupant comfort.

LOOKING AHEAD

The Group always takes the initiative to fulfil its social responsibilities, and unswervingly becomes the safeguard of the environment. Therefore, Synergy will continue to reach out different social services and charities. It will continue to encourage its associates to support volunteering and welfare events.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

8. ESG GUIDE CONTENT INDEX

This ESG Report was in compliance with the "comply or explain" provisions of ESG Reporting Guide as detailed in Appendix 27 of the Listing Rule. Some of the "recommended disclosures" (R) are also detailed in this Report.

Subject Areas, Aspects, General Disclosure and KPIs		Cross References
Aspect A1 Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Section 5
KPI A1.1	The types of emissions and respective emissions data	Section 5.1
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Section 5.1
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Section 5.1
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Section 5.1 (For office operations, the production of non-hazardous waste consists of food and office garbage such as paper and plastic bottles does not represent a material impact. The major non-hazardous waste generated is from spent tubes)
KPI A1.5	Description of measures to mitigate emissions and results achieved	Section 5.1, Section 5.2, Section 5.3, Section 5.4
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Section 5.5

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, General Disclosure and KPIs		Cross References
Aspect A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Section 5, Section 5.2, Section 5.4
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)	Section 5.1
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	We operate in leased office premise for which water supply and discharge are solely controlled by the building management. This aspect is also immaterial to our operations
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Section 5.2
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	There is no material issue in sourcing or using water that is fit for purpose. Please refer to KPI A2.2
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Section 5.1
Aspect A3 The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	Section 5.2, Section 5.3, Section 5.4, Section 5.5
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Section 5.2, Section 5.3, Section 5.4, Section 5.5

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, General Disclosure and KPIs		Cross References
Aspect B1 Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Section 6.1, Section 6.1.2
KPI B1.1 (R)	Total workforce by gender, employment type, age group and geographical region	Section 6.1 (by gender & education)
Aspect B2 Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Section 6.1.4
KPI B2.1 (R)	Number and rate of work-related fatalities	Section 6.1.4
KPI B2.2 (R)	Lost days due to work injury	Section 6.1.4
KPI B2.3 (R)	Description of occupational health and safety measures adopted, how they are implemented and monitored	Section 6.1.4

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, General Disclosure and KPIs		Cross References
Aspect B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Section 6.1.1
Aspect B4 Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	Section 6.1
KPI B4.1 (R)	Description of measures to review employment practices to avoid child and forced labour	Section 6.1
KPI B4.2 (R)	Description of steps taken to eliminate such practices when discovered	Section 6.1
Aspect B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain	Section 6.2.2
KPI B5.1 (R)	Number of suppliers by geographical region	Section 6.2.2
Aspect B6 Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	Section 6.2.3

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, General Disclosure and KPIs		Cross References
KPI B6.1 (R)	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Section 6.2.3
KPI B6.2 (R)	Number of products and service related complaints received and how they are dealt with	Section 6.2.3
KPI B6.3 (R)	Description of practices relating to observing and protecting intellectual property rights	Section 6.2.2
KPI B6.4 (R)	Description of quality assurance process and recall procedures	Section 6.2.3
KPI B6.5 (R)	Description of consumer data protection and privacy policies, how they are implemented and monitored	Section 6.2.4
Aspect B7 Anti-Corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Section 6.2.1
KPI B7.1 (R)	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Section 6.2.1
KPI B7.2 (R)	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Section 6.2.1
Aspect B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Section 7

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report as set out in the Company's Annual Report for the year ended 31 March 2019.

CORPORATE GOVERNANCE PRACTICES

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

The Company has applied the principles as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, together with compliance with the relevant code provisions.

The Board is of the view that, throughout the year ended 31 March 2019, the Company has complied, to the extent applicable and permissible, with the code provisions set out in the Corporate Governance Code, except for the deviation from code provision A.2.1 as explained under the paragraph "Chairman and Chief Executive Officer" below.

COMPLIANCE WITH THE MODEL CODE AND SECURITIES DEALING CODE

The Company has adopted its own code of conduct for dealing in securities of the Company by the Directors and the relevant employees of the Group who are likely to be in possession of unpublished inside information of the Company (the "**Securities Dealing Code**") on terms no less exacting than the standard as set out in the Model Code as set out in Appendix 10 to the Listing Rules.

Having made specific enquiries with all Directors and relevant employees, all Directors and relevant employees have confirmed that they have complied with the Securities Dealing Code and therefore, complied with the Model Code throughout the year ended 31 March 2019 and up to the date of this report.

BOARD COMPOSITION

The Board currently consists of five Directors, comprising two executive Directors and three independent non-executive Directors, who together, bring the skills, experience and diversity the Company needs to meet our long-term objectives. The Directors of the Company during the year and as at the date of this Annual Report are listed below:

Executive Directors:

Mr. Wong Man Fai Mansfield
(Chairman and Chief Executive Officer)

Mr. Lam Arthur *(Vice Chairman)*

Independent non-executive Directors:

Mr. Chung Koon Yan

Mr. Cheung Yick Hung Jackie

Dr. Wong Chi Ying Anthony

CORPORATE GOVERNANCE REPORT

There is no relationship (including financial, business, family, or other material/relevant relationship(s)) among the members of the Board. Biographical details of the Directors and the senior management are set out in the section headed "Biographical Details of the Directors and Senior Management" on pages 77 to 79 of this Annual Report.

RESPONSIBILITIES OF AND DELEGATION BY THE BOARD

The Board is principally responsible for overall leadership and control of the Company and oversees the Group's businesses, overall strategic decisions and performance, approving the financial statements and annual budgets, and is collectively responsible for promoting the long-term success of the Company by directing and supervising its affairs. The Board ensures that it is managed in the best interests of the shareholders as a whole while taking into account the interest of other stakeholders.

Our Company's day-to-day management and operational decisions are made by the executive Directors and the Group's senior management, who are experienced in managing the Group's businesses. The three independent non-executive Directors bring independent judgment to the decision-making process of the Board.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

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

The Board is also responsible for the corporate governance functions under code provision D.3.1 of the Corporate Governance Code. The Board has reviewed and discussed the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

CORPORATE GOVERNANCE REPORT

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The role of Chairman of the Board and Chief Executive Officer of the Company has been performed Mr. Wong Man Fai Mansfield. Although under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual, the combination of the roles of chairman and chief executive officer by Mr. Wong Man Fai Mansfield was considered to be in the best interests of the Company and its shareholders as a whole. Mr. Wong has been leading our Group as the Chief Executive Officer and one of its subsidiaries since 2009, thus, the Board believes that the combined roles of Mr. Wong promotes better leadership for both the Board and management and enables more focused development of business strategies and implementation of objectives and policies. The balance between power and authority is maintained by the openness and cooperative spirit of the senior management and the Board, which comprise experienced and high-calibre individuals. The Board currently comprises three independent non-executive Directors and has a fairly strong independence element in its composition. The structure is supported by the Company's well established corporate governance structure and internal control system. Therefore, the Board considers that the deviation from code provision A.2.1 is appropriate in the circumstances. The Board will review the management structure regularly and consider separating the roles of chairman and chief executive, if and when appropriate.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Throughout the year ended 31 March 2019, the Board at all times complied with Rules 3.10(1), 3.01(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors, representing at least one-third of the Board, with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received the written confirmation from each of the independent non-executive Directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in accordance with the independence guidelines as set out in the Listing Rules.

CORPORATE GOVERNANCE REPORT

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company for a fixed term commencing from the expiry date of the initial term (i.e. 15 September 2017) to and including the date of the third annual general meeting following the said expiry date and will continue thereafter until termination by at least three months' written notice or payment in lieu to the other party. Each independent non-executive Director has entered into a renewed appointment letter with the Company with a term of three years commencing from 23 March 2018, their appointment may be terminated by either the Company or the Director on not less than one month's written notice.

According to the Company's Articles of Association, Directors who are appointed to fill casual vacancies or as an addition to the Board are subject to re-election at the next following general meeting of the Company after his or her appointment. In addition, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors shall be eligible for re-election.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Every Director keeps abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director would receive formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Group and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 March 2019, all the Directors (namely, Mr. Wong Man Fai Mansfield, Mr. Lam Arthur, Mr. Chung Koon Yan, Mr. Cheung Yick Hung Jackie and Dr. Wong Chi Yung Anthony) had participated in continuous professional development programmes, including trainings conducted by qualified professionals. The trainings that the Directors received during the year cover a wide range of areas relevant to the Company's operations, development, industry, and directors' duties and responsibilities, to ensure that the Directors understand the business and operations of the Group and their duties and obligations. A record of the training received by the respective Directors are kept and updated by the Company.

CORPORATE GOVERNANCE REPORT

DIRECTORS' ATTENDANCE RECORDS

Pursuant to code provision A.1.1 of the Corporate Governance Code, the Board is scheduled to meet four times during a financial year as a minimum and, during the year ended 31 March 2019, it met four times. Details of the attendance of each Director at the meetings of the Board and its respective committees and the annual general meeting during the year ended 31 March 2019 are as follows:

	Attendance/No. of Meeting(s)				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Mr. Wong Man Fai Mansfield	4/4	–/–	–/–	–/–	1/1
Mr. Lam Arthur	4/4	–/–	–/–	–/–	1/1
Mr. Chung Koon Yan	4/4	3/3	1/1	1/1	1/1
Mr. Cheung Yick Hung Jackie	4/4	3/3	1/1	1/1	1/1
Dr. Wong Chi Ying Anthony	4/4	3/3	1/1	1/1	1/1

Apart from the regular Board meetings, the Chairman also held one meeting with the independent non-executive Directors without the presence of the remaining executive Director during the year ended 31 March 2019.

The Company generally gives written notice and draft agenda of regular Board meetings to each Director at least 14 days prior to the meetings. For other Board and committees meetings, written notice is generally given pursuant to the Articles of Association and the respective terms of reference of the Board committees.

Agendas for each meeting are prepared by the Company Secretary in consultation with the Chairman and Chief Executive Officer, and Vice Chairman, and based on a forward calendar that helps ensure that all relevant matters for the year ahead are considered by the Board in a timely manner. All Directors are encouraged to contribute to the agenda setting process. Agendas and accompanying meeting papers are sent to all Directors at least 3 days before each Board meeting or committee meeting for their review and to keep the Directors apprised of the latest developments and financial position of the Company so as to enable them to make informed decisions.

CORPORATE GOVERNANCE REPORT

In addition to board papers, information relevant to the Company's financial position and latest developments is made available to Directors to keep them up to date. Structured monthly updates on the Company's performance, position and prospects are provided to Directors. The Directors also have access to the Company Secretary and senior management where necessary.

The Company Secretary is responsible to keep minutes of all Board meetings and committees meetings. Draft minutes are normally circulated to all Directors for comments within a reasonable time after each meeting and the final versions are open for Directors' inspection.

In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Group and a Director or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board/committee meetings of the Company in respect of such transactions and shall not be counted as a quorum of such meetings.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee, for overseeing particular aspects of the Company's affairs on its behalf, and report back to the Board. The Chairman of each Committee reports back to the Board following each meeting, to ensure the Board is fully briefed on all activities and retains responsibility for approving any actions where a committee role is advisory.

The roles and functions of the committees are set out in their respective terms of reference. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the three Board committees are of no less exacting terms than those set out in the Listing Rules and/or Corporate Governance Code and are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

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

AUDIT COMMITTEE

The Audit Committee was established on 5 March 2015 with its defined written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules and code provision C.3.3 of the Corporate Governance Code. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Chung Koon Yan (Chairman of the Audit Committee), Mr. Cheung Yick Hung Jackie and Dr. Wong Chi Ying Anthony, with Mr. Chung possessing the appropriate professional qualifications and accounting and related financial management expertise.

The primary duties of the Audit Committee are mainly to make recommendation to the Board on the appointment, re-appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; and play a key oversight role on the financial reporting system, and risk management and internal control systems of our Company and review its efficiency and effectiveness.

CORPORATE GOVERNANCE REPORT

The Audit Committee shall meet at least two times per year, or more frequently as circumstances require. The Audit Committee held three meetings during the year ended 31 March 2019. Individual attendance records of each Audit Committee member are set out in the table on page 63 of this Annual Report.

The Audit Committee's main work during the year ended 31 March 2019 included:

- reviewing 2017/2018 Annual Report and annual results announcement
- reviewing 2018/2019 Interim Report and interim results announcement
- in relation to the external auditor, reviewing its plans, reports and letter of representation, fees, involvement in non-audit services, and its terms of engagement and its re-appointment
- reviewing the effectiveness of the Company's financial reporting system and risk management and internal control systems
- reviewing the continuing connected transactions (fully exempt from all requirements under the Listing Rules)
- proposing adoption of the revised terms of reference of the Audit Committee to amend the cooling off period for a former audit partner as a member of the Audit Committee to align with the relevant provision of the Listing Rules

Our annual results for the year ended 31 March 2019, including the accounting principles and practices adopted by the Group, were reviewed by our Audit Committee, which was of the opinion that the preparation of such audited consolidated annual results of the Group complied with the applicable accounting standards and requirements and that adequate disclosures had been made.

The Audit Committee has also reviewed the relationship the Company has with BDO Limited, the Company's external auditor. The Audit Committee is satisfied with the effectiveness of the external audit process and the independence of BDO Limited and has recommended to the Board (which in turn endorsed the view) that, subject to shareholders' approval at the forthcoming annual general meeting, BDO Limited be re-appointed as the external auditor for the year 2019/2020. A resolution to this effect will be included in the notice of annual general meeting for the year 2019.

NOMINATION COMMITTEE

The Nomination Committee was established on 5 March 2015 with its defined written terms of reference. As at the date of this report, the Nomination Committee comprises three independent non-executive Directors, namely Dr. Wong Chi Ying Anthony (Chairman of the Nomination Committee), Mr. Chung Koon Yan and Mr. Cheung Yick Hung Jackie.

The Nomination Committee is primarily responsible for reviewing the structure, size, composition and diversity of the Board at least annually, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

The Nomination Committee shall meet at least annually or more or less frequently as circumstances require. The Nomination Committee held one meeting during the year ended 31 March 2019. Individual attendance records of each Nomination Committee member are set out in the table on page 63 of this Annual Report.

CORPORATE GOVERNANCE REPORT

During the year ended 31 March 2019, the Nomination Committee conducted an annual review of the structure, size, composition and diversity of the Board and assessed the independence of the independent non-executive Directors pursuant to code provision A.5.2 of the Corporate Governance Code and made recommendations to the Board on the re-election of retiring Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and no material matter was identified under review.

The Nomination Committee also conducted a review of its terms of reference during the year. It remained satisfied that its terms of reference remained appropriate.

BOARD DIVERSITY POLICY

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The Group also recognises and embraces the benefits of having a diverse Board to enhance the quality of the Company's performance.

In assessing the structure, size, composition and diversity of the Board, the Nomination Committee takes into account various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, professional and industry experience and time commitments. The Nomination Committee agrees on measurable objectives for achieving diversity on the Board as set out in the Board Diversity Policy, where necessary, and recommends them to the Board for adoption.

In identifying and selecting suitably qualified candidates for directorships, the Nomination Committee shall consider the candidates on merit and against the objective criteria, with due regard for the benefits of diversity of the Board. A range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional and industry experience, skills, knowledge and time commitments, will be considered on selection of individuals to become members of the Board. The Nomination Committee also takes into account the Company's own business model and specific needs from time to time. All Board appointments will be based on merit and contribution that the selected candidates will bring to the Board. External recruitment professionals might be engaged to assist with the selection process when necessary.

NOMINATION POLICY

The Board has adopted a nomination policy (the "**Nomination Policy**"), which aims to set out the relevant selection criteria and nomination procedures to assist the Nomination Committee and the Board to ensure that the Board has a balance of skills, experience and diversity of perspective appropriate to the requirement of the Group's businesses. A summary of the Nomination Policy is disclosed as below.

CORPORATE GOVERNANCE REPORT

1. Criteria

The Nomination Committee and the Board shall consider the following criteria in evaluating and selecting candidates for directorships:

- Character and integrity.
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy.
- Commitment of available time and ability to devote adequate time and attention to the affairs of the Company and to discharge duties as a Board member and other directorships and significant commitments.
- Requirement for the Board to have independent non-executive directors in accordance with the Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules.
- Board Diversity Policy and any measurable objectives adopted by the Nomination Committee or the Board for achieving diversity on the Board.
- Such other perspectives appropriate to the Company's business.

2. Nomination Process

2.1 Appointment of New Director

2.1.1 The Nomination Committee or the Board shall, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out in section 1 above to determine whether such candidate is qualified for directorship.

2.1.2 If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

2.1.3 The Nomination Committee shall then recommend to the Board to appoint the appropriate candidate for directorship.

2.1.4 For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and the Board shall evaluate such candidate based on the criteria as set out in section 1 above to determine whether such candidate is qualified for directorship and where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of director at the general meeting.

2.2 Re-election of Director at General Meeting

2.2.1 The Nomination Committee and the Board shall review the overall contribution and service to the Company of the retiring director including his/her attendance of Board meetings and, where applicable, general meetings, and the level of participation and performance on the Board.

2.2.2 The Nomination Committee shall also review and determine whether the retiring director continues to meet the criteria as set out in section 1 above.

2.2.3 The Nomination Committee and/or the Board shall then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee was established on 5 March 2015 with its defined written terms of reference. As at the date of this report, the Remuneration Committee comprises three independent non-executive Directors, namely Mr. Cheung Yick Hung Jackie (Chairman of the Remuneration Committee), Mr. Chung Koon Yan and Dr. Wong Chi Ying Anthony.

The primary duties of the Remuneration Committee are mainly to determine, with delegated responsibility, the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of independent non-executive Directors.

The emoluments of executive Directors are determined based on skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration of the Company's performance and prevailing market conditions.

The remuneration policy of independent non-executive Directors is to ensure that the independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends.

The Remuneration Committee shall meet at least annually or more or less frequently as circumstances require. The Remuneration Committee held one meeting during the year ended 31 March 2019. Individual attendance records of each Remuneration Committee member are set out in the table on page 63 of this Annual Report.

During the year ended 31 March 2019, the Remuneration Committee reviewed and recommended to the Board on the proposed remuneration packages of the individual executive Directors, independent non-executive Directors and senior management for the year ending 31 March 2020 and recommended to the Board on the proposed grant of share options to the Directors and employees.

In conducting its work in relation to the remuneration of Directors and senior management, the Remuneration Committee ensured that no Director or any of his associates was involved in determining his own remuneration. It also ensured that remuneration levels should be sufficient to attract and retain Directors to run the Company successfully without paying more than necessary.

The Remuneration Committee also conducted a review of its terms of reference during the year. It remained satisfied that its terms of reference remained appropriate.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors have acknowledged their responsibility for preparing the consolidated financial statements of the Group for the year ended 31 March 2019.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements relating to disclosure of inside information and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Group's consolidated financial statements, which are put to the Board for approval.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 80 to 86 of this Annual Report.

REMUNERATION OF MEMBERS OF THE SENIOR MANAGEMENT BY BAND

Pursuant to code provision B.1.5 of the Corporate Governance Code, the remuneration of members of the senior management by band for the year ended 31 March 2019 is set out below:

	Number of members of senior management
Nil to HK$1,000,000	1
HK$2,500,001 to HK$3,000,000	1
Total	2

Details of the remuneration of each Director for the year ended 31 March 2019 are set out in note 10(a) to the consolidated financial statements for the year ended 31 March 2019.

AUDITOR'S REMUNERATION

During the year ended 31 March 2019, the remuneration paid to the Company's external auditor, BDO Limited, is set out below:

Type of Services	**Amount of Fees Payable/Paid** *HK$*
Audit Services	1,430,000
Non-audit Services	–
Total	1,430,000

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

All activities conducted and all decisions made by the Company may involve risks to a certain extent. The Board plays a critical role of monitoring the risk exposures of the Company. The Board considers the risks in an active manner in setting of strategies.

The Board acknowledges its overall responsibility for the risk management and internal control systems and reviewing their effectiveness on a yearly basis so as to safeguard the shareholders' investments and the Company's assets. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, financial reporting, human resources and information technology.

The Company conducted internal control assessment regularly to identify risks that potentially impact the businesses of the Group and various aspects including key operational and financial processes and regulatory compliance. The Company effectively communicated its anti-fraud policy and procedures to all levels of employees and monitored the effectiveness of its controls related to mitigating fraud risk and remedied any deficiencies identified internally and by the external auditor in a timely manner.

The management, in coordination with department heads, assessed the likelihood of risk occurrence and monitored the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 March 2019.

During the year ended 31 March 2019, the Board, through the Audit Committee, conducted a review of the effectiveness of the risk management and internal control systems of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

For internal audit function, the Company has an internal audit personnel and has engaged an external professional advisory firm to conduct an independent in-depth review of the effectiveness of the risk management and internal control systems during the year ended 31 March 2019. The internal audit function covers the key issues in relation to the accounting practices and all material controls and has provided its findings and recommendations for improvement with written reports to the Audit Committee.

CORPORATE GOVERNANCE REPORT

The Board, as supported by the Audit Committee as well as the written reports with the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 March 2019, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources. The Board will upgrade the existing systems of the Company with reference to the recommendations for improvement given by the abovementioned external professional advisory firm accordingly.

Handling and Dissemination of Inside Information

The Company has written procedures in place for handling of inside information in accordance with the Listing Rules. It has developed a disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling and dissemination of inside information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited. All inside information is disclosed to the public pursuant to the requirements under the SFO and the Listing Rules and is kept strictly confidential before disclosure.

DIRECTORS' NON-COMPETITION UNDERTAKING

Each of Mr. Mansfield Wong and Mr. Lam Arthur, being the executive Directors of the Company, entered into a non-competition undertaking with the Company with effect from 24 March 2015 (the "**Directors' Non-competition Undertaking**"). Please refer to our Prospectus for additional information on the Directors' Non-competition Undertaking.

Each of Mr. Mansfield Wong and Mr. Lam Arthur has confirmed compliance with the terms of the Directors' Non-competition Undertaking during the year ended 31 March 2019. All the Independent Non-executive Directors are of the view that the above-mentioned Directors have been in compliance with the Directors' Non-competition Undertaking in favour of the Company.

COMPANY SECRETARY

Mr. Tong Man Chun, our Company Secretary, is a full-time employee of the Group and has day-to-day knowledge of the Company's affairs. The Company Secretary also plays an important role in advising the Board on all corporate governance-related matters. Mr. Tong, the Company Secretary, has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules during the year ended 31 March 2019.

Biographical details of the Company Secretary is set out in the section headed "Biographical Details of the Directors and Senior Management" on pages 77 to 79 of this Annual Report.

SHAREHOLDERS' RIGHTS AND COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information. The Board endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings, to communicate with them/answer their enquiries, and encourage their participation.

CORPORATE GOVERNANCE REPORT

To promote effective communication, the Company maintains a website (www.synergy-group.com), where up-to-date information and updates on the Company's financial information, corporate governance practices and other information are available for public access.

To facilitate maintaining an on-going dialogue with shareholders and to encourage shareholder engagement and participation, the Company has adopted a Shareholder Communication Policy. Under this policy, the Company commits to provide shareholders with ready, equal and timely access to balanced and understandable information about the Company's performance, position, strategic goals and plans and prospects. Information is made available to shareholders through a number of means, including formal announcements of information required under the Listing Rules and through the constructive use of general meetings.

The general meetings of the Company provide a forum for communication between the Board and shareholders. The Chairman of the Board, as well as the chairmen and/or other members of the Board's three committees will, in the absence of unforeseen circumstances, attend to answer questions raised at these meetings. The external auditor will be asked to attend the annual general meeting to answer questions about relevant matters including the conduct of the audit, the auditor's report and auditor's independence.

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

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 58 of the Articles of Association, any one or more shareholders of the Company holding as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionist(s) himself (themselves), may convene the general meeting in the same manner, and all reasonably expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Note: Any such written requisition from the shareholders should be marked "Shareholders' Communication" on the envelope.

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

Shareholders may propose a person for election as Director, the procedures of which are available on the Company's website at www.synergy-group.com.

CORPORATE GOVERNANCE REPORT

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD PROPOSALS AT GENERAL MEETINGS

Within 10 days of the date on which a notice (the "**Notice**") is deemed to be received by shareholders in respect of any general meeting of the Company (the "**Relevant General Meeting**"), any one or more shareholders holding at least one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company may together, by written notice to the Company at Room 404B, 4/F, Block B, Seaview Estate, Nos. 4-6 Watson Road, North Point, Hong Kong for the attention of the Board or the Company Secretary, propose a resolution to be proposed and considered at the Relevant General Meeting in addition to the resolutions set out in the Notice. Such written notice shall be accompanied by a statement in no more than 1,000 words explaining the matters referred to, and the reasons for, any such proposed resolution. Following the receipt of such written notice and accompanying statement by the Company, the Company may, in the Company's absolute discretion (taking into account, without limitation, legal, regulatory and practical considerations relating to the issue of any supplemental notice to all shareholders in relation to the Relevant General Meeting), include the proposed resolution in the business of (i) the Relevant General Meeting or (ii) in a general meeting of the Company that is subsequent to the Relevant General Meeting.

The Company will circulate a revised Notice including any proposed resolution and the accompanying statement to all shareholders in accordance with the Articles of Association provided that if, in the Company's sole opinion (without have to give reasons therefor), the above process is being abused in any way whatsoever, the Company has absolute discretion to not include such proposed resolution in the business of the Relevant General Meeting or a subsequent general meeting of the Company.

Note: Any such written notice from the shareholders should be marked "Shareholders' Communication" on the envelope.

PROCEDURES FOR SHAREHOLDERS TO PUT FORWARD ENQUIRIES TO THE BOARD

Shareholders are, at any time, welcome to raise questions and request information (to the extent it is publicly available and appropriate to provide) from the Board and management by writing to:

Address: Room 404B, 4/F, Block B, Seaview Estate, Nos. 4-6 Watson Road, North Point, Hong Kong

Attention: Mr. Manfred Tong

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to given effect thereto. The Company will not normally deal with verbal or anonymous enquiries. Shareholders' information may be disclosed as required by law.

CORPORATE GOVERNANCE REPORT

CONSTITUTIONAL DOCUMENTS

There was no significant amendment to the Memorandum and Articles of Association of the Company during the year ended 31 March 2019. The Company's Memorandum and Articles of Association is available on the websites of the Stock Exchange and the Company.

DIVIDEND POLICY

The declaration of dividends is subject to the discretion of our Directors and depends on, inter alia, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on The Hong Kong Financial Reporting Standards, the Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors, that our Directors deem relevant. Accordingly, shareholders should note that dividend payments in the past should not be regarded as an indication of future dividend policy.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall not constitute a legally binding commitment by the Company that dividends will be paid in any particular amount for any given period.

ANNUAL GENERAL MEETING ("AGM")

The forthcoming AGM of the Company is scheduled to be held on Monday, 16 September 2019. A circular containing, among other matters, further information relating to the AGM together with the notice convening the AGM and other relevant documents will be published and despatched to the shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will (so long as the AGM remains to be held on Monday, 16 September 2019) be closed from Tuesday, 10 September 2019 to Monday, 16 September 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all duly completed and signed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 9 September 2019.

CORPORATE INFORMATION

(As at 25 July 2019)

DIRECTORS

Executive Directors

Mr. Wong Man Fai Mansfield
(Chairman and Chief Executive Officer)
Mr. Lam Arthur
(Vice Chairman)

Independent non-executive Directors

Mr. Chung Koon Yan
Mr. Cheung Yick Hung Jackie
Dr. Wong Chi Ying Anthony

BOARD COMMITTEES

Audit Committee

Mr. Chung Koon Yan *(Chairman)*
Mr. Cheung Yick Hung Jackie
Dr. Wong Chi Ying Anthony

Remuneration Committee

Mr. Cheung Yick Hung Jackie *(Chairman)*
Mr. Chung Koon Yan
Dr. Wong Chi Ying Anthony

Nomination Committee

Dr. Wong Chi Ying Anthony *(Chairman)*
Mr. Chung Koon Yan
Mr. Cheung Yick Hung Jackie

COMPANY SECRETARY

Mr. Tong Man Chun, *CPA, CPA (Aust.)*

AUTHORISED REPRESENTATIVES

Mr. Wong Man Fai Mansfield
Mr. Tong Man Chun

REGISTERED OFFICE IN CAYMAN ISLANDS

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 404B, 4/F
Block B, Seaview Estate
Nos. 4-6 Watson Road
North Point
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

CORPORATE INFORMATION

(As at 25 July 2019)

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG LEGAL ADVISER

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Hong Kong

AUDITOR

BDO Limited
25th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKER

The Hong Kong and Shanghai Banking Corporation Limited
Hay Wah Building Branch
G/F, Hay Wah Building
71-85 Hennessy Road
Wanchai
Hong Kong

STOCK CODE

1539 (Listed on the Main Board of the Hong Kong Stock Exchange)

COMPANY WEBSITE

www.synergy-group.com

INVESTOR ENQUIRY HOTLINE

Tel: (852) 2121 8033

INVESTOR ENQUIRY EMAIL ADDRESS

info@synergy-group.com

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wong Man Fai Mansfield, aged 45, is the Chief Executive Officer, Chairman of the Board and an executive Director of the Company. He is also a director of Synergy Lighting Limited and Synergy Group Worldwide Limited, both are wholly-owned subsidiaries of the Company, and a director of various subsidiaries of the Company, and was appointed as the Chief Executive Officer of Synergy Lighting Limited on 1 July 2009. He was appointed as a Director of our Company on 30 December 2011. He is primarily responsible for the overall corporate strategies, development management and operation of our Group. Mr. Wong graduated from the University of Arizona, Arizona, the United States with a Bachelor's degree in Electrical Engineering in May 1996. He also obtained a Master of Engineering (Electrical) from Cornell University, New York, United States in May 1997. He has over 14 years of management experience. Mr. Wong is the sole director and sole shareholder of Mpplication Group Limited, which provides information technology management services to our Group. Mr. Wong is the sole director and sole shareholder of Abundance Development Limited and one of our substantial shareholders.

Mr. Lam Arthur, aged 34, is the Vice Chairman of the Board, an executive Director and one of the substantial shareholders of the Company. He was appointed as a Director and Vice Chairman of our Company on 30 December 2011 and 3 February 2016 respectively, and is responsible for overseas development and research and development of our Group. Mr. Lam is also a director of Synergy Lighting Limited and Synergy Group Worldwide Limited, both are wholly-owned subsidiaries of the Company, and a director of various subsidiaries of the Company. Mr. Lam graduated from the University of Notre Dame, Indiana, the United States, with a Bachelor's degree in Mechanical Engineering in May 2008. Before joining our Group, Mr. Lam was an Associate (Trade Support and Risk Management) in Myo Capital Advisers Limited from November 2008 to June 2009. Mr. Lam is a certified Carbon Audit Professional and a certified Energy Manager of The Association of Energy Engineers (Hong Kong Chapter).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Koon Yan, aged 55, is an independent non-executive Director, the Chairman of the Audit Committee, member of the Remuneration Committee and member of the Nomination Committee of the Company since 5 March 2015. He is a practicing and fellow member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Association of Chartered Certified Accountants and a fellow member of The Institute of Chartered Accountants in England and Wales. He graduated from the Hong Kong Polytechnic University with a Master's Degree in Professional Accounting in November 2000. Mr. Chung obtained the fellow membership of The Association of Chartered Certified Accountants in October 2003 and became a member of The Hong Kong Institute of Certified Public Accountants in October 1998, and was also admitted as an associate of The Institute of Chartered Accountants in England and Wales in October 2004. Mr. Chung is a director of Chiu, Choy & Chung CPA Ltd. and Dickson Wong C.P.A. Company Limited, and has more than 22

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

years' experience in accounting, auditing and taxation. Mr. Chung has been an independent non-executive director of Great World Company Holdings Limited (stock code: 8003), the shares of which are listed on the GEM operated by the Stock Exchange since May 2008, an independent non-executive director of Asian Citrus Holdings Limited (stock code: 73) since November 2013, the shares of which are listed on the Main Board of the Stock Exchange and were admitted to trading on AIM (a market operated by the London Stock Exchange) in 2005 but which have been cancelled from trading on AIM since 29 March 2017, and an independent non-executive director of Winson Holdings Hong Kong Limited (stock code: 8421), the shares of which are listed on the GEM, since February 2017.

Mr. Cheung Yick Hung Jackie, aged 51, is an independent non-executive Director, the Chairman of the Remuneration Committee, member of the Audit Committee and member of the Nomination Committee of the Company since 5 March 2015. Mr. Cheung has been a representative of KGI Asia Limited and KGI Futures (Hong Kong) Limited which carry out Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities under the SFO respectively since 29 March 2011. He currently also serves as a Consultant Solicitor of Messrs. Cheung & Yeung, Solicitors (張國鈞楊煒凱律師事務所). Mr. Cheung was admitted as a solicitor to the High Court of Hong Kong in November 1995 and as a solicitor of the Supreme Court of England and Wales in May 1997. He graduated from City Polytechnic of Hong Kong (now known as City University of Hong Kong) with a degree of Bachelor of Laws and obtained the Postgraduate Certificate in Laws in November 1992 and November 1993 respectively. Mr. Cheung served as a District Councillor of the Central and Western District Council for the period from 1 January 2008 to 31 December 2015.

Dr. Wong Chi Ying Anthony, aged 63, is an independent non-executive Director, the Chairman of the Nomination Committee, member of the Audit Committee and member of the Remuneration Committee of the Company since 5 March 2015. Dr. Wong was an Associate Professor in the Department of Industrial and Manufacturing Systems Engineering of The University of Hong Kong from 1997 to 2006. He obtained a B. Tech (Hons) degree and a Ph.D degree in Chemical Engineering from The University of Bradford, United Kingdom, in December 1980 and in December 1983 respectively. Dr. Wong became a Corporate Member of The Institution of Chemical Engineers (MIChemE) and Chartered Engineer (C.Eng) of the Engineering Council of the United Kingdom, in November 1999 and December 1999 respectively. On 1 June 2004, he obtained a status as a Chartered Scientist (CSci) from The Institution of Chemical Engineers and The Science Council of the United Kingdom. He was also admitted as a member of The Hong Kong Institution of Engineers on 16 March 2000. From April 2003 to November 2018, he served as the vice chairman and an executive director of Ngai Hing Hong Company Limited (stock code: 1047), a company listed on the Stock Exchange, and was in charge of its research and development centre and responsible for its business development and remained in such company as a consultant subsequent to his cessation from the positions mentioned above until 31 March 2019.

SENIOR MANAGEMENT

Mr. Cheng Chi Kuen, aged 46, is our Chief Operation Officer since June 2011. He is responsible for overseeing our business operations, sales and marketing, office administration and human resources management. He has over 9 years of management experience. He was the co-founder and a director of Synergy Green Technology

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Limited. Synergy Green Technology Limited is one of the shareholders of Synergy Cooling Management Limited (indirectly non-wholly owned subsidiary of the Company), which holds approximately 33.7% interest of the entire issued share capital of Synergy Cooling Management Limited. Mr. Cheng was previously employed by Zymmetry Limited (formerly known as Mission System Consultant Limited), a global sourcing and manufacturing solutions provider for the apparel industry. During his time at Zymmetry Limited, Mr. Cheng had held various positions and subsequently as senior marketing manager of Asia Pacific region at the time when he left Zymmetry Limited. He has obtained a Master's degree in Business Administration through a distance learning course offered by the University of Bradford, United Kingdom, in July 2013.

Mr. Tong Man Chun, aged 45, is our Chief Financial Officer since December 2011 and was appointed as our Company Secretary on 16 December 2014. He is responsible for our Group's financial planning and management, and corporate governance. He is a Certified Public Accountant in Australia and member of The Hong Kong Institute of Certified Public Accountants. Mr. Tong graduated from the University of South Australia, Australia with a Bachelor's Degree in Accounting in March 1997. Mr. Tong was admitted as a Certified Public Accountant in Australia in October 2001 and was admitted as a member of The Hong Kong Institute of Certified Public Accountants in September 2005. Mr. Tong has over 19 years' experience in accounting taxation, financial reporting and consultancy management and had worked in various corporate services companies and certified public accountants firms in Hong Kong and held various positions such as senior management consultant.

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF SYNERGY GROUP HOLDINGS INTERNATIONAL LIMITED
滙能集團控股國際有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Synergy Group Holdings International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 87 to 204, which comprise the consolidated statement of financial position as at 31 March 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Impairment of trade and finance lease receivables

(refer to note 4(k)(A)(ii) on the significant accounting policies, notes 20 and 22 to the consolidated financial statements)

Trade and finance lease receivables were significant to the Group and represented approximately 60% of the total assets as at 31 March 2019. Management uses the simplified approach to measure the expected credit losses (the "ECLs") for trade and finance lease receivables. Management has engaged an independent specialist to assist in determining the ECLs. As of 31 March 2019, loss allowance amounting to approximately HK$11,748,000 has been made over these balances.

Management considered the Group's historical credit experience adjusted for forward-looking information that may impact the customers' ability to repay the outstanding balances in order to estimate the ECLs for the impairment assessment. These assessments and estimations involved significant management judgement.

Our response:

Our audit procedures in relation to the management's impairment assessment on trade and finance lease receivables included:

- Reviewing and testing subsequent settlements on a sample basis from customers;
- Reviewing and testing the ageing of trade receivables on a sample basis;
- Evaluating the reasonableness of management's estimation in expected timing of collection and ultimate realisation of these receivables, including collection history of the customers;
- Evaluating the appropriateness of the ECL assessment methodology adopted by the Group, in the application of the Company's accounting policy with the aid of the independent specialist, examining the key data inputs, on a sample basis, to assess their accuracy and completeness, and challenging the key assumptions used to determine the ECLs;
- Involving an auditor's expert to assist our assessment on the reasonableness and appropriateness of the ECL assessment methodology and key assumptions; and
- Evaluating the competence, capabilities and objectivity of the independent specialist appointed by the Group and auditor's expert.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Impairment of goodwill

(refer to note 4(o) on the significant accounting policies and note 16 to the consolidated financial statements)

As at 31 March 2019, the Group had goodwill arising from acquisition of Synergy Cooling Management Limited ("SCML") and its subsidiaries (collectively referred to as "SCML Group") of approximately HK$66,963,000.

Management is required to test annually the amount of goodwill for impairment. For the purpose of assessing impairment, management assessed the recoverable amount of the relevant cash generating unit based on the higher of its fair value less costs of disposal and value-in-use. The goodwill attributable to SCML Group was allocated to cash generating unit of its energy saving business (the "Cooling CGU") and the recoverable amount of the Cooling CGU was determined by management based on value-in-use calculations using cash flow projections.

For the year ended 31 March 2019, impairment on the goodwill amounting to approximately HK$25,831,000 was recognised. The impairment assessment requires the application of judgement and use of assumptions made by management with respect to the discount rate and the underlying cash flows, in particular future revenue growth, which may affect the carrying amount of the goodwill.

Our response:

Our audit procedures in relation to the management's impairment assessment on goodwill included:

- Understanding and evaluating the reasonableness of key assumptions in the value-in-use calculation used by management, who was assisted by the Group's independent professional valuer (the "Management Expert"), taking into account SCML Group's historical performance and the future operating plans;
- Evaluating the reasonableness and relevance of the key inputs used by the management in the value-in-use calculation, such as discount rate used;
- Involving an auditor's expert to assist our assessment on the reasonableness and appropriateness of the valuation methodology and key assumptions; and
- Evaluating the competency, capabilities and objectivity of the Management Expert and auditor's expert.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Valuation of unlisted equity investment classified as financial assets at fair value through profit or loss ("FVTPL")

(refer to note 4(k)(A)(i) on the significant accounting policies and note 18 to the consolidated financial statements)

The Group owns unlisted equity interest in Invinity Energy Group Limited which is accounted for as financial assets at FVTPL amounting to approximately HK$71,000,000 as at 31 March 2019 carried at fair value.

The valuation of unlisted equity investment classified as financial assets at FVTPL had been determined by management, who was assisted by an independent professional valuer (i.e. Management Expert). Such valuation involves the determination of the valuation model and the selection of the different inputs and the assumptions made in the valuation model by management. Any changes in valuation model adopted and input and assumptions applied could lead to significant changes in amount reported as fair value in the consolidated financial statements.

We identified valuation of Invinity as a key audit matter because the valuation of financial instrument without a quoted price is a complex area and involves a higher degree of estimation, uncertainty and judgement.

Our response:

Our audit procedures in relation to the management's valuation of unlisted equity investment classified as FVTPL included:

- Evaluating the appropriateness of the valuation methodology applied on the valuation of the unlisted equity investment;
- Understanding and evaluating the reasonableness of key assumptions used by the management in the valuation;
- Evaluating the reasonableness and relevance of the key input data used by the management in the valuation;
- Involving an auditor's expert to assist our assessment on the reasonableness and appropriateness of the valuation methodology and key assumptions; and
- Evaluating the competence, capabilities and objectivity of the Management Expert and auditor's expert.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

BDO Limited
Certified Public Accountants
Cheung Wing Yin
Practising Certificate Number P06946

Hong Kong, 28 June 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	7(a)	**246,536**	278,137
Cost of sales		**(140,838)**	(130,408)
Gross profit		**105,698**	147,729
Other income and gains	7(b)	**48,364**	28,038
Administrative expenses		**(49,061)**	(27,700)
Selling and distribution costs		**(6,220)**	(6,854)
Finance costs	8	**(18,197)**	(12,969)
Other expenses		**(45,911)**	(925)
Share of results of associates		**15,555**	18,066
Profit before income tax	9	**50,228**	145,385
Income tax expense	11(a)	**(8,990)**	(19,830)
Profit for the year		**41,238**	125,555
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale investments		**–**	(1,434)
Exchange difference arising on translation of financial statements of foreign operations		**(2,458)**	3,585
Share of other comprehensive income of an associate		**(26)**	(3)
Other comprehensive income for the year, net of tax		**(2,484)**	2,148
Total comprehensive income for the year		**38,754**	127,703
Profit for the year attributable to:			
Owners of the Company		**44,554**	125,704
Non-controlling interests		**(3,316)**	(149)
		41,238	125,555
Total comprehensive income for the year attributable to:			
Owners of the Company		**42,068**	127,852
Non-controlling interests		**(3,314)**	(149)
		38,754	127,703
Earnings per share for profit attributable to the owners of the Company during the year	13		
– Basic (HK cents)		**8.1**	25.1
– Diluted (HK cents)		**8.1**	25.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	**28,329**	30,913
Intangible assets	15	**6,115**	11,653
Goodwill	16	**67,582**	92,794
Interests in associates	17	**46,231**	73,462
Equity investment at fair value through profit or loss	18	**71,000**	–
Other financial assets at fair value through profit or loss	19	**10,436**	–
Available-for-sale investments	19	**–**	10,089
Trade receivables	22	**83,776**	105,889
Finance lease receivables	20	**44,063**	58,126
Deposits and other receivables	23	**1,206**	38
Deferred tax assets	11(b)	**1,871**	97
		360,609	383,061
Current assets			
Inventories	21	**457**	8,006
Trade receivables	22	**322,221**	229,462
Finance lease receivables	20	**12,607**	12,218
Deposits, prepayments and other receivables	23	**22,382**	18,871
Due from an associate	24(a)	**30,353**	16,485
Pledged bank deposits	25	**2,500**	2,500
Cash and cash equivalents	25	**26,440**	37,023
		416,960	324,565
Current liabilities			
Trade payables	26	**11,437**	10,511
Contract liabilities	27	**9,704**	–
Accruals, other payables and deposits received	28	**34,579**	49,084
Borrowings	29	**65,055**	91,692
Finance lease obligations	30	**1,471**	1,542
Notes payable	31	**140,000**	80,000
Due to a related company	24(b)	**280**	28
Due to directors	24(c)	**4,600**	4,697
Provision for taxation		**13,854**	12,461
		280,980	250,015
Net current assets		**135,980**	74,550
Total assets less current liabilities		**496,589**	457,611

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Trade payables	26	**9,334**	11,197
Deposits received	28	**5,624**	3,724
Borrowings	29	**49,288**	60,816
Finance lease obligations	30	**1,446**	1,972
Notes payable	31	**–**	50,000
		65,692	127,709
Net assets		**430,897**	329,902
EQUITY			
Share capital	32	**5,500**	5,000
Reserves	33	**426,103**	328,562
Equity attributable to the owners of the Company		**431,603**	333,562
Non-controlling interests		**(706)**	(3,660)
Total equity		**430,897**	329,902

On behalf of the Board

Wong Man Fai Mansfield
Director

Lam Arthur
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	Attributable to the owners of the Company										
	Share capital HK$'000 (note 32)	Share premium* HK$'000 (note 33)	Share option reserve* HK$'000 (note 33)	Capital reserves* HK$'000 (note 33)	Merger reserve* HK$'000 (note 33)	Available-for-sale investment revaluation reserve* HK$'000 (note 33)	Foreign exchange reserves* HK$'000 (note 33)	Retained profits* HK$'000 (note 33)	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 April 2017	5,000	34,749	–	7,388	12,183	–	(662)	147,052	205,710	–	205,710
Arising from step acquisition of a subsidiary (note 35)	–	–	–	–	–	–	–	–	–	(3,511)	(3,511)
Profit for the year	–	–	–	–	–	–	–	125,704	125,704	(149)	125,555
Other comprehensive income											
Change in fair value of available-for-sale investments	–	–	–	–	–	(1,434)	–	–	(1,434)	–	(1,434)
Exchange difference arising on translation of financial statements of foreign operations	–	–	–	–	–	–	3,585	–	3,585	–	3,585
Share of other comprehensive income of an associate	–	–	–	–	–	–	(3)	–	(3)	–	(3)
Total comprehensive income for the year	–	–	–	–	–	(1,434)	3,582	125,704	127,852	(149)	127,703
At 31 March 2018 as originally presented	5,000	34,749	–	7,388	12,183	(1,434)	2,920	272,756	333,562	(3,660)	329,902
Initial application of HKFRS 9 (note 2(a)(A))	–	–	–	–	–	1,434	–	(10,867)	(9,433)	(36)	(9,469)
Adjusted balance at 1 April 2018	**5,000**	**34,749**	**-**	**7,388**	**12,183**	**-**	**2,920**	**261,889**	**324,129**	**(3,696)**	**320,433**
Acquisition of a subsidiary (note 36)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**387**	**387**
Issue of shares, net of share issue expenses (note 32)	**500**	**52,411**	**-**	**-**	**-**	**-**	**-**	**-**	**52,911**	**-**	**52,911**
Equity-settled share option arrangements	**-**	**-**	**5,949**	**-**	**-**	**-**	**-**	**-**	**5,949**	**-**	**5,949**
Dilution of interest in a subsidiary without loss of control (note 36)	**-**	**-**	**-**	**6,546**	**-**	**-**	**-**	**-**	**6,546**	**5,917**	**12,463**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**44,554**	**44,554**	**(3,316)**	**41,238**
Other comprehensive income											
Exchange difference arising on translation of financial statements of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**(2,460)**	**-**	**(2,460)**	**2**	**(2,458)**
Share of other comprehensive income of an associate	**-**	**-**	**-**	**-**	**-**	**-**	**(26)**	**-**	**(26)**	**-**	**(26)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(2,486)**	**44,554**	**42,068**	**(3,314)**	**38,754**
At 31 March 2019	**5,500**	**87,160**	**5,949**	**13,934**	**12,183**	**-**	**434**	**306,443**	**431,603**	**(706)**	**430,897**

* These reserve accounts comprise the consolidated reserves of approximately HK$426,103,000 in the consolidated statement of financial position as at 31 March 2019 (2018: HK$328,562,000).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Profit before income tax		**50,228**	145,385
Adjustments for:			
Interest income	7(b)	**(570)**	(838)
Interest expense	8	**17,661**	11,930
Amortisation of intangible assets	9	**5,538**	347
Bad debts written off	9	**–**	3
Depreciation of property, plant and equipment	9	**5,044**	717
Equity-settled share option expense	9	**5,949**	–
Gain on deemed disposal of associates	7(b)	**(47,240)**	–
Gain on step acquisition	7(b)	**–**	(26,438)
Fair value gains on other financial assets at fair value through profit or loss	7(b)	**(33)**	–
Fair value loss on equity investment at fair value through profit or loss	9	**19,000**	–
Provision for impairment loss of goodwill	9	**25,831**	–
Losses on disposals of property, plant and equipment	9	**80**	567
Premium and other charges on life insurance policies		**121**	816
Provision for impairment loss of financial assets	9	**720**	–
Share of results of associates		**(15,555)**	(18,066)
Warranty provision, net of reversal	9	**772**	(104)
Write-off of inventories	9	**–**	334
Operating profit before working capital changes		**67,546**	114,653
Decrease/(increase) in inventories		**7,487**	(4,964)
Increase in trade receivables		**(81,193)**	(166,643)
Decrease in finance lease receivables		**12,961**	12,099
(Increase)/decrease in deposits, prepayments and other receivables		**(504)**	28,822
Decrease in amounts due from associates		**–**	312
(Decrease)/increase in trade payables		**(1,257)**	8,612
Increase/(decrease) in amount due to a related company		**252**	(28)
Decrease in contract liabilities		**(2,399)**	–
(Decrease)/increase in accruals, other payables and deposits received		**(2,307)**	6,413
Cash generated from/(used in) operations		**586**	(724)
Income tax paid		**(7,812)**	(12,484)
Net cash used in operating activities		**(7,226)**	(13,208)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from investing activities			
Purchases of property, plant and equipment		**(2,858)**	(1,163)
Proceed from disposals of property, plant and equipment		**–**	13
Advances to associates		**(13,868)**	(18,483)
Advance to non-controlling interest		**(1,000)**	–
Advance to other receivables		**(1,938)**	–
Investments in associates		**–**	(61,244)
Interest received		**135**	485
Purchases of available-for-sale investments		**–**	(11,986)
Net cash outflows arising from step acquisition	35	**–**	(22,986)
Acquisition of a subsidiary, net of cash acquired	36	**(781)**	–
Net cash used in investing activities		**(20,310)**	(115,364)
Cash flows from financing activities			
Proceeds from issue of shares		**54,500**	–
Payments for share issue expenses		**(1,589)**	–
Interest paid on borrowings		**(4,808)**	(4,425)
Interest paid on notes		**(12,619)**	(7,456)
Interest element on finance lease payments		**(234)**	(49)
Capital element of finance lease payments		**(1,650)**	–
Proceed from borrowings		**12,800**	70,774
Repayment of borrowings		**(50,965)**	(30,297)
Proceeds from issue of notes		**20,000**	80,000
Repayment of notes		**(10,000)**	–
Proceeds from dilution of interest in a subsidiary without loss of control	36	**12,463**	–
Advance from a director		**4,500**	–
Repayments of advances from directors		**(4,597)**	–
Net cash generated from financing activities		**17,801**	108,547
Net decrease in cash and cash equivalents		**(9,735)**	(20,025)
Cash and cash equivalents at beginning of the year		**37,023**	53,465
Effect of exchange rate changes on cash and cash equivalents		**(848)**	3,583
Cash and cash equivalents at end of the year		**26,440**	37,023

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

1. GENERAL INFORMATION

Synergy Group Holdings International Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 14 December 2011. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is Room 404B, 4/F, Block B, Seaview Estate, Nos. 4-6 Watson Road, North Point, Hong Kong.

The principal activity of the Company is investment holding. The Company and its subsidiaries are collectively referred to as the "Group" hereafter. The Group is principally engaged in the provision of leasing services of energy saving systems, consultancy service and artificial intelligence technology services, and trading of energy saving products. Details of the principal activities of the Company's subsidiaries are set out in note 38 to the consolidated financial statements.

The consolidated financial statements for the year ended 31 March 2019 were approved and authorised for issue by the board of directors on 28 June 2019.

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

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

In current year, the Group has applied for the first time the following new or revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants which are relevant to and effective for the Group's consolidated financial statements for the annual year beginning on 1 April 2018.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to Hong Kong Accounting Standard ("HKAS") 28 "Investments in Associates and Joint Ventures"
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HK (IFRIC) Interpretation 22	Foreign Currency Transactions and Advance Consideration

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

(A) HKFRS 9 – Financial Instruments

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

(i) Classification and measurement of financial instruments

The following tables summarise the impact, net of tax, of transition to HKFRS 9 on the opening balance of reserves and non-controlling interests as of 1 April 2018 as follows (increase/(decrease)):

	HK$'000
Retained profits	
Balance as at 31 March 2018	272,756
Increase in expected credit losses ("ECLs") in trade receivables (note 2(a)(A)(ii))	(9,982)
Increase in ECLs in finance lease receivables (note 2(a)(A)(ii))	(1,010)
Deferred tax assets arose from ECLs (note 2(a)(A)(ii))	1,559
Reclassify investments from available-for-sale at fair value to fair value through profit or loss ("FVTPL") (note 2(a)(A)(i))	(1,434)
Adjusted balance as at 1 April 2018	261,889
Available-for-sale investment revaluation reserve	
Balance as at 31 March 2018	(1,434)
Reclassify investments from available-for-sale at fair value to FVTPL (note 2(a)(A)(i))	1,434
Adjusted balance as at 1 April 2018	–
Non-controlling interests	
Balance as at 31 March 2018	(3,660)
Increase in ECLs in trade receivables (note 2(a)(A)(ii))	(36)
Adjusted balance as at 1 April 2018	(3,696)

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

(A) HKFRS 9 – Financial Instruments (Continued)

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

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

(A) HKFRS 9 – Financial Instruments (Continued)

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

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

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

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

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

– It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

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

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

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

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

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

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

(A) HKFRS 9 – Financial Instruments (Continued)

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

As of 1 April 2018, the investment in life insurance policy was reclassified from available-for-sale financial assets to financial assets at FVTPL. As a result, financial assets with fair value of approximately HK$10,089,000 were reclassified from available-for-sale financial assets at fair value to financial assets at FVTPL and fair value losses of approximately HK$1,434,000 were reclassified from the available-for-sale investment revaluation reserve to retained profits on 1 April 2018.

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

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 April 2018 under HKAS 39	Carrying amount as at 1 April 2018 under HKFRS 9
			HK$'000	HK$'000
Investment in life insurance policy	Available-for-sale (at fair value)	FVTPL	10,089	10,089
Trade receivables	Loans and receivables	Amortised cost	335,351	325,333
Finance lease receivables	Loans and receivables	Amortised cost	70,344	69,334
Other receivable	Loans and receivables	Amortised cost	35	35
Due from an associate	Loans and receivables	Amortised cost	16,485	16,485
Pledged bank deposits	Loans and receivables	Amortised cost	2,500	2,500
Cash and cash equivalents	Loans and receivables	Amortised cost	37,023	37,023

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

(A) HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "ECLs model". HKFRS 9 requires the Group to recognise ECL for trade receivables, finance lease receivables and other financial assets at amortised cost earlier than HKAS 39. Cash and cash equivalents are subject to ECLs model but the impairment is immaterial for the current period.

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

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 "Leases".

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

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

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

(A) HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

Measurement of ECLs (Continued)

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

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

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

(A) HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

Impact of the ECL model

(a) Impairment of trade receivables and finance lease receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables and finance lease receivables. To measure the ECLs, trade receivables and finance lease receivables have been grouped based on shared credit risk characteristics and the days past due or repayment schedule.

The increase in loss allowance for trade receivables and finance lease receivables upon the transition to HKFRS 9 as of 1 April 2018 were approximately HK$10,018,000 and HK$1,010,000, respectively. The corresponding deferred tax assets of approximately HK$1,559,000 have been recognised against retained profits.

The loss allowances further increased by approximately HK$1,017,000 for trade receivables and decreased by approximately HK$297,000 for finance lease receivables during the year, resulting in an increase in deferred tax assets of approximately HK$129,000.

(b) Impairment of other financial assets at amortised cost

Other financial assets at amortised cost of the Group include other receivables, amount due from an associate, pledged bank deposits and cash and cash equivalents. No additional impairment for these financial assets as at 1 April 2018 and during the year is recognised as the amount of additional impairment measured under the ECLs model is insignificant.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

(A) HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

Impact of the ECL model (Continued)

As a result of the above changes, the impact of the new HKFRS 9 impairment model results in additional impairment allowance as follows:

	HK$'000
Loss allowance as at 1 April 2018 under HKAS 39	-
Additional impairment recognised for trade receivables	10,018
Additional impairment recognised for finance lease receivables	1,010
Loss allowance as at 1 April 2018 under HKFRS 9	11,028

(iii) Transition

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

The assessment of the determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application (the "DIA") of HKFRS 9.

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

(B) HKFRS 15 – Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 "Construction Contracts", HKAS 18 "Revenue" and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits at the DIA (that is, 1 April 2018). As a result, the comparative financial information presented has not been restated.

There was no material impact on the opening balances of retained profits and non-controlling interests.

The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 15:

	At 31 March 2018	Impact on initial application of HKFRS 15	At 1 April 2018
	HK$'000	HK$'000	HK$'000
Contract liabilities	–	12,103	12,103
Accruals, other payables and deposits received (current liabilities)	49,084	(12,103)	36,981

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

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

(B) HKFRS 15 – Revenue from Contracts with Customers (Continued)

The following tables summarise the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 March 2019 and its consolidated statement of cash flows for the year ended 31 March 2019. There was no material impact on the Group's consolidated statement of comprehensive income for the year ended 31 March 2019.

Impact on the consolidated statement of financial position as at 31 March 2019:

	As reported HK$'000	Adjustment HK$'000	Amount without application of HKFRS 15 HK$'000
Contract liabilities	9,704	(9,704)	–
Accruals, other payables and deposits received (current liabilities)	34,579	9,704	44,283

Impact on the consolidated statement of cash flows for the year ended 31 March 2019:

	As reported HK$'000	Adjustment HK$'000	Amount without application of HKFRS 15 HK$'000
Operating activities			
Decrease in contract liabilities	(2,399)	2,399	–
Decrease in accruals, other payables and deposits received	(2,307)	(2,399)	(4,706)

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

(B) HKFRS 15 – Revenue from Contracts with Customers (Continued)

The Group's revenue generated from provision of leasing service of energy saving systems is out of scope of HKFRS 15 and recognised under HKAS 17, therefore the adoption of HKFRS 15 does not have impact on the Group's leasing service income.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from provision of consultancy service was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

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

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

(B) HKFRS 15 – Revenue from Contracts with Customers (Continued)

(i) Timing of revenue recognition (Continued)

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

The adoption of HKFRS 15 does not have a significant impact on the Group's revenue from sale of goods.

– Customers obtain control of the energy saving products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the energy saving products. There is generally only one performance obligation. Invoices are usually payable within 365 days. Prior to the adoption of HKFRS 15, revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer.

However, the timing of revenue recognition for consultancy service is affected as follows:

– Before the adoption of HKFRS 15, revenue from the rendering of consultancy service is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

  Upon adoption of HKFRS 15, revenue from the Group's contracts with customers for the rendering of consultancy services will be recognised at the point in time when the control of the service is transferred to the customer. The timing of the amount of revenue recognised in relation to this service is later as compared to current practice.

  There is no impact on the consolidated statement of financial position as at 31 March 2019 and consolidated statement of comprehensive income for the year ended 31 March 2019.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

(B) HKFRS 15 – Revenue from Contracts with Customers (Continued)

(ii) Warranties

Goods sold by the Group include warranties which require the Group to either replace or mend a defective product during the warranty period if the goods fail to comply with agreed-upon specifications. In accordance with HKFRS 15, such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Prior to the adoption of HKFRS 15, warranties were also accounted for under HKAS 37.

The adoption of HKFRS 15 does not result in significant impact on the Group's accounting policies as an assurance-type warranty does not give arise to an additional performance obligation.

(iii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, advances received from customers were presented in the consolidated statement of financial position under "accruals, other payables and deposits received".

To reflect the changes in presentation, advances received from customers amounting to approximately HK$12,103,000, which were previously included in "accruals, other payables and deposits received", are now included under "contract liabilities" at 1 April 2018, as a result of the adoption of HKFRS 15.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

(C) Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

(D) Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28 "Investments in Associates and Joint Ventures"

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28 "Investments in Associates and Joint Ventures", clarifying that a venture capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

(E) Amendments to HKFRS 2 – Classification and Measurement of Share-based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

(F) HK (IFRIC) Interpretation 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

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

Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3 "Business Combinations"[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11 "Joint Arrangements"[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12 "Income Taxes"[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23 "Borrowing Costs"[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HK (IFRIC) Interpretation 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019.

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

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

4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

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

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

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 11 "Joint Arrangements"

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

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

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

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

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

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures

The amendments clarify that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Amendments to HKFRS 3 – Definition of a Business

The amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

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

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

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

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classify cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has performed a preliminary assessment of potential impact of the adoption of HKFRS 16 on the Group. As at 31 March 2019, the Group, as the lessee, has non-cancellable operating lease commitments of approximately HK$3,288,000 as disclosed in note 34(b). The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's results but it is expected that the commitments due after 31 March 2020 will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities. The Group has estimated that right-of-use assets of approximately HK$3,128,000 and lease liabilities of approximately HK$3,128,000 will be recognised at 1 April 2019.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

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

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

HK (IFRIC) Interpretation 23 – Uncertainty over Income Tax Treatments

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

Except for the above, the directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the Group's future financial statements.

3. BASIS OF PREPARATION

(a) Basis of compliance

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

3. BASIS OF PREPARATION (Continued)

(b) Basis of measurement and going concern assumption

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared on a going concern, notwithstanding that the Group had borrowings and notes payable, recorded in current liabilities, totally of approximately HK$205,055,000 as compared to cash and cash equivalents of approximately HK$26,440,000 as at 31 March 2019. Nevertheless, the directors of the Company have adopted going concern basis in the preparation of the consolidated financial statements of the Group based on the following and, the Group has sufficient working capital to meet in full its financial obligations as they fall due in the foreseeable future:

(i) The Group will continue to maintain its operational capacity in order to improve its profitability in the future;

(ii) The Group has prepared a detailed 15-months cashflow projection for the period from 1 April 2019 to 30 June 2020, and it is expected to derive stable cash inflows from its operating activities and have adequate cash flows to maintain the Group as a going concern in the year ending 31 March 2020;

(iii) The Group has obtained the undertaking on the immediate repayment from an associate upon the request; and

(iv) Taking into account the expected successful renewal or rollover of the existing notes and bank loans.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to reduce the value of assets to their net realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The financial statements do not include any adjustments relating to the carrying amounts and reclassifications of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. 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 5.

(c) Functional and presentation currency

The financial statements are presented in Hong Kong Dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

(b) Subsidiaries

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

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

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of fair value of consideration transferred, the amount recognised for non-controlling interests and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see note 4(o)), and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP") are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. 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 costs, such as repairs and maintenance are charged to the profit or loss during the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

Depreciation on property, plant and equipment other than CIP is provided over their estimated useful lives, using the straight line method. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted, if appropriate, at each reporting date. The estimated useful lives are as follows:

Leasehold improvements	3 years or over the lease terms, whichever is shorter
Furniture, fixtures and office equipment	2 years
Energy saving systems	5 – 10 years

CIP, which is stated at cost less impairment losses, representing energy saving systems pending installation as well as cost incurred during the periods of installation and testing. CIP is reclassified to the appropriate category of property, plant and equipment when completed and ready for use. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss upon disposal.

(f) Revenue recognition

(A) Accounting policies applied from 1 April 2018

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Revenue recognition (Continued)

(A) Accounting policies applied from 1 April 2018 (Continued)

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

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

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

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

(i) Leasing service income

Leasing service income consists of:

(i) operating lease rental income and is recognised on a time proportion basis over the period of lease term; or

(ii) finance lease income including sale of goods recognised on transfer of risks and rewards of ownership and interest income recognised over the period of lease using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Revenue recognition (Continued)

(A) Accounting policies applied from 1 April 2018 (Continued)

(ii) Trading of energy saving products

Customers obtain control of the energy saving products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the energy saving products. There is generally only one performance obligation. Invoices are usually payable within 365 days. In the comparative period, revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer.

Goods sold by the Group include warranties which require the Group to either replace or mend a defective product during the warranty period if the goods fail to comply with agreed-upon specifications. In accordance with HKFRS 15, such warranties are not accounted for as separate performance obligations and hence no revenue is allocated to them. Instead, a provision is made for the costs of satisfying the warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

(iii) Consultancy service income

Revenue from consultancy service is recognised at the time when the control is transferred, i.e. one-off revenue recognition upon receipt of consultancy service report by the customer according to the terms of acceptance agreed upon in the contract. There is generally only one performance obligation. Invoices are usually payable within 365 days. In the comparative period, revenue from consultancy service is recognised when the services are rendered.

(iv) Artificial intelligence (AI) technology service income

Revenue is recognised over time as those services are provided. Invoices for artificial intelligence (AI) technology services are issued on a monthly basis and are usually payable within 30 days.

(v) Interest income

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Revenue recognition (Continued)

(A) Accounting policies applied from 1 April 2018 (Continued)

Contract assets and liabilities

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

(B) Accounting policies applied until 31 March 2018

Revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Leasing service income consists of:

(i) operating lease rental income and is recognised on a time proportion basis over the period of lease term; or

(ii) finance lease income including sale of goods recognised on transfer of risks and rewards of ownership and interest income recognised over the period of lease using the effective interest method.

Consultancy service income is recognised when services are rendered.

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

The Group as lessee

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

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

(h) Intangible assets (other than goodwill)

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their estimated useful lives as follows.

Exclusive rights	5 – 9 years

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Intangible assets (other than goodwill) (Continued)

(ii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 4(o)).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

(i) Inventories

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

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, form an integral part of the Group's cash management.

(k) Financial instruments

(A) Accounting policies applied from 1 April 2018

(i) Financial assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

(A) Accounting policies applied from 1 April 2018 (Continued)

(i) Financial assets (Continued)

Debt instruments

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

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

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

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

(A) Accounting policies applied from 1 April 2018 (Continued)

(ii) Impairment loss on financial assets

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

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 "Leases".

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

(A) Accounting policies applied from 1 April 2018 (Continued)

(ii) Impairment loss on financial assets (Continued)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

(A) Accounting policies applied from 1 April 2018 (Continued)

(iii) Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, accruals and other payables, amount due to a related company, amounts due to directors, borrowings, finance lease obligations and notes payable are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

(iv) Effective interest method

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

(v) Equity instruments

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

Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefit, to the extent that they are incremental costs directly attributable to the equity transaction.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in note 4(k)(A)(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

(A) Accounting policies applied from 1 April 2018 (Continued)

(vii) Derecognition

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

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

(B) Accounting policies applied until 31 March 2018

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

(i) Financial assets

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

Loans and receivables

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

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

(B) Accounting policies applied until 31 March 2018 (Continued)

(ii) Impairment loss on financial assets

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

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

For loans and receivables

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

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

(B) Accounting policies applied until 31 March 2018 (Continued)

(iii) Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, accruals and other payables, amount due to a related company, amounts due to directors, borrowings, finance lease obligations and notes payable, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

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

(iv) Effective interest method

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

(v) Equity instruments

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

Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefit, to the extent that they are incremental costs directly attributable to the equity transaction.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

(B) Accounting policies applied until 31 March 2018 (Continued)

(vii) Derecognition

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

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

(l) Income taxes

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Foreign currency

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(o) Impairment of assets (other than financial assets)

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

- property, plant and equipment;
- intangible assets;
- goodwill; and
- interests in associates

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) Provisions and contingent liabilities

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

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

(r) Related parties

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

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

(ii) has significant influence over the Group; or

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

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Related parties (Continued)

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

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

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

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

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

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

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

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

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

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

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

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

(s) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Share-based payments (Continued)

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

(t) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

Each of the operating segments is managed separately as each of the segments requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in this report prepared under HKFRS, except that:

(i) finance costs;

(ii) share of results of associates;

(iii) income tax expense; and

(iv) corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Segment assets included all assets except intangible assets, goodwill, interests in associate, equity investment at FVTPL, other financial assets at FVTPL, available-for-sale investments, pledged bank deposits, cash and cash equivalents, amount due from an associate, deferred tax assets and corporate assets. Corporate assets which are not directly attributable to the business activities of any operating segment and are not allocated to a segment, which primarily applies to the Group's headquarter. Segment liabilities included all liabilities except tax liabilities, borrowings, finance lease obligations, notes payable, amount due to a related company, amounts due to directors and corporate liabilities. Corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment, which primarily applies to the Group's headquarter.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(a) Critical judgments in applying accounting policies

(i) Power to exercise significant influence

The Group holds approximately 23.65% of voting rights of Invinity Energy Group Limited ("Invinity"). The Group no longer exercise significant influence over Invinity during the year, the investment in Invinity is treated as an equity investment at FVTPL. The details are set out in note 17(c).

(ii) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currency of each entity in the Group, judgement is required to determine and consider the currency that mainly influences sales prices of goods and services and of the country/jurisdiction whose competitive forces and regulations mainly determines the sales prices of goods and services; the currency that mainly influences labour, materials and other costs of providing goods or services; the currency in which funds from financing activities are generated; and the currency in which receipts from operating activities are usually retained. The functional currency of each entity in the Group is determined based on management's assessment of the primary economic environment in which the entities operate. When the indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

(b) Key sources of estimation uncertainty

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

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Inventory value is reduced when the decision to markdown below cost is made. Management reassesses the estimations at the reporting date. The carrying amount of inventories is disclosed in note 21.

(ii) Provision for ECLs on trade receivables and finance lease receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and finance lease receivables. The provision rates are based on days past due or repayment schedule for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking factors are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The carrying amounts of trade receivables and finance lease receivables are disclosed in notes 22 and 20, respectively.

(iii) Depreciation and amortisation

The Group depreciates property, plant and equipment and amortises intangible assets with finite useful lives using straight-line method over the estimated useful lives, starting from the date on which the assets are placed into use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets. The carrying amounts of property, plant and equipment and intangible assets are disclosed in notes 14 and 15 respectively.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

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

(b) Key sources of estimation uncertainty (Continued)

(iv) Impairment of non-financial assets (other than goodwill)

The Group assesses at the end of each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This requires an estimation of the value-in-use of the cash-generating unit to which the asset is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

(v) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill is disclosed in note 16.

(vi) Warranty provision

The Group generally offers warranty for the energy saving products during which free warranty service for the repair and maintenance of parts and components under normal usage is provided to the customers. The warranty provision provided during the year, depending on the product type, was based on the past experience of the failure rate of the products in the warranty service period. The carrying amount of warranty provision is disclosed in note 28.

(vii) Income tax

The Group is subject to income taxes in Hong Kong and overseas locations. Judgement is required in determining the provision for income taxes. There are transactions for which ultimate tax determination is uncertain during the ordinary course of business. The Group recognised liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provision in the period in which such determination is made. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgment on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered. The carrying amount of provision for taxation amounted to approximately HK$13,854,000 (2018: HK$12,461,000). The carrying amount of deferred tax assets is disclosed in note 11(b).

(viii) Estimation of fair value of unlisted equity investment

The fair value of equity investment that is not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of the key assumptions used and the impact of changes to these assumptions are disclosed in note 42. The carrying amount of unlisted equity investment is disclosed in note 18.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

6. SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, financial information relating to these operations is reported internally and is regularly reviewed by the executive directors, being the chief operating decision maker, based on the following segments:

(1) Provision of leasing service of energy saving systems;

(2) Trading of energy saving products;

(3) Provision of consultancy service on leasing service of energy saving systems ("Consultancy service"); and

(4) Provision of artificial intelligence (AI) technology services, which offers a one-stop Building Operating System (BOS) for comprehensive building data acquisition, real-time monitoring, energy and environment optimisation through big data analytics and machine learning for building digital transformation ("Building AI SaaS").

Segment revenue below represents revenue from external customers. There were no inter-segment sales during the year.

	Leasing service of energy saving systems HK$'000	Trading of energy saving products HK$'000	Consultancy service HK$'000	Building AI SaaS HK$'000	Total HK$'000
Year ended 31 March 2019					
Revenue from external customers	15,344	208,249	21,788	1,155	246,536
Reportable segment profit/(loss)	8,236	76,006	19,837	(865)	103,214
Capital expenditure	3,580	–	–	–	3,580
Depreciation	4,157	–	–	–	4,157
As at 31 March 2019					
Reportable segment assets	94,331	371,523	43,298	362	509,514
Reportable segment liabilities	10,615	36,395	26	33	47,069

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

6. SEGMENT INFORMATION (Continued)

	Leasing service of energy saving systems HK$'000	Trading of energy saving products HK$'000	Consultancy service HK$'000	Building AI SaaS HK$'000	Total HK$'000
Year ended 31 March 2018					
Revenue from external customers	8,550	242,937	26,650	–	278,137
Reportable segment profit	4,294	113,665	25,219	–	143,178
Capital expenditure	108	–	–	–	108
Depreciation	331	–	–	–	331
As at 31 March 2018					
Reportable segment assets	105,328	305,247	48,822	–	459,397
Reportable segment liabilities	8,461	43,506	11	–	51,978

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented as follows:

	2019 HK$'000	2018 HK$'000
Reportable segment profit	**103,214**	143,178
Unallocated corporate income (note)	**47,921**	27,333
Unallocated corporate expenses (note)	**(98,265)**	(30,223)
Finance costs	**(18,197)**	(12,969)
Share of results of associates	**15,555**	18,066
Profit before income tax	**50,228**	145,385

Note: Unallocated corporate income mainly includes gain on deemed disposal of associates (note 7(b)) and gain on step acquisition (note 7(b)).

Unallocated corporate expenses mainly include fair value loss on equity investment at FVTPL (note 9), equity-settled share option expense (note 9), amortisation of intangible assets (note 9), provision for impairment loss of goodwill (note 9), legal and professional fees, salaries, other administrative expenses and other selling and distribution costs.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

6. SEGMENT INFORMATION (Continued)

	2019 HK$'000	2018 HK$'000
Reportable segment assets	**509,514**	459,397
Intangible assets	**6,115**	11,653
Goodwill	**67,582**	92,794
Interests in associates	**46,231**	73,462
Equity investment at FVTPL	**71,000**	–
Other financial assets at FVTPL	**10,436**	–
Available-for-sale investments	**–**	10,089
Pledged bank deposits	**2,500**	2,500
Cash and cash equivalents	**26,440**	37,023
Due from an associate	**30,353**	16,485
Deferred tax assets	**1,871**	97
Other corporate assets	**5,527**	4,126
Group assets	**777,569**	707,626

	2019 HK$'000	2018 HK$'000
Reportable segment liabilities	**47,069**	51,978
Borrowings	**114,343**	152,508
Finance lease obligations	**2,917**	3,514
Notes payable	**140,000**	130,000
Provision for taxation	**13,854**	12,461
Due to a related company	**280**	28
Due to directors	**4,600**	4,697
Other corporate liabilities (note)	**23,609**	22,538
Group liabilities	**346,672**	377,724

Note: Other corporate liabilities mainly include accruals and other payables for legal and professional fees, salaries and other operating expenses.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

6. SEGMENT INFORMATION (Continued)

The Group's revenue from external customers are divided into the following geographical areas:

	Revenue from external customers	
	2019	2018
	HK$'000	HK$'000
Hong Kong (domiciled)	**73,453**	53,039
Japan	**28,116**	32,225
Australia	**67,486**	30,195
Malaysia	**45,305**	3,547
Indonesia	**11,009**	145,679
Singapore	**12,974**	13,343
Macau	**5,000**	5
Other overseas locations	**3,193**	104
	246,536	278,137

The Group's non-current assets are located in Hong Kong and Malaysia, which are divided into the following geographical areas (other than financial instruments and deferred tax assets):

	Specified non-current assets	
	2019	2018
	HK$'000	HK$'000
Hong Kong (domiciled)	**120,909**	179,449
Malaysia	**27,554**	29,411
	148,463	208,860

The geographical location of revenue allocated is based on the location at which the goods were delivered and services were provided. The geographical location of non-current assets is based on the physical location of the assets. The Company is an investment holding company where the Group has majority of its operation and workforce in Hong Kong, and therefore, Hong Kong is considered as the Group's place of domicile for the purpose of the disclosures as required by HKFRS 8 "Operating Segments".

6. SEGMENT INFORMATION (Continued)

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenues. Revenue derived from these customers are as follows:

	Revenue from external customers	
	2019	2018
	HK$'000	HK$'000
Customer A #	**n/a**	145,679
Customer B ##	**28,116**	32,225
Customer C ##	**27,872**	30,195
Customer D ##	**45,895**	n/a
Customer E ##	**39,614**	n/a
Customer F ##	**36,340**	n/a

\# Attributable to segments of leasing service of energy saving systems and trading of energy saving products

\## Attributable to segment of trading of energy saving products

n/a Transactions did not exceed 10% of the Group's revenue

7. REVENUE AND OTHER INCOME AND GAINS

(a) Revenue represents the income from trading of energy saving products and provision of leasing, Consultancy service and Building AI SaaS. An analysis of revenue is as follows:

	2019	2018
	HK$'000	HK$'000
Revenue from contracts with customer within the scope of HKFRS 15		
Trading of energy saving products	**208,249**	242,937
Consultancy service income	**21,788**	26,650
Building AI SaaS income	**1,155**	–
	231,192	269,587
Revenue from other sources		
Leasing service income	**15,344**	8,550
	246,536	278,137
Timing of revenue recognition		
At a point in time	**230,037**	242,937
Transferred over time	**1,155**	26,650
	231,192	269,587

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

7. REVENUE AND OTHER INCOME AND GAINS (Continued)

(a) (Continued)

The following table provides information about trade receivables and contract liabilities from contracts with customers:

	31 March 2019 HK$'000	1 April 2018 HK$'000
Trade receivables (note 22)	397,005	321,606
Contract liabilities (note 27)	9,704	12,103

The contract liabilities are mainly related to the advance consideration of sales of goods received from customers.

As at 31 March 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is approximately HK$440,000. This amount represents revenue expected to be recognised in the future from partially-completed Building AI SaaS contracts. The Group will recognise the expected revenue in future when or as the service is rendered, which is expected to occur in the next 12 to 51 months.

(b) An analysis of the Group's other income and gains is as follows:

	2019 HK$'000	2018 HK$'000
Interest income		
– from bank deposits	34	15
– charged to amount due from an associate	–	470
– from other financial assets at FVTPL	435	–
– from other receivables (note 23(b))	64	–
– from advance to non-controlling interest (note 23(c))	37	–
– from available-for-sale investments	–	353
	570	838
Gain on step acquisition (note 35)	–	26,438
Fair value gains on other financial assets at FVTPL	33	–
Gain on deemed disposal of associates (note 17(c))	47,240	–
Others	521	762
	48,364	28,038

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8. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest expenses for financial liabilities carried at amortised cost:		
Interest on borrowings	**4,808**	4,425
Interest on notes payable	**12,619**	7,456
Interest on finance leases	**234**	49
	17,661	11,930
Transaction costs on bank borrowings and notes	**536**	1,039
	18,197	12,969

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2019 HK$'000	2018 HK$'000
Amortisation of intangible assets (included in administrative expenses)	**5,538**	347
Auditor's remuneration	**1,430**	1,280
Cost of inventories recognised as expenses		
– Cost of inventories sold	**128,288**	118,374
– Write-off of inventories	**–**	334
	128,288	118,708
Depreciation of property, plant and equipment		
– owned	**4,407**	690
– held under finance leases	**637**	27
	5,044	717
Employee benefit expenses (including directors' remuneration (note 10(a)))		
– Salaries and welfare	**21,372**	11,968
– Equity-settled share option expense	**5,949**	–
– Defined contributions	**1,137**	449
	28,458	12,417
Warranty provision, net of reversal	**772**	(104)
Bad debts written off	**–**	3
Provision for impairment loss of financial assets	**720**	–
Fair value loss on equity investment at FVTPL	**19,000**	–
Provision for impairment loss of goodwill	**25,831**	–
Losses on disposals of property, plant and equipment	**80**	567
Net foreign exchange loss	**8,343**	5,626
Minimum lease payments under operating leases in respect of offices, warehouses and an office equipment	**2,477**	1,518

NOTES TO THE FINANCIAL STATEMENTS

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10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Directors' remunerations are disclosed as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Defined contributions HK$'000	Total HK$'000
Year ended 31 March 2019					
Executive directors:					
Wong Man Fai Mansfield ("Mr. Mansfield Wong")	**–**	**1,680**	**1,419**	**18**	**3,117**
Lam Arthur ("Mr. Arthur Lam")	**–**	**1,680**	**1,419**	**18**	**3,117**
Independent non-executive directors:					
Chung Koon Yan	**228**	**–**	**13**	**–**	**241**
Cheung Yick Hung Jackie	**228**	**–**	**13**	**–**	**241**
Wong Chi Ying Anthony	**228**	**–**	**13**	**–**	**241**
Total	**684**	**3,360**	**2,877**	**36**	**6,957**
Year ended 31 March 2018					
Executive directors:					
Mr. Mansfield Wong	–	1,080	–	18	1,098
Mr. Arthur Lam	–	1,080	–	18	1,098
Independent non-executive directors:					
Chung Koon Yan	216	–	–	–	216
Cheung Yick Hung Jackie	216	–	–	–	216
Wong Chi Ying Anthony	216	–	–	–	216
Total	648	2,160	–	36	2,844

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, 2 (2018: 2) directors are included.

The analysis of the emolument of the remaining 3 highest paid individuals for the year (2018: 3) are set out below:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	**2,603**	2,160
Equity-settled share option expense	**1,518**	–
Defined contributions	**54**	54
	4,175	2,214

Their emoluments were within the following bands:

	2019 No. of individual	2018 No. of individual
Nil to HK$1,000,000	**2**	3
HK$2,500,001 to HK$3,000,000	**1**	–

(c) During the year, no director or any of the highest paid individuals waived or agreed to waive any emoluments (2018: Nil). No emoluments were paid by the Group to the directors or any of the highest paid individuals of the Group as bonuses, an inducement to join or upon joining the Group or compensation for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group (2018: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

11. INCOME TAX EXPENSE

(a) Income tax

The amount of taxation in the consolidated statement of comprehensive income represents:

	2019 HK$'000	2018 HK$'000
Current tax		
– Tax for the year	9,611	19,875
– Over-provision in respect of prior years	(406)	–
	9,205	19,875
Deferred tax		
– Current year	(215)	(45)
Income tax expense	8,990	19,830

Hong Kong profits tax is calculated at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong, except for the first HK$2,000,000 of qualified entity's assessable profit is calculated at 8.25%, which is in accordance with the new two-tiered profits tax rates regime with effect from the year of assessment 2018/19.

Provision for the EIT in the People's Republic of China (the "PRC") is calculated based on a statutory tax rate 25% (2018: 25%) of the estimated assessable profits as determined in accordance with the relevant income tax law in the PRC.

A subsidiary in Malaysia has elected to pay a lump sum income taxation charge of Malaysian Ringgit ("RM") 20,000 per annum. Another subsidiary in Malaysia has been granted pioneer status under the Promotion of Investments Act, 1986 by the Malaysian Investment Development Authority which exempts 100% of statutory income in relation to its principal activity of provision of energy management systems solutions.

NOTES TO THE FINANCIAL STATEMENTS

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11. INCOME TAX EXPENSE (Continued)

(a) Income tax (Continued)

The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of comprehensive income as follows:

	2019 **HK$'000**	2018 HK$'000
Profit before income tax	**50,228**	145,385
Tax calculated at the rates applicable to profits or losses in the tax jurisdictions concerned	**7,727**	24,289
Effect of share of results of associates	**(2,566)**	(2,981)
Effect of non-taxable revenue	**(7,795)**	(4,362)
Effect of non-deductible expenses	**11,685**	2,554
Effect of temporary differences not recognised	**(185)**	371
Effect of tax losses not recognised	**899**	19
Effect of utilisation of tax losses previously not recognised	**(184)**	–
Effect of tax exemption granted to a subsidiary in Malaysia	**–**	(30)
Over-provision in respect of prior years	**(406)**	–
Tax concession	**(185)**	(30)
Income tax expense	**8,990**	19,830

(b) Deferred tax

Details of the deferred tax assets recognised and movements during the year are as follows:

	Impairment loss HK$'000	**Tax depreciation** HK$'000	**Total** HK$'000
At 1 April 2017	–	52	52
Credited to profit or loss for the year	–	45	45
At 31 March 2018	–	97	97
Initial application of HKFRS 9 (note 2(a)(A))	1,559	–	1,559
At 1 April 2018	1,559	97	1,656
Credited to profit or loss for the year	129	86	215
At 31 March 2019	1,688	183	1,871

As at 31 March 2019, the Group has unutilised estimated tax losses of approximately HK$28,805,000 (2018: HK$22,956,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised estimated tax losses due to the unpredictability of future profit streams. The unutilised estimated tax losses of approximately HK$26,339,000 (2018: HK$22,956,000) can be carried forward indefinitely. Remaining tax losses will expire after five years from the year of assessment to which they relate to.

NOTES TO THE FINANCIAL STATEMENTS

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12. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2018: Nil).

13. EARNINGS PER SHARE

	2019 HK$'000	2018 HK$'000
Earnings		
Profit attributable to the owners of the Company	44,554	125,704

	2019 '000	2018 '000
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	549,589	500,000
Effect of dilutive potential ordinary shares:		
– Share options	1,114	–
Weighted average number of shares for the purpose of diluted earnings per share	550,703	500,000

NOTES TO THE FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Energy saving systems HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 April 2017					
Cost	216	467	5,957	6	6,646
Accumulated depreciation	(194)	(298)	(4,736)	–	(5,228)
Net book amount	22	169	1,221	6	1,418
Year ended 31 March 2018					
Opening net book amount	22	169	1,221	6	1,418
Additions	462	593	–	108	1,163
Acquired through step acquisition (note 35)	11	74	28,668	816	29,569
Transfer in/(out)	–	–	175	(175)	–
Reclassification	–	–	(3)	61	58
Disposals	–	(17)	(563)	–	(580)
Depreciation	(36)	(350)	(331)	–	(717)
Exchange realignment	–	2	–	–	2
Closing net book amount	459	471	29,167	816	30,913
At 31 March 2018 and 1 April 2018					
Cost	689	1,103	30,354	816	32,962
Accumulated depreciation	(230)	(632)	(1,187)	–	(2,049)
Net book amount	459	471	29,167	816	30,913
Year ended 31 March 2019					
Opening net book amount	**459**	**471**	**29,167**	**816**	**30,913**
Additions	**85**	**246**	**1,265**	**2,315**	**3,911**
Acquisition of a subsidiary (note 36)	**14**	**163**	**–**	**–**	**177**
Transfer in/(out)	**–**	**–**	**2,629**	**(2,629)**	**–**
Reclassification	**–**	**–**	**60**	**2**	**62**
Disposals	**–**	**–**	**(80)**	**–**	**(80)**
Depreciation	**(287)**	**(600)**	**(4,157)**	**–**	**(5,044)**
Exchange realignment	**(1)**	**(3)**	**(1,556)**	**(50)**	**(1,610)**
Closing net book amount	**270**	**277**	**27,328**	**454**	**28,329**
At 31 March 2019					
Cost	**775**	**1,486**	**32,014**	**454**	**34,729**
Accumulated depreciation	**(505)**	**(1,209)**	**(4,686)**	**–**	**(6,400)**
Net book amount	**270**	**277**	**27,328**	**454**	**28,329**

As at 31 March 2019, the Group's energy saving systems with an aggregate net booking amount of approximately HK$5,890,000 (2018: HK$6,076,000) were held under finance leases (note 30).

NOTES TO THE FINANCIAL STATEMENTS

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15. INTANGIBLE ASSETS

	Exclusive rights HK$'000
At 1 April 2017	
Cost	3,851
Accumulated amortisation	(3,851)
Net book amount	–
Year ended 31 March 2018	
Opening net book amount	–
Acquired through step acquisition (note 35)	12,000
Amortisation	(347)
Closing net book amount	11,653
At 31 March 2018 and 1 April 2018	
Cost	15,851
Accumulated amortisation	(4,198)
Net book amount	11,653
Year ended 31 March 2019	
Opening net book amount	**11,653**
Amortisation	**(5,538)**
Closing net book amount	**6,115**
At 31 March 2019	
Cost	**15,851**
Accumulated amortisation	**(9,736)**
Net book amount	**6,115**

Note:

Exclusive rights represented the exclusive rights to use some technical know-how of the lighting products and exclusive right on cooling related formula. Amortisation is provided on a straight-line basis over the estimated useful lives of 5 years and 9 years respectively.

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16. GOODWILL

	2019 HK$'000	2018 HK$'000
At beginning of the year	92,794	–
Acquired through step acquisition (note 35)	–	92,794
Acquisition of a subsidiary (note 36)	619	–
	93,413	92,794
Less: Provision for impairment loss of goodwill	(25,831)	–
At end of the year	67,582	92,794

The goodwill at 31 March 2019 comprises goodwill arising from acquisitions of Synergy Cooling Management Limited ("SCML") (note 35) and Negawatt Utility Limited ("NU") (note 36) which represents the control premium paid, skills and technical talent of their workforce and the expected synergies to be achieved from integrating them into the Group's existing businesses and future market development. These benefits could not be separately recognised from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Impairment testing on goodwill

The carrying amount of goodwill has been allocated to the cash generating unit ("CGU") for impairment testing as follows:

	2019 HK$'000	2018 HK$'000
Cooling business CGU	66,963	92,794
Building AI SaaS business CGU	619	–
	67,582	92,794

Cooling business CGU

The recoverable amount of cooling business CGU is determined using the value-in-use calculation based on cash flow projections from financial budgets approved by management covering a five-year period. The key assumptions for the value-in-use calculation are those regarding the discount rates, growth rates and revenue during the period. Cash flow beyond the five-year period are extrapolated using an estimated growth rate of 2% (2018: 3%) for this CGU, which does not exceed the long-term growth rate for the cooling business, and discount rate of 27% (2018: 21%), which is pre-tax and reflect specific risks relating to this CGU. The growth rate and revenue within the five-year period are determined based on the past performance and management's expectation of market development.

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16. GOODWILL (Continued)

Impairment testing on goodwill (Continued)

Cooling business CGU (Continued)

During the year, the cooling business CGU faced delay in the project development of the projects and uncertainty in current economic environment as a result of escalating uncertainty in the international trade conflicts. This had an adverse impact on the estimated value-in-use of that CGU and an impairment loss on goodwill of approximately HK$25,831,000 was recognised in other expenses. The recoverable amount of the cooling business CGU is approximately HK$140,000,000 as at 31 March 2019. As the carrying amount of the CGU has been reduced to its recoverable amount, any adverse change in the key assumptions used to calculate the recoverable amount would result in further impairment losses.

Building AI SaaS business CGU

The recoverable amount of Building AI SaaS business CGU is determined using the value-in-use calculation based on cash flow projections from financial budgets approved by management covering a five-year period. The key assumptions for the value-in-use calculation are those regarding the discount rates, growth rates and revenue during the period. Cash flow beyond the five-year period are extrapolated using an estimated growth rate of 3% for this CGU, which does not exceed the long-term growth rate for the Building AI SaaS business, and discount rate of 20%, which is pre-tax and reflect specific risks relating to this CGU. The growth rate and revenue within the five-year period are determined based on the past performance and management's expectation of market development.

The directors considered that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the Building AI SaaS business CGU's carrying amount to exceed its recoverable amount.

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17. INTERESTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Share of net assets	**21,637**	48,868
Goodwill	**24,594**	24,594
	46,231	73,462

Particulars of the associates, which are accounted for using the equity method in the consolidated financial statements, are as follows:

Name of companies	Place and date of incorporation	Issued share capital/ registered capital	Percentage of equity interest attributable to the Group: Direct	Percentage of equity interest attributable to the Group: Indirect	Principal activities	Notes
Kedah Synergy Limited ("Kedah Synergy") and its subsidiaries (collectively referred to as "Kedah Synergy Group")						
Kedah Synergy	BVI 18 April 2016	United States Dollar ("US$") 10,000	47.5%	–	Investment holding	(b)
Kedah Synergy Hong Kong Limited	Hong Kong 4 December 2017	HK$1	–	47.5%	Trading of energy saving products and provision of cost-saving energy management solutions	
Kedah Synergy Corporation (Pty) Ltd.	South Africa 30 October 2017	–	–	47.5%	Provision of cost-saving energy management solutions	

NOTES TO THE FINANCIAL STATEMENTS

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17. INTERESTS IN ASSOCIATES (Continued)

Name of companies	Place and date of incorporation	Issued share capital/ registered capital	Percentage of equity interest attributable to the Group		Principal activities	Notes
			Direct	Indirect		
Invinity and its subsidiaries (collectively referred to as "Invinity Group")						
Invinity	BVI 2 February 2018	US$10,150	– (2018: 23.65%)	–	Investment holding	(c)
Invinity Energy Limited	Hong Kong 7 November 2017	HK$10,000	–	– (2018: 23.65%)	Investment holding	
古丈縣宏源釩業有限責任公司	PRC 16 September 2003	Renminbi ("RMB") 200,000,000	–	– (2018: 16.56%)	Mining, processing and sales of vanadium materials	
湖南宏源新能源科技有限公司	PRC 19 April 2012	RMB95,000,000	–	– (2018: 16.56%)	Mining, processing and sales of vanadium materials	

All associates are unlisted corporate entities whose quoted market price is not available.

17. INTERESTS IN ASSOCIATES (Continued)

Notes:

(a) During the year ended 31 March 2018, SCML and its subsidiaries (collectively referred to as "SCML Group") ceased to be an associate of the Group and has become a subsidiary of the Company. In May 2017, the Group completed an additional investment of 13.25% in SCML Group, through acquiring from two other existing shareholders of SCML Group at an aggregate consideration of approximately HK$23,844,000. In March 2018, the Group completed an additional investment of 13.20% in SCML Group, through acquiring from an existing shareholder of SCML Group at a consideration of approximately HK$23,804,000 (the "March 2018 Acquisition"). Upon completion of the March 2018 Acquisition, the Group held equity interest of 63.04% in SCML Group and SCML Group has become an indirect non-wholly owned subsidiary of the Company thereafter. Details of the March 2018 Acquisition are disclosed in note 35.

(b) During the year ended 31 March 2018, the Group has further acquired 12.5% equity interest of Kedah Synergy from two other shareholders of Kedah Synergy at an aggregate consideration of HK$25,000,000 and held 47.5% equity interest accordingly.

(c) During the year ended 31 March 2018, Invinity was incorporated and the Group has invested US$3,200,000 (equivalent to approximately HK$24,800,000) as investment and held 23.65% equity interest in Invinity accordingly ("Subscription in Invinity"). The Group has the right to put the subscribed shares back to Invinity, on the condition that certain milestones have not been met. The put option is not recognised in the consolidated financial statements as the directors of the Company had assessed the fair value of the put option and considered the fair value is insignificant.

Since the completion of the Subscription in Invinity in March 2018, as part of the understanding among the Group and other shareholders of Invinity, the Group had participated in determining the overall policies and objectives of Invinity Group and had also been involved in its business planning and decision-making processes in operating and financial aspects. Invinity Group had been seeking for the most effective way to manage and operate the business, such as streamlining and shortening the decision making process. After careful consideration, on 26 September 2018, there was a consensus among other shareholders of Invinity that the Group would not have involvement of the board of directors of Invinity, and the Group no longer has the right to appoint a director to the board of Invinity. The Group has not been participating in the management and policy-making processes of Invinity Group since then. Accordingly, the Group lost significant influence in Invinity. The Group continues to hold approximately 23.65% equity interest in Invinity. Since the Group no longer has significant influence over Invinity Group, Invinity Group has been ceased to be associates of the Group from 26 September 2018 (the "Deemed Disposal") and a gain of approximately HK$47,240,000 (note 7(b)) recognised upon the Deemed Disposal, being the difference between the fair value of HK$90,000,000 and the carrying amount of the approximately 23.65% retained equity interest in Invinity as at 26 September 2018 (i.e. approximately HK$42,760,000 (31 March 2018: approximately HK$43,209,000), respectively after sharing approximately HK$449,000 loss from associates for the period from 1 April 2018 to 25 September 2018). As such, the Group's equity interest in Invinity was accounted for as an equity investment of the Group at FVTPL under the relevant accounting principle (note 18).

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17. INTERESTS IN ASSOCIATES (Continued)

The summarised financial information of SCML Group extracted from management accounts up to completion of the March 2018 Acquisition prepared in accordance with HKFRS is set out below:

	2019 HK$'000	2018 HK$'000
Revenue	n/a	7,283
Loss from continuing operations	n/a	(12,372)
Post-tax profit or loss from discontinued operation	n/a	–
Other comprehensive income	n/a	(5)
Total comprehensive income	n/a	(12,377)
Dividends received from SCML Group	n/a	–

The summarised financial information of Kedah Synergy Group extracted from management accounts prepared in accordance with HKFRS is set out below:

	2019 HK$'000	2018 HK$'000
Non-current assets	53,897	230
Current assets	68,280	50,282
Current liabilities	(76,625)	(38,598)
Non-current liabilities	–	–

	2019 HK$'000	2018 HK$'000
Revenue	98,035	36,966
Profit from continuing operations	33,692	14,312
Post-tax profit or loss from discontinued operation	–	–
Other comprehensive income	(54)	–
Total comprehensive income	33,638	14,312
Dividends received from Kedah Synergy Group	–	–

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17. INTERESTS IN ASSOCIATES (Continued)

Reconciliation to the Group's interests in Kedah Synergy Group as at reporting dates:

	2019 HK$'000	2018 HK$'000
Net assets of Kedah Synergy Group	**45,552**	11,914
Percentage of equity interest attributable to the Group	**47.5%**	47.5%
The Group's share of Kedah Synergy Group's net assets	**21,637**	5,659
Goodwill	**24,594**	24,594
Carrying amount of the Group's interests in Kedah Synergy Group	**46,231**	30,253

The summarised financial information Invinity Group extracted from management accounts up to the Deemed Disposal prepared in accordance with HKFRS is set out below:

	2019 HK$'000	2018 HK$'000
Non-current assets	**n/a**	386,701
Current assets	**n/a**	49,546
Current liabilities	**n/a**	(59,317)
Non-current liabilities	**n/a**	(83,347)
Non-controlling interests	**n/a**	(110,844)

	2019 HK$'000	2018 HK$'000
Revenue	**–**	–
Loss from continuing operations	**(1,900)**	–
Post-tax profit or loss from discontinued operation	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**(1,900)**	–
Dividends received from Invinity Group	**–**	–

Reconciliation to the Group's interests in Invinity Group as at reporting dates:

	2019 HK$'000	2018 HK$'000
Net assets attributable to owners of Invinity	**n/a**	182,739
Percentage of equity interest attributable to the Group	**n/a**	23.65%
Carrying amount of the Group's interests in Invinity Group	**n/a**	43,209

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18. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 HK$'000	2018 HK$'000
Unlisted equity investment, at fair value	**71,000**	–

The unlisted equity investment represented the Group's investment in Invinity. The directors consider that the Group has no significant influence over Invinity following the Deemed Disposal, thus it is accounted for as an equity investment at FVTPL thereafter. Details of the Deemed Disposal are set out in note 17(c).

19. OTHER FINANCIAL ASSETS AT FAIR VALUE THOUGH PROFIT OR LOSS/ AVAILABLE-FOR-SALE INVESTMENTS

	2019 HK$'000	2018 HK$'000
Investment in life insurance policy, at fair value	**10,436**	10,089
Classified as:		
Other financial assets at FVTPL	**10,436**	–
Available-for-sale investments	**–**	10,089

The Group entered into contracts with an insurance company which contains life insurance policy to insure against the death of two members of senior management of the Group with insured sum of US$4,000,000 (equivalent to approximately HK$31,275,000). Under these contracts, the beneficiary and policy holder is a wholly-owned subsidiary of the Group. The Group has paid a one-off premium payment of US$1,533,000 (equivalent to approximately HK$11,986,000) during the year ended 31 March 2018. The Group has the right to terminate the policy at any time and receive cash back based on the cash value of the policy at the date of termination, which is determined by the premium payment plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge. The insurer will declare interest (including the guaranteed interest) to the Group on a monthly basis, based on the amount of account value, at a rate to be determined at insurer's own discretion.

The other financial assets at FVTPL (2018: available-for-sale investments) have been pledged to a bank as securities for bank borrowings of approximately HK$9,784,000 (2018: HK$10,350,000) granted to the Group.

The investment in life insurance policy was reclassified from available-for-sale investments to financial assets at FVTPL upon the initial application of HKFRS 9 on 1 April 2018 as disclosed in note 2(a)(A). The fair value gains amounting to approximately HK$33,000 has been recognised in the profit or loss for the year (note 7(b)) (2018: other comprehensive income).

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19. OTHER FINANCIAL ASSETS AT FAIR VALUE THOUGH PROFIT OR LOSS/ AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Included in other financial assets at FVTPL/available-for-sale investments are the following amounts denominated in currencies other than the functional currencies:

	2019 **HK$'000**	2018 HK$'000
US$	**10,436**	10,089

20. FINANCE LEASE RECEIVABLES

The Group provides financial leasing service of energy saving products. The Group's finance lease receivables are as follows:

	Minimum lease payments		**Present values of minimum lease payments**	
	2019 **HK$'000**	2018 HK$'000	**2019** **HK$'000**	2018 HK$'000
Within one year	**15,818**	16,201	**12,671**	12,218
In the second to fifth years, inclusive	**49,200**	62,997	**44,712**	55,282
More than five years	**–**	2,883	**–**	2,844
	65,018	82,081	**57,383**	70,344
Less: Unearned finance lease income	**(7,635)**	(11,737)	**n/a**	n/a
Present value of minimum lease payments	**57,383**	70,344	**57,383**	70,344
Less: Provision for impairment loss	**(713)**	–	**(713)**	–
	56,670	70,344	**56,670**	70,344
Analysed for reporting purposes as:				
– Current assets			**12,607**	12,218
– Non-current assets			**44,063**	58,126
			56,670	70,344

The effective interest rates of the Group's finance leases are ranging from 5% to 87% per annum (2018: 5% to 87%). There are no unguaranteed residual values of assets under finance leases. Finance lease receivables are secured over the energy saving products. No contingent rent arrangements were made during the years ended 31 March 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

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20. FINANCE LEASE RECEIVABLES (Continued)

Included in finance lease receivables are the following amounts denominated in currencies other than the functional currencies:

	2019 HK$'000	2018 HK$'000
Indonesian Rupiah ("IDR")	**54,829**	69,410

The Group has assigned receivables of a customer to a bank to secure banking facilities of HK$100,000,000 (2018: HK$100,000,000) granted to the Group (the "Assignment"). As at 31 March 2019, there were bank loan balances of approximately HK$60,077,000 (2018: HK$66,069,000) secured by the Assignment. As at 31 March 2019, finance lease receivables of approximately HK$54,829,000 (2018: HK$69,410,000) were subject to the Assignment.

Further details on the Group's credit policy and credit risk arising from finance lease receivables are set out in note 42.

21. INVENTORIES

	2019 HK$'000	2018 HK$'000
Finished goods	**457**	8,006

22. TRADE RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**417,032**	335,351
Less: Provision for impairment loss	**(11,035)**	–
Trade receivables, net	**405,997**	335,351
Classified as:		
Non-current assets (note)	**83,776**	105,889
Current assets	**322,221**	229,462
	405,997	335,351

Note: The Group has offered settlement term to a customer attributed to the segment of trading of energy saving products, interest-bearing of 5% per annum with settlement schedule in 84 months ("84-months Credit Term"). As such, the fair value of the consideration attributable to the customer is determined by discounting the nominal amount of all future receipts using an imputed rate of interest of 5% per annum. During the year ended 31 March 2018, the settlement term offered to that customer was revised to 365 days (the "New Credit Term") for the sales after that change. The classification of the recorded trade receivables before the New Credit Term negotiated still followed the 84-months Credit Term.

22. TRADE RECEIVABLES (Continued)

The following table provides information about trade receivables from contracts with customers and other sources:

	31 March 2019 HK$'000	1 April 2018 HK$'000
Trade receivables from contracts with customers	**397,005**	321,606
Trade receivables from other sources	**8,992**	3,727
	405,997	325,333

The Group's trading terms with its customers are mainly on credit. Generally, the credit period is ranging from cash on delivery to 365 days, except for a customer who has been granted the settlement schedules of 84 months from the Group.

Based on invoices date, ageing analysis of the Group's trade receivables (net of provision for impairment loss) is as follows:

	2019 HK$'000	2018 HK$'000
0 to 30 days	**4,024**	72,022
31 to 90 days	**8,080**	21,165
91 to 180 days	**55,701**	30,456
181 to 365 days	**128,712**	132,511
Over 365 days	**209,480**	79,197
	405,997	335,351

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

22. TRADE RECEIVABLES (Continued)

Included in trade receivables are the following amounts denominated in currencies other than the functional currencies:

	2019 HK$'000	2018 HK$'000
US$	**165,148**	71,591
IDR	**192,645**	207,364

As at 31 March 2019, trade receivables of approximately HK$192,645,000 (2018: HK$207,364,000) were subject to the Assignment as detailed in note 20.

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 42.

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Notes	2019 HK$'000	2018 HK$'000
Current assets:			
Deposits	(a)	**18,874**	16,258
Prepayments		**1,328**	2,578
Other receivables	(b)	**2,180**	35
		22,382	18,871
Non-current assets:			
Rental deposits		**206**	38
Other receivables	(c)	**1,000**	–
		1,206	38

Notes:

(a) Deposits mainly represented the deposits paid to suppliers for purchase of goods.

(b) Included in the other receivables as at 31 March 2019 represented the amount due from Invinity of approximately HK$1,938,000 (2018: Nil). The balance is unsecured, bore fixed interest rate of 12% per annum and repayable within six months.

(c) It represented the advance to non-controlling interest with principal amount of HK$1,000,000 (2018: Nil), which was unsecured, bore fixed interest rate of 5% per annum and repayable by July 2020.

NOTES TO THE FINANCIAL STATEMENTS

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24. DUE FROM/TO AN ASSOCIATE/A RELATED COMPANY/DIRECTORS

(a) Amount due from an associate of approximately HK$30,353,000 as at 31 March 2019 (2018: HK$16,485,000) represented the net non-trading outstanding balances with Kedah Synergy which were unsecured, interest-free and repayable on demand.

(b) Amount due to a related company of HK$280,000 as at 31 March 2019 (2018: HK$28,000) represented the outstanding payables of computer software consultancy service to a related company as detailed in note 39(a)(iii), wholly owned by Mr. Mansfield Wong. The balances were unsecured, interest free, and repayable on demand.

(c) Amounts due to directors of approximately HK$4,600,000 as at 31 March 2019 (2018: HK$4,697,000) were unsecured, interest-free and repayable on demand.

25. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

	Note	**2019** **HK$'000**	2018 HK$'000
Cash and bank balances		**28,940**	39,523
Less: Pledged bank deposits	(a)	**(2,500)**	(2,500)
Cash and cash equivalents		**26,440**	37,023

Notes:

(a) Bank deposits have been pledged to a bank as securities for banking facilities of HK$15,000,000 (2018: HK$15,000,000) granted to the Group. As at 31 March 2019, there were bank loan balances of approximately HK$13,750,000 (2018: HK$15,000,000), as set out in note 29.

(b) As at 31 March 2019, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$539,000 (2018: HK$810,000). The RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS

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25. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS (Continued)

Included in cash and cash equivalents are the following amounts denominated in currencies other than the functional currencies:

	2019 HK$'000	2018 HK$'000
US$	**6,987**	7,588
RM	**45**	40

The Group's cash at banks earns interest at floating rates based on daily bank deposit rates.

26. TRADE PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	**20,771**	21,708
Classified as:		
Non-current liabilities	**9,334**	11,197
Current liabilities	**11,437**	10,511
	20,771	21,708

Based on goods receipts date, ageing analysis of the Group's trade payables is as follows:

	2019 HK$'000	2018 HK$'000
0 to 30 days	**862**	8,653
31 to 90 days	**751**	1,079
91 to 180 days	**114**	3,374
181 to 365 days	**4,785**	318
Over 365 days	**14,259**	8,284
	20,771	21,708

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26. TRADE PAYABLES (Continued)

The Group generally made purchase with various terms, operating on cash on delivery or payment in advance terms, except for a supplier who has granted a settlement schedule of up to 60 months to the Group. As such, the fair value of the consideration attributable to the supplier is determined by discounting the nominal amount of all future payments.

Included in trade payables are the following amounts denominated in currencies other than the functional currencies:

	2019 **HK$'000**	2018 HK$'000
US$	**570**	795
RMB	**16,918**	17,413

27. CONTRACT LIABILITIES

	31 March **2019** **HK$'000**	1 April 2018 HK$'000	31 March 2018 HK$'000
Contract liabilities arising from:			
Trading of energy saving products	**9,704**	12,103	–

Contract liabilities represented advance payments received from customers for goods that the control of the products have not been transferred to the customers.

The Group expects to deliver the goods to satisfy the remaining obligations of these contract liabilities within one year or less.

NOTES TO THE FINANCIAL STATEMENTS

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27. CONTRACT LIABILITIES (Continued)

Movements in contract liabilities are as follows:

	HK$'000
Balance as at 1 April 2018	12,103
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(8,284)
Increase in contract liabilities as a result of billing in advance of sales of goods	5,885
Balance as at 31 March 2019	9,704

Note: The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 April 2018. Upon the adoption of HKFRS 15, amount previously included as "Deposits received" (note 28) have been reclassified to "Contract liabilities".

Included in contract liabilities as at 31 March 2019 are the advance payments received from Kedah Synergy Group amounted to approximately HK$3,800,000 (1 April 2018: HK$8,250,000).

28. ACCRUALS, OTHER PAYABLES AND DEPOSITS RECEIVED

	Notes	**2019 HK$'000**	2018 HK$'000
Current liabilities:			
Accruals		**7,529**	6,936
Other payables	(a)	**23,217**	27,425
Warranty provision	(b)	**2,558**	1,786
Deposits received	(c)	**1,275**	12,937
		34,579	49,084
Non-current liabilities:			
Deposits received	(c)	**5,624**	3,724

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

28. ACCRUALS, OTHER PAYABLES AND DEPOSITS RECEIVED (Continued)

Notes:

(a) Included in the other payables is the consideration payable for the investment in Invinity of approximately HK$12,400,000 (2018: HK$12,400,000) which will be paid when certain milestones are met (note 17).

(b) The movements in the warranty provision are as follows:

	2019 HK$'000	2018 HK$'000
At beginning of the year	**1,786**	1,930
Provision for the year	**1,215**	601
Unused amounts reversed	**(443)**	(705)
Amounts utilised	**–**	(36)
Exchange realignment	**–**	(4)
At end of the year	**2,558**	1,786

The Group records its warranty liability at the time of sales rendered based on estimated costs. Warranty claims are reasonably predictable based on historical failure rate information. The warranty provision is reviewed yearly to verify it properly reflects the outstanding obligation over the warranty period.

(c) Included in the deposits received as at 31 March 2018 are the trade deposits received from Kedah Synergy Group amounted to approximately HK$8,250,000.

The deposits received as at 31 March 2019 represented the receipt in advance from customers for leasing service.

Included in accruals and other payables are the following amounts denominated in currencies other than the functional currencies:

	2019 HK$'000	2018 HK$'000
RMB	**–**	108
RM	**807**	776
IDR	**5,703**	10,499
US$	**12,408**	12,400

NOTES TO THE FINANCIAL STATEMENTS

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29. BORROWINGS

	Notes	2019 HK$'000	2018 HK$'000
Secured and guaranteed bank loans:			
Amounts repayable within one year		**34,323**	32,586
Unsecured and guaranteed bank loans:			
Amounts repayable within one year		**10,000**	30,000
Unsecured and guaranteed other loans:			
Amounts repayable within one year		**9,482**	10,356
Amounts repayable after one year but contain a repayable on demand clause	(b)	**11,250**	18,750
Current liabilities		**65,055**	91,692
Secured and guaranteed bank loans:			
Amounts repayable in second to fifth year	(a)	**49,288**	58,833
Unsecured and guaranteed other loans:			
Amounts repayable in second to fifth year		**–**	1,983
Non-current liabilities		**49,288**	60,816
Total borrowings		**114,343**	152,508

NOTES TO THE FINANCIAL STATEMENTS

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29. BORROWINGS (Continued)

Notes:

(a) The bank loans classified as non-current liabilities of approximately HK$49,288,000 as at 31 March 2019 (2018: HK$58,833,000) represented bank loans scheduled for repayment after 31 March 2020 (2018: 31 March 2019). The related credit facilities agreements contain a clause that provides the bank with overriding right to demand repayment at any time after the committed period. The committed period will end on 30 April 2020 (2018: 30 April 2019) and accordingly, the bank loans were classified as non-current liabilities as at 31 March 2019 and 2018.

(b) The Group entered into a loan agreement with an independent third party which gives the independent third party the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has met the scheduled repayment obligations.

(c) As at 31 March 2019, the Group's interest-bearing borrowings bore effective interest rate ranging from 1.74% to 4.65% per annum (2018: 1.53% to 6.61%).

(d) As at 31 March 2019, the bank loans are secured by the pledge of bank deposits of approximately HK$2,500,000 (2018: HK$2,500,000) (note 25), finance lease receivables of approximately HK$54,829,000 (2018: HK$69,410,000) (note 20) under the Assignment, trade receivables of approximately HK$192,645,000 (2018: HK$207,364,000) (note 22) under the Assignment and other financial assets at FVTPL (2018: available-for-sale investments) of approximately HK$10,436,000 (2018: HK$10,089,000) (note 19). The bank loans and other loans are also under the corporate guarantees from the Company and/or Synergy Group Worldwide Limited ("Synergy Worldwide"), a subsidiary of the Company.

(e) The Group's credit facilities amounted to approximately HK$173,274,000 (2018: HK$194,759,000), of which all have been utilised as at 31 March 2019 (2018: HK$181,959,000).

Based on the schedule repayment dates set out in the bank loan and other loan agreements, the borrowings are repayable as follows:

	2019 **HK$'000**	2018 HK$'000
Within one year	**53,805**	72,942
In the second year	**28,589**	27,621
In the third to fifth year	**31,949**	51,945
	114,343	152,508

NOTES TO THE FINANCIAL STATEMENTS

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30. FINANCE LEASE OBLIGATIONS

The Group leases energy saving products under finance leases. The Group's finance lease obligations are as follows:

	Minimum lease payments		Present values of minimum lease payments	
	2019 **HK$'000**	2018 HK$'000	**2019** **HK$'000**	2018 HK$'000
Within one year	**1,649**	1,769	**1,471**	1,542
In the second to fifth years, inclusive	**1,606**	2,099	**1,446**	1,972
	3,255	3,868	**2,917**	3,514
Less: Future finance charges	**(338)**	(354)	**n/a**	n/a
Present value of minimum lease payments	**2,917**	3,514	**2,917**	3,514
Analysed for reporting purposes as:				
– Current liabilities			**1,471**	1,542
– Non-current liabilities			**1,446**	1,972
			2,917	3,514

The effective interest rates of the Group's finance leases are ranging from 8% to 10% per annum (2018: 8% to 12%). Finance lease obligations are secured over the leased assets. No contingent rent arrangements were made during the years ended 31 March 2019 and 2018.

31. NOTES PAYABLE

	Notes	**2019** **HK$'000**	2018 HK$'000
HK$70,000,000 (2018: HK$80,000,000) 9.5% (2018: 9%) notes	(a)	**70,000**	80,000
HK$50,000,000 10% notes	(b)	**50,000**	50,000
HK$20,000,000 2.5% promissory notes	(c)	**20,000**	–
		140,000	130,000
Classified as:			
Non-current liabilities		**–**	50,000
Current liabilities		**140,000**	80,000
		140,000	130,000

31. NOTES PAYABLE (Continued)

Notes:

(a) HK$70,000,000 (2018: HK$80,000,000) 9.5% (2018: 9%) notes

During the year ended 31 March 2018, the Company issued secured guaranteed notes with a principal amount of HK$80,000,000 at 9% per annum with a term of 12 months extendable to up to 36 months at the noteholder's discretion (the "9% Notes"). The 9% Notes are secured by personal guarantees by Mr. Mansfield Wong and Mr. Arthur Lam and charges over shares in the Company beneficially owned by Mr. Mansfield Wong, Mr. Arthur Lam and an independent third party. During the year, the Company repaid HK$10,000,000 of the principal to the noteholder upon a mutual agreement and the term of 9% Notes was extended from 12 months to 24 months and the interest rate is revised to 9.5% per annum.

The details of the redemption of the 9% Notes are as follows:

(i) Redemption at maturity

Unless previously redeemed or purchased and cancelled, the Company shall redeem all the outstanding 9% Notes held by a noteholder on the maturity date at an amount equal to the aggregate of (i) the aggregate principal amount of such outstanding 9% Notes held by the noteholder, (ii) any accrued but unpaid interest (including any default interest) on such outstanding 9% Notes and (iii) all other outstanding amounts under the transaction documents of the 9% Notes.

(ii) Company's early redemption rights

The Company may request to redeem the outstanding 9% Notes in full, but not in part, held by a noteholder, at the end of the first six months after the issue date, and thereafter, at the end of each three-month period but before the maturity date at an amount equal to the aggregate of (i) the aggregate principal amount of the outstanding 9% Notes held by the noteholder, (ii) any accrued but unpaid interest (including any default interest) on such outstanding 9% Notes, (iii) an amount that would yield an internal rate of return of 12% on the aggregate principal amount of the 9% Notes held by the noteholder from the issue date until the date on which the entire outstanding amount of such redemption price has been fully paid by the Company to the noteholder and (iv) all other outstanding amounts under the transaction documents of the 9% Notes.

(iii) Noteholder's redemption rights

Should any of the event of default set out in the agreement of the 9% Notes has occurred, the holder of the 9% Notes may require the Company to redeem all or a portion of the 9% Notes at an amount equal to the aggregate of (i) the relevant aggregate principal amount of the outgoing 9% Notes held by the noteholder, (ii) any accrued but unpaid interest (including any default interest) on the outgoing 9% Notes, (iii) an amount that would yield an internal rate of return of 18% on the relevant aggregate principal amount of the outgoing 9% Notes held by the noteholder calculated from the issue date until the date on which the entire outstanding amount of such redemption price has been fully paid by the Company to the noteholder and (iv) all other outstanding amounts under the transaction documents of the 9% Notes.

In the opinion of the directors, the economic characteristics and risks of the Company's early redemption rights and the noteholder's redemption rights are not closely related to the host debt contract of the 9% Notes. The Company's early redemption rights and the noteholder's redemption rights are not recognised in the consolidated financial statements as the directors had assessed the fair values of the Company's early redemption rights and the noteholder's redemption rights and considered the fair values are insignificant.

NOTES TO THE FINANCIAL STATEMENTS

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31. NOTES PAYABLE (Continued)

Notes: (Continued)

(b) HK$50,000,000 10% notes

During the year ended 31 March 2017, the Company issued redeemable senior notes with an aggregate principal amount of HK$50,000,000 at 10% per annum with a term of 36 months (the "10% Notes").

The details of the redemption of the 10% Notes are as follows:

(i) Redemption at maturity

Unless previously redeemed, purchased and cancelled, the Company shall pay to each holder of the 10% Notes on the maturity date of the 10% Notes an aggregate price of (i) the outstanding principal amount on the maturity date of the 10% Notes, (ii) all accrued and unpaid interest and unpaid default interest of the 10% Notes (if any) and (iii) all other outstanding amounts payable by the Company to the holder of such 10% Notes.

(ii) Company's early redemption rights

The Company shall have the right to redeem the 10% Notes, in whole or in part, at any time during the period between the expiration of the first month from the issue date and the last day immediately preceding the maturity date in an amount equivalent to the sum of (i) 100% of the outstanding principal of the 10% Notes to be redeemed, (ii) all accrued but unpaid interest up to the redemption date and default interest (if any), and (iii) all other outstanding amounts payable by the Company to the holder of such 10% Notes.

(iii) Noteholder's redemption rights

Should any of the event of default set out in the agreement of the 10% Notes occurs and is continuing, the holder of the 10% Notes may exercise a redemption right to demand the 10% Notes held by such holder to become due and payable immediately, in whole or in part, in an amount equivalent to the sum of (i) the outstanding principal amount of the 10% Notes, (ii) such amount as would result in an internal rate of return of 16% per annum on the outstanding principal amount of the 10% Notes (inclusive of all interest and the default interest payable by the Company).

In the opinion of the directors, the economic characteristics and risks of the Company's early redemption rights are closely related to the host debt contract of the 10% Notes. Therefore, the Company does not account for the Company's early redemption rights separately.

In the opinion of the directors, the economic characteristics and risks of the noteholder's redemption rights are not closely related to the host debt contract of the 10% Notes. The noteholder's redemption rights are not recognised in the consolidated financial statements as the directors had assessed the fair values of the noteholder's redemption rights and considered the fair value is insignificant.

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31. NOTES PAYABLE (Continued)

Notes: (Continued)

(c) HK$20,000,000 2.5% notes

During the year, the Company issued a promissory note with a principal amount of HK$20,000,000 at 2.5% per annum with a term of 12 months (the "2.5% Note"). The Company may prepay all or any portion of the interest and the unpaid principal balance of the 2.5% Note without penalty or premium. Should any of the event of default set out in the agreement of the 2.5% Note happens, the holder of the 2.5% Note may require the Company to repay all or a portion of the outstanding principal together with all interest accrued to the noteholder unless otherwise agreed between the Company and the noteholder.

32. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 April 2017, 31 March 2018 and 1 April 2018 and 31 March 2019	50,000,000,000	500,000
Issued and fully paid:		
At 1 April 2017, 31 March 2018 and 1 April 2018	500,000,000	5,000
Issue of shares by placing (note)	50,000,000	500
At 31 March 2019	550,000,000	5,500

Note:

On 4 April 2018, the Company issued 50,000,000 shares by way of placing at HK$1.09 each. Net proceeds of approximately HK$52,911,000 were raised, comprising share capital of HK$500,000 and share premium of HK$54,000,000, net of share issue expenses of approximately HK$1,589,000.

NOTES TO THE FINANCIAL STATEMENTS

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33. RESERVES

Details of the movements on the Group's reserves are set out in the consolidated statement of changes in equity.

Share premium

The share premium represents the excess of the proceeds received over the nominal value of the Company's shares issued.

Share option reserve

Cumulative expenses recognised on the granting of share options to the employees over the vesting period.

Capital reserves

Capital reserves represent the capital contributions made by a shareholder of Synergy Worldwide before a group reorganisation completed during the year ended 31 March 2015 and the effect of dilution of interest in a subsidiary during the year.

Merger reserve

Merger reserve of the Group represented the difference between the nominal value of the Company's shares issued, pursuant to the reorganisation and the nominal value of the aggregate share capital and the share premium of a subsidiary.

Available-for-sale investment revaluation reserve

Gains/losses arising on recognising financial assets classified as available-for-sale at fair value.

Foreign exchange reserves

Gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

Retained profits

Cumulative net gains and losses recognised in profit or loss.

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33. RESERVES (Continued)

Company

	Share premium HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000 (note)	Accumulated losses HK$'000	Total HK$'000
At 1 April 2017	34,749	–	3,236	(13,027)	24,958
Loss for the year and total comprehensive income for the year	–	–	–	(12,591)	(12,591)
At 31 March 2018 and 1 April 2018	**34,749**	**–**	**3,236**	**(25,618)**	**12,367**
Issue of shares, net of share issue expenses (note 32)	**52,411**	**–**	**–**	**–**	**52,411**
Equity-settled share option arrangements	**–**	**5,949**	**–**	**–**	**5,949**
Loss for the year and total comprehensive income for the year	**–**	**–**	**–**	**(3,481)**	**(3,481)**
At 31 March 2019	**87,160**	**5,949**	**3,236**	**(29,099)**	**67,246**

Note:

The contributed surplus of the Company represented the difference between the net asset value of the subsidiary acquired and the nominal value of the share capital of the Company issued in exchange thereof pursuant to a group reorganisation completed during the year ended 31 March 2015.

NOTES TO THE FINANCIAL STATEMENTS

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34. OPERATING LEASE ARRANGEMENT

(a) As lessor

As at 31 March 2019, future minimum lease rental receivables under non-cancellable operating leases of the Group in respect of energy saving systems are as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**7,406**	9,299
Within second to fifth year	**15,011**	25,882
Over fifth year	**1,338**	2,984
	23,755	38,165

The Group leases energy saving systems under operating leases. The leases run for an initial period of 2 to 7 years (2018: 2 to 7 years). In addition to the minimum lease payments, the Group is entitled to receive contingent rents based on the actual saved energy amount less the guaranteed saved energy amount multiplied by pre-determined charged formula mutually agreed with lessees as stated in the relevant agreements. During the year, the Group received contingent rents recognised as leasing service income amounting to approximately HK$753,000 (2018: HK$124,000).

(b) As lessee

As at 31 March 2019, future minimum rental payables under non-cancellable operating leases of the Group in respect of offices, warehouses and an office equipment are as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**2,038**	1,118
Within second to fifth year	**1,250**	187
	3,288	1,305

The Group leases offices, warehouses and an office equipment under operating leases. The leases run for an initial period of 1 to 5 years (2018: 1 to 5 years), with options to renew the lease terms upon expiry when all terms are re-negotiated. None of these leases includes any contingent rentals.

35. STEP ACQUISITION FROM ASSOCIATE TO SUBSIDIARY IN PRIOR YEAR

On 20 March 2018, the Group entered into a sale and purchase agreement with a shareholder of SCML (the "Vendor"), pursuant to which the Group conditionally agreed to purchase and Vendor conditionally agreed to sell 13.20% equity interest in SCML at a consideration of HK$23,804,000 (the "Step Acquisition"). SCML and its subsidiaries are engaged in energy management businesses in Hong Kong and overseas markets. The Step Acquisition was made to further strengthen the Group's market positioning to be a one-stop energy saving solutions provider.

The Step Acquisition was completed on 20 March 2018 (the "Completion Date"). As at Completion Date, SCML has become a 63.04% owned subsidiary of the Company. In accordance with HKFRSs, the Group continued to share the results of SCML under the equity method of accounting during the period from 1 April 2017 to the Completion Date.

As at Completion Date, the Group remeasured the fair value of its previously held equity interest in SCML at the Completion Date and recognised a gain of approximately HK$26,438,000 on the remeasurement of the Group's pre-existing interest in SCML to acquisition date fair value which has been recognised to the profit or loss and presented as "Gain on step acquisition" under "Other income and gains" in the consolidated statement of comprehensive income.

Details of the carrying value and fair value of the Group's previously held equity interest in SCML at the Completion Date are summarised as follows:

	HK$'000
Fair value of previously held equity interest	63,000
Interest in SCML before the Step Acquisition	(36,562)
Gain on step acquisition	26,438

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35. STEP ACQUISITION FROM ASSOCIATE TO SUBSIDIARY IN PRIOR YEAR (Continued)

The fair values of identifiable assets and liabilities of SCML as at the date of acquisition were as follows:

	HK$'000
Property, plant and equipment	29,569
Intangible assets	12,000
Inventories	190
Trade receivables	3,494
Deposits, prepayments and other receivables	930
Cash and cash equivalents	818
Trade payables	(342)
Accruals, other payables and deposits received	(9,699)
Borrowings	(239)
Finance lease obligations	(3,514)
Due to directors	(4,697)
Due to the Group	(38,011)
Total identifiable net liabilities at fair value	(9,501)
Non-controlling interests	3,511
Total identifiable net liabilities at fair value attributable to the Group	(5,990)
Goodwill	92,794
	86,804
Satisfied by:	
Cash consideration	23,804
Fair value of previously held equity interest	63,000
	86,804

The fair value of trade receivables amounted to approximately HK$3,494,000. The gross amount of trade receivables is approximately HK$3,494,000. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

NOTES TO THE FINANCIAL STATEMENTS

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35. STEP ACQUISITION FROM ASSOCIATE TO SUBSIDIARY IN PRIOR YEAR (Continued)

The goodwill of approximately HK$92,794,000, which is not deductible for tax purposes, mainly represents the control premium paid, skills and technical talent of SCML's workforce and the expected synergies to be achieved from integrating SCML into the Group's existing businesses and future market development. These benefits could not be separately recognised from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The Group has elected to measure the non-controlling interests in SCML at its proportionate share of the acquired net identifiable liabilities. The amount of the non-controlling interests at the acquisition date amounted to approximately HK$3,511,000.

An analysis of the cash flows in respect of the Step Acquisition of SCML is as follows:

	HK$'000
Cash consideration paid	23,804
Cash and cash equivalents acquired	(818)
Net cash outflows arising from the Step Acquisition	22,986

Since the Completion Date, SCML has contributed revenue of approximately HK$474,000 to Group's revenue and loss of approximately HK$305,000 to Group's profit. If the acquisition had occurred on 1 April 2017, the Group's revenue and profit would have been approximately HK$282,331,000 and HK$115,937,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2017, nor is it intended to be a projection of future performance.

The acquisition-related costs of approximately HK$70,000 have been expensed and are included in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

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36. ACQUISITION OF A SUBSIDIARY DURING THE YEAR

On 4 July 2018, the Group entered into an agreement with, among others, NU and its shareholders, pursuant to which the Group agreed to subscribe for new shares in NU at the consideration of HK$1,200,000 payable in installments, and the Group became interested in approximately 60% of the shareholding in NU. NU is engaged in provision of Building AI SaaS service. The acquisition was made to exploit the niche and unique technology to broaden the services of the Group in order to create a comprehensive vertical supply chain and strengthen its leading position in the energy saving and management industry.

The fair values of identifiable assets and liabilities of NU as at the date of acquisition were as follows:

	HK$'000
Property, plant and equipment	177
Trade receivables	488
Deposits, prepayments and other receivables	1,237
Cash and cash equivalents	119
Trade payables	(320)
Accruals and other payables	(733)
Total identifiable net assets at fair value	968
Non-controlling interests	(387)
Total identifiable net assets at fair value attributable to the Group	581
Goodwill	619
	1,200
Satisfied by:	
Cash consideration paid as of 31 March 2019	900
Deferred consideration as of 31 March 2019	300
	1,200

The fair value of trade receivables amounted to approximately HK$488,000. The gross amount of trade receivables is approximately HK$488,000. None of the receivables have been impaired and it is expected that the full contractual amounts can be collected.

The goodwill of approximately HK$619,000, which is not deductible for tax purposes, mainly represents the control premium paid, skills and technical talent of NU's workforce and the expected synergies to be achieved from integrating NU into the Group's existing businesses and future market development. These benefits could not be separately recognised from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The Group has elected to measure the non-controlling interests in NU at its proportionate share of the acquired net identifiable assets. The amount of the non-controlling interests at the acquisition date amounted to approximately HK$387,000.

36. ACQUISITION OF A SUBSIDIARY DURING THE YEAR (Continued)

An analysis of the cash flows in respect of the acquisition of NU is as follows:

	HK$'000
Cash consideration paid as of 31 March 2019	900
Cash and cash equivalents acquired	(119)
Net cash outflows arising from the acquisition	781

Since the acquisition date, NU has contributed revenue of approximately HK$1,155,000 to Group's revenue and loss of approximately HK$1,972,000 to Group's profit. If the acquisition had occurred on 1 April 2018, the Group's revenue and profit would have been approximately HK$247,246,000 and HK$41,114,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2018, nor is it intended to be a projection of future performance.

The acquisition-related costs of approximately HK$105,000 have been expensed and are included in administrative expenses.

Dilution of interest in NU without loss of control

During the year, four independent third parties have injected capital into the holding company of NU for a total consideration of approximately HK$12,463,000. As a result, the Group's ownership interest in NU was diluted from 60% to approximately 51.87% but without loss of the control. The difference of approximately HK$6,546,000 between the carrying amount of non-controlling interests deemed disposed of and the capital injected was credited as capital reserve in the equity.

NOTES TO THE FINANCIAL STATEMENTS

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37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES		
Non-current assets		
Investment in a subsidiary	**13,335**	7,386
Current assets		
Prepayments	**244**	225
Due from subsidiaries	**203,718**	144,362
Cash and cash equivalents	**18**	–
	203,980	144,587
Current liabilities		
Accruals and other payables	**4,569**	4,606
Notes payable	**140,000**	80,000
	144,569	84,606
Net current assets	**59,411**	59,981
Total assets less current liabilities	**72,746**	67,367
Non-current liabilities		
Notes payable	**–**	50,000
Net assets	**72,746**	17,367
EQUITY		
Equity attributable to the owners of the Company		
Share capital	**5,500**	5,000
Reserves	**67,246**	12,367
Total equity	**72,746**	17,367

On behalf of the Board

Wong Man Fai Mansfield
Director

Lam Arthur
Director

NOTES TO THE FINANCIAL STATEMENTS

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38. INTERESTS IN SUBSIDIARIES

Details of subsidiaries as at 31 March 2019 are as follows:

Company name	Place and date of incorporation	Particulars of issued share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Principal place of operation
			Direct	Indirect		
Synergy Worldwide	BVI 8 August 2008	US$22,608	100%	–	Investment holding	Hong Kong
Synergy Lighting Limited	Hong Kong 3 December 2008	HK$100	–	100%	Leasing, consultancy services and trading of energy saving products	Hong Kong
Synergy Energy Saving Company Limited	Malaysia 17 October 2016	US$1	–	100%	Trading of energy saving products	Malaysia
Synergy Energy Efficiency Technology (China) Company Limited	Hong Kong 2 March 2017	HK$100	–	100%	Investment holding	Hong Kong
廣州先能馳節能科技有限公司*	PRC 27 June 2017	RMB10,000,000 (2018: RMB1,000,000)	–	100%	Trading of energy saving products and provision of energy management systems solutions	PRC
深圳先能馳節能科技有限公司**	PRC 28 March 2018	RMB10,000,000	–	100%	Inactive	PRC
Synergy Group Investment Holding (Saudi Arabia) Limited	BVI 31 October 2017	US$10,000	–	100%	Investment holding	Hong Kong
Synergy Investment Holding (Saudi Arabia) Limited	Hong Kong 9 November 2017	HK$10,000	–	100%	Inactive	Hong Kong
SCML	BVI 1 April 2011	US$18,400	–	63.04%	Investment holding	Hong Kong

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

38. INTERESTS IN SUBSIDIARIES (Continued)

Company name	Place and date of incorporation	Particulars of issued share capital/ registered capital	Attributable equity interest held by the Company		Principal activities	Principal place of operation
			Direct	Indirect		
Synergy Cooling Management (H.K.) Limited ("Synergy Cooling HK")	Hong Kong 21 April 2011	HK$1	–	63.04%	Leasing and maintenance services of cooling systems	Hong Kong
Synergy Cooling Management (Malaysia) Limited	BVI 11 November 2013	US$100	–	63.04%	Investment holding	Hong Kong
Synergy ESCO (Malaysia) Sdn. Bhd. ("Synergy ESCO (Malaysia)")	Malaysia 17 April 2014	RM950,000 (2018: RM750,000)	–	63.04%	Provision of energy management systems solutions	Malaysia
Synergy Cooling ESCO (HK) Limited	Hong Kong 11 June 2014	HK$1	–	63.04%	Provision of energy management systems solutions	Hong Kong
Negawatt Utility Group Holdings Limited ("NU BVI")	BVI 15 November 2018	US$28,925	–	51.87%	Investment holding	Hong Kong
NU	Hong Kong 20 July 2012	HK$3,550,000	–	51.87%	Provision of Building AI SaaS service	Hong Kong

* Registered as a wholly foreign-owned enterprise under the laws of the PRC

** Registered as a limited liability company under the laws of the PRC

NOTES TO THE FINANCIAL STATEMENTS

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38. INTERESTS IN SUBSIDIARIES (Continued)

The following table lists out the information relating to SCML Group and NU BVI and its subsidiary, NU (collectively referred to as "NU Group"), the subsidiaries of the Group which have material non-controlling interests. The summarised financial information presented below represents the amounts before any inter-company elimination.

	SCML Group		NU Group
	2019	2018	**2019**
	HK$'000	HK$'000	**HK$'000**
Non-controlling interests percentage	**36.96%**	36.96%	**48.13%**
As at 31 March			
Current assets	**8,523**	6,458	**12,768**
Non-current assets	**33,784**	41,221	**128**
Current liabilities	**(41,555)**	(37,123)	**(1,438)**
Non-current liabilities	**(17,601)**	(20,459)	**–**
Net (liabilities)/assets	**(16,849)**	(9,903)	**11,458**
Accumulated non-controlling interests	**(6,227)**	(3,660)	**5,515**
For the year ended 31 March			
Revenue	**14,676**	474	**1,155**
Loss for the year	**(6,853)**	(305)	**(1,972)**
Total comprehensive income	**(6,848)**	(305)	**(1,972)**
Loss allocated to non-controlling interests	**(2,531)**	(113)	**(789)**
Dividends paid to non-controlling interests	**-**	-	**-**
Cash flows generated from/(used in) operating activities	**13,395**	7,870	**(2,359)**
Cash flows (used in)/generated from investing activities	**(2,548)**	16	**826**
Cash flows (used in)/generated from financing activities	**(10,296)**	(8,205)	**13,698**
Net cash inflow/(outflow)	**551**	(319)	**12,165**

NOTES TO THE FINANCIAL STATEMENTS

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39. RELATED PARTY TRANSACTIONS

(a) Save as disclosed elsewhere in these financial statements, the Group had the following material related party transactions during the year:

	Notes	2019 HK$'000	2018 HK$'000
Leasing service income from an associate	(i)	–	1,089
Sales to associates	(ii)	45,895	18,976
Computer software consultancy service fees paid to a related company	(iii)	336	336
Rental expenses paid to a related company	(iv)	238	230
Interest income charged to an associate	(v)	–	453
Subcontracting fees paid to an associate	(vi)	–	204

Notes:

(i) The total leasing service income amounted to approximately HK$1,089,000 during the year ended 31 March 2018 was contributed from Synergy ESCO (Malaysia). The transactions with Synergy ESCO (Malaysia) were negotiated and carried out in the ordinary course of business and at terms agreed between parties. Synergy ESCO (Malaysia) ceased to be an associate of the Group since the Step Acquisition completed on 20 March 2018 (note 35).

(ii) The total sales of goods amounted to approximately HK$45,895,000 during the year (2018: HK$17,015,000) was contributed from Kedah Synergy Group. The transactions with Kedah Synergy Group were negotiated and carried out in the ordinary course of business and at terms agreed between the parties. The trade deposits received from Kedah Synergy Group as at 31 March 2019 and 2018 are detailed in notes 27 and 28, respectively.

The total sales of goods amounted to approximately HK$1,961,000 during the year ended 31 March 2018 was contributed from Synergy ESCO (Malaysia). The transactions with Synergy ESCO (Malaysia) were negotiated and carried out in the ordinary course of business and at terms agreed between the parties. Synergy ESCO (Malaysia) ceased to be an associate of the Group since the Step Acquisition completed on 20 March 2018 (note 35).

(iii) The Group has paid computer software consultancy service fees of HK$336,000 during the year (2018: HK$336,000) to a related company, which is wholly owned by Mr. Mansfield Wong. The transactions with the related company were negotiated and carried out in the ordinary course of business and at terms agreed between parties. The non-trading outstanding balances due to this related company as at 31 March 2019 and 2018 are detailed in note 24(b).

(iv) The Group has paid rental expenses of approximately HK$238,000 during the year (2018: HK$230,000) to a related company, in which Mr. Arthur Lam's close relative is a shareholder. The transactions with the related company were negotiated and carried out in the ordinary course of business and at terms agreed between parties.

NOTES TO THE FINANCIAL STATEMENTS

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39. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes: (Continued)

(v) The Group has charged interest income of approximately HK$453,000 to an associate, Synergy Cooling HK, during the year ended 31 March 2018. The transactions with Synergy Cooling HK were negotiated and carried out in the ordinary course of business and at terms agreed between the parties. Synergy Cooling HK ceased to be an associate of the Group since the Step Acquisition completed on 20 March 2018 (note 35).

(vi) The Group has paid subcontracting fees of approximately HK$204,000 to an associate, Synergy Cooling HK, during the year ended 31 March 2018. The transactions with Synergy Cooling HK were negotiated and carried out in the ordinary course of business and at terms agreed between the parties. Synergy Cooling HK ceased to be an associate of the Group since the Step Acquisition completed on 20 March 2018 (note 35).

(b) Other related party transactions

Mr. Mansfield Wong and Mr. Arthur Lam provided personal guarantees and charges over shares in the Company beneficially owned by them as security of the 9% Notes as detailed in note 31.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2019 **HK$'000**	2018 HK$'000
Short-term employee benefits	**5,796**	4,200
Equity-settled share option expense	**4,879**	–
	10,675	4,200

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

(i) During the year, the Group has transferred certain inventories to energy saving products and construction in progress with net book amount amounting to approximately HK$60,000 (2018: Nil) and HK$2,000 (2018: HK$61,000), respectively, upon the change of usage of energy saving products acquired.

(ii) During the year ended 31 March 2018, the Group has transferred certain energy saving systems to inventories with aggregate net book amount amounting to approximately HK$3,000 upon the change of usage of energy saving products acquired.

(iii) During the year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of approximately HK$1,053,000 (2018: Nil).

NOTES TO THE FINANCIAL STATEMENTS

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40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities

	Borrowings HK$'000	Finance lease obligations HK$'000	Notes payable HK$'000	Due to directors HK$'000
At 1 April 2017	111,792	–	50,000	–
Changes from financing cash flows:				
Interest paid on borrowings	(4,425)	–	–	–
Interest paid on notes	–	–	(7,456)	–
Interest element on finance lease payments	–	(49)	–	–
Proceed from borrowings	70,774	–	–	–
Repayment of borrowings	(30,297)	–	–	–
Proceeds from issue of notes	–	–	80,000	–
Total changes from financing cash flows	36,052	(49)	72,544	–
Other changes:				
Amounts recognised on step acquisition (note 35)	239	3,514	-	4,697
Interest expense	4,425	49	7,456	–
Total other changes	4,664	3,563	7,456	4,697
At 31 March 2018 and 1 April 2018	152,508	3,514	130,000	4,697
Changes from financing cash flows:				
Interest paid on borrowings	(4,808)	–	–	–
Interest paid on notes	–	–	(12,619)	–
Interest element on finance lease payments	–	(234)	–	–
Capital element of finance lease payments	–	(1,650)	–	–
Proceed from borrowings	12,800	–	–	–
Repayment of borrowings	(50,965)	–	–	–
Proceeds from issue of notes	–	–	20,000	–
Repayment of notes	–	–	(10,000)	–
Advance from a director	–	–	–	4,500
Repayments of advances from directors	–	–	–	(4,597)
Total changes from financing cash flows	(42,973)	(1,884)	(2,619)	(97)
Other changes:				
Interest expense	4,808	234	12,619	–
New finance lease	–	1,053	–	–
Total other changes	4,808	1,287	12,619	–
At 31 March 2019	114,343	2,917	140,000	4,600

41. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

A share option scheme (the "Share Option Scheme") adopted by the Company was approved by its shareholder on 5 March 2015 and amended on 26 October 2016.

Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from 5 March 2015. Under the Share Option Scheme, the directors may in its absolute discretion offer to grant to any qualified participant an option to subscribe for the number of shares at an exercise price determined by the directors, being at least the highest of (i) the closing price of shares of the Company as stated in the Stock Exchange's daily quotation sheets on the date of the offer of grant; (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares of the Company. The offer of a grant of options may be accepted within 20 business days from the date of the offer. HK$1.00 is payable by any qualified participant to the Company on acceptance of the option offer as consideration for the grant. Qualified participants include any director or employee (whether full time or part time) of the Company and its subsidiaries and associated companies (as defined under Hong Kong Companies Ordinance, Cap. 622).

The options granted may be exercised in whole or in part by the grantees. The exercise period of the options granted shall be a period of time to be notified by the directors to grantees, which the directors may in its absolute discretion determine, save that such period shall not be more than 10 years commencing on the date of the offer of grant.

The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share options schemes of the Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the shares of the Company then in issue. Any further grant of share options in excess of this limit is subject to the Company's shareholders' approval in a general meeting.

The maximum number of shares in respect of which options may be granted under this Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the listing date of the Company's shares, being 50,000,000 shares.

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

On 19 April 2018, the Company has granted a total of 21,532,400 share options to subscribe for an aggregate of 21,532,400 ordinary shares of HK$0.01 each in the capital of the Company, comprising (i) 11,150,000 share options to five directors; and (ii) 10,382,400 share options to certain qualified participants, being employees of the Group.

NOTES TO THE FINANCIAL STATEMENTS

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41. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(a) The terms and conditions of the grants are as follows:

Date of grant		Number of options granted	Vesting conditions	Contractual life of options
Options granted to directors:				
19 April 2018	Tranche 1	11,150,000	Date of grant	1 year
Options granted to employees:				
19 April 2018	Tranche 1	5,500,000	Date of grant	1 year
19 April 2018	Tranche 2	3,232,400	One year from the date of grant	2 years
19 April 2018	Tranche 3	1,650,000	Two years from the date of grant	3 years
		21,532,400		

(b) The number and weighted average exercise prices of share options are as follows:

	2019 Weighted average exercise price HK$	2019 Number
Outstanding at beginning of the year	**n/a**	**–**
Granted during the year	**1.268**	**21,532,400**
Forfeited during the year	**1.268**	**(26,200)**
Outstanding at end of the year	**1.268**	**21,506,200**
Exercisable at end of the year	**1.268**	**16,650,000**

None of the above share options were exercised during the year.

The exercise price of options outstanding at the end of the year was HK$1.268 and their weighted average remaining contractual life was approximately 0.6 year.

41. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimation of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

	Tranche 1	**Tranche 2**	**Tranche 3**
Share price (HK$)	1.25	1.25	1.25
Exercise price (HK$)	1.268	1.268	1.268
Expected volatility	53%	56%	83%
Expected option life	1 year	2 years	3 years
Expected dividend	0%	0%	0%
Risk-free rate	1.43%	1.60%	1.97%

The weighted average fair value of each option granted during the year was HK$0.31.

The expected volatility is based on the historic volatility (calculated based on the expected remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the grants of the share options.

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The board of directors meets periodically to analyse and formulate measures to manage and monitor the Group's exposure to market risk including principally changes in interest rates and currency exchange rates, credit risk and liquidity risk. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risks is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of the directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's interest rate risk arises primarily from borrowings, finance lease obligations and notes payables. Borrowings, finance lease obligations and notes issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively. The interest rates of the Group's borrowings, finance lease obligations and notes payable are disclosed in notes 29, 30 and 31, respectively. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expenses.

The following table details the interest rate profile of the Group's borrowings, finance lease obligations and notes payable at the end of the reporting period.

	2019		2018	
	Effective interest rate (%)	**HK$'000**	Effective interest rate (%)	HK$'000
Floating rate borrowings	**1.74% to 4.5%**	**112,361**	1.53% to 4.49%	147,669
Fixed rate borrowings	**4.65%**	**1,982**	4.65% to 6.61%	4,839
Fixed rate finance lease obligations	**8% to 10%**	**2,917**	8% to 12%	3,514
Fixed rate notes payable	**2.5% to 10%**	**140,000**	9% to 10%	130,000
		257,260		286,022

At 31 March 2019, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's results for the year by approximately HK$562,000 (2018: HK$738,000). No impact would be on other components of consolidated equity in response to the general increase/decrease in interest rates.

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31 March 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the borrowings, finance lease obligations and notes payable in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for year ended 31 March 2018.

Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. As at 31 March 2019, the Group's assets and liabilities denominated in currencies other than functional currencies are disclosed in notes 19, 20, 22, 25, 26 and 28. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group is mainly exposed to the foreign currency risk of RMB, US$, RM and IDR. As HK$ is pegged to US$, the Group does not expect any significant movement in the US$/HK$ exchange rate and this is excluded from the sensitivity analysis below as in the opinion of directors, such sensitivity analysis does not give additional value in view of insignificant movement in the US$/HK$ exchange rates as at the reporting dates.

The following table details the Group's sensitivity of the Group's results for the year in regards to a 5% appreciation in the underlying functional currencies against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's best assessment of the reasonably possible change in foreign exchange rates. A 5% depreciation in the underlying functional currencies against the relevant foreign currencies would have the same but opposite magnitude on the Group's results for the year.

	2019 **HK$'000**	2018 HK$'000
RMB	**(994)**	(1,086)
RM	**1**	1
IDR	**(12,374)**	(13,647)

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nevertheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk. The analysis is performed on the same basis for the year ended 31 March 2018.

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31 March 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instruments and cause a financial loss to the Group.

As at 31 March 2019, the Group's maximum exposure to credit risk is arising from the carrying amount of respective financial assets as stated in the consolidated statement of financial position.

The Group enters into trading transaction with the recognised and reputable third parties. Before accepting any new lease contract, the Group assesses the credit quality of each potential leasee and might demand certain customers to place deposits with the Group at the time the lease arrangement is entered into. In addition, the Group monitors and controls the trade receivables regularly to mitigate the risk of significant exposure from bad debts, reviews the recoverable amount of each individual trade receivables at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. Normally, the Group does not obtain collateral from customers.

The Group has concentration risk upon finance lease receivables and trade receivables through provision of leasing service of energy saving systems and trading of energy saving products contributing from an overseas customer in Indonesia (the "Indonesian Customer") during the year. The Group's aggregate amount of finance lease receivables and trade receivables of the Indonesian Customer amounted to approximately HK$247,474,000 as at 31 March 2019 (2018: HK$276,774,000).

The Group closely monitors the credit risk on individual customers based on their credit worthiness, assessments on the customer's past payments history and current ability to pay and take into account information specific to customers as well as pertaining to the economic environment in which the customers operate.

The Group measures loss allowances for trade receivables and finance lease receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status or repayment schedule is not further distinguished between the Group's different customer bases.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 March 2019:

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
Neither past due nor impaired	**0.58%**	**279,254**	**(1,615)**	**277,639**
1 to 30 days past due	**1.89%**	**66,620**	**(1,258)**	**65,362**
31 to 90 days past due	**4.10%**	**7,130**	**(292)**	**6,838**
91 to 180 days past due	**7.32%**	**5,960**	**(436)**	**5,524**
181 to 365 days past due	**9.51%**	**27,873**	**(2,651)**	**25,222**
Over 365 days past due	**15.84%**	**30,195**	**(4,783)**	**25,412**
		417,032	**(11,035)**	**405,997**

Expected loss rates are based on historical observed default rates. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The Group rebuts the presumption of default under ECL for trade receivables over 365 days past due based on the good repayment records of those customers and continuous business relationship with the Group.

The following table provides information about the Group's exposure to credit risk and ECLs for finance lease receivables as at 31 March 2019:

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
Within 1 year	0.51%	12,671	(64)	12,607
Within 1 – 2 years	0.99%	13,374	(132)	13,242
Within 2 – 3 years	1.43%	14,100	(201)	13,899
Within 3 – 4 years	1.79%	14,333	(257)	14,076
Within 4 – 5 years	2.03%	2,905	(59)	2,846
		57,383	(713)	56,670

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

For other receivables and amount due from an associate, management makes periodic as individual assessment on the recoverability based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information starting from 1 April 2018. Management believes that there is no material credit risk inherent in the Group's outstanding balance of other receivables and amount due from an associate.

The credit risk for bank balances is mitigated as cash is deposited in bank of high credit rating. There has been no recent history of default in relation to these banks and thus the risk of default is regard as low.

No significant changes to estimation techniques or assumptions were made during the year.

Prior to 1 April 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 4(k)(B)(ii)). At 31 March 2018, no trade receivables were determined to be impaired. Ageing analysis of the Group's trade receivables that are not impaired is as follows:

	2018 HK$'000
Neither past due nor impaired	226,023
1 to 30 days past due	17,652
31 to 90 days past due	11,722
91 to 180 days past due	14,012
181 to 365 days past due	51,036
Over 365 days past due	14,906
	335,351

At 31 March 2018, the Group's trade receivables are individually determined for impairment testing. At 31 March 2018, the Group's trade receivables that were neither past due nor impaired for whom there was no recent history of default. The Group's management considers that trade receivables that were past due but not impaired under review are of good credit quality. Impairment losses in respect of trade receivables are recorded using allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 **HK$'000**	2018 HK$'000
Balance at 31 March under HKAS 39	**–**	1,190
Impact of initial application of HKFRS 9 (note 2(a)(A))	**10,018**	–
Restated balance at 1 April	**10,018**	1,190
Impairment losses recognised (note 9)	**1,017**	–
Written off against trade receivables	**–**	(1,190)
Balance at 31 March	**11,035**	–

The origination of new trade receivables net of those settled resulted in an increase in loss allowance.

Movement in the loss allowance account in respect of finance lease receivables during the year is as follows:

	2019 **HK$'000**	2018 HK$'000
Balance at 31 March under HKAS 39	**–**	–
Impact of initial application of HKFRS 9 (note 2(a)(A))	**1,010**	–
Restated balance at 1 April	**1,010**	–
Reversal of impairment losses (note 9)	**(297)**	–
Balance at 31 March	**713**	–

The settlement of finance lease receivables net of those originated resulted in a decrease in loss allowance.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents assessed as adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on internally generated funding and borrowings as significant sources of liquidity.

The maturity profile of the Group's financial liabilities, based on the contractual undiscounted payments, are as follows:

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 6 months or on demand HK$'000	Within 6-12 months HK$'000	Within 1-2 years HK$'000	Within 2-3 years HK$'000	Over 3 years HK$'000
At 31 March 2019							
Trade payables	20,771	20,771	9,056	2,381	3,834	3,135	2,365
Accruals and other payables	24,295	24,295	24,295	-	-	-	-
Borrowings	114,343	118,934	40,375	15,875	30,008	20,238	12,438
Finance lease obligations	2,917	3,255	865	784	844	254	508
Notes payable	140,000	152,233	5,853	146,380	-	-	-
Due to a related company	280	280	280	-	-	-	-
Due to directors	4,600	4,600	4,600	-	-	-	-
	307,206	324,368	85,324	165,420	34,686	23,627	15,311

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 6 months or on demand HK$'000	Within 6-12 months HK$'000	Within 1-2 years HK$'000	Within 2-3 years HK$'000	Over 3 years HK$'000
At 31 March 2018							
Trade payables	21,708	21,708	8,182	2,329	3,491	3,426	4,280
Accruals and other payables	26,451	26,451	26,451	–	–	–	–
Borrowings	152,508	159,688	60,698	15,419	29,774	27,280	26,517
Finance lease obligations	3,514	3,868	989	780	1,476	623	–
Notes payable	130,000	144,813	6,100	83,713	55,000	–	–
Due to a related company	28	28	28	–	–	–	–
Due to directors	4,697	4,697	4,697	–	–	–	–
	338,906	361,253	107,145	102,241	89,741	31,329	30,797

NOTES TO THE FINANCIAL STATEMENTS

31 March 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value measurement

The fair values of the Group's current portion of financial assets and liabilities measured at amortised cost are not materially different from their carrying amounts because of the immediate or short term maturity. The fair value of the non-current portion of financial assets and liabilities measured at amortised cost are not disclosed because the values are not materially different from their carrying amounts.

The following table provides an analysis of financial instruments carried at fair value by level of the fair value hierarchy:

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3:	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		2019		
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Equity investment at FVTPL				
Unlisted equity investment	**–**	**–**	**71,000**	**71,000**
Other financial assets at FVTPL				
Investment in life insurance policy	**–**	**10,436**	**–**	**10,436**
	–	**10,436**	**71,000**	**81,436**

		2018		
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Available-for-sale investments				
Investment in life insurance policy	–	10,089	–	10,089

There were no transfers between different levels during the year.

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31 March 2019

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value measurement (Continued)

Information about level 2 fair value measurements

The fair value of investment in life insurance policy is determined based on the cash value as stated in the cash surrender value statement issued by the insurer.

Information about level 3 fair value measurements

The fair value of the unlisted equity investment in Invinity is estimated using a discounted cash flow method.

The following table summarises the quantitative information about the significant unobservable inputs used in Level 3 fair value measurements:

Description	Fair value at		Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
	31 March 2019 HK$'000	31 March 2018 HK$'000				
Unlisted equity investment	**71,000**	n/a	Discounted cash flow method	Weighted average cost of capital	14%	A 5% increase (decrease) in WACC would result in decrease (increase) in fair value by approximately HK$4,000,000
				Discount for lack of marketability	35%	A 5% increase (decrease) in discount for lack of marketability would result in decrease (increase) in fair value by approximately HK$2,000,000

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

	Unlisted equity investment	
	2019 HK$'000	2018 HK$'000
At beginning of the year	**–**	–
Arising from the Deemed Disposal (note 17(c))	**90,000**	–
Fair value adjustment	**(19,000)**	–
At end of the year	**71,000**	–

Fair value adjustment of unlisted equity investment at FVTPL was recognised in the line item "other expenses" on the face of the consolidated statement of comprehensive income.

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43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments are as follows:

Financial assets

	2019 HK$'000	2018 HK$'000
Financial assets at FVTPL		
Equity investment at FVTPL	**71,000**	–
Other financial assets at FVTPL	**10,436**	–
	81,436	–
Available-for-sale financial assets	**–**	10,089
At amortised cost		
Trade receivables	**405,997**	–
Finance lease receivables	**56,670**	–
Other receivables	**3,180**	–
Due from an associate	**30,353**	–
Pledged bank deposits	**2,500**	–
Cash and cash equivalents	**26,440**	–
	525,140	–
Loans and receivables		
Trade receivables	**–**	335,351
Finance lease receivables	**–**	70,344
Other receivables	**–**	35
Due from an associate	**–**	16,485
Pledged bank deposits	**–**	2,500
Cash and cash equivalents	**–**	37,023
	–	461,738

Financial liabilities

	2019 HK$'000	2018 HK$'000
At amortised cost		
Trade payables	**20,771**	21,708
Accruals and other payables	**24,295**	26,451
Borrowings	**114,343**	152,508
Finance lease obligations	**2,917**	3,514
Notes payable	**140,000**	130,000
Due to a related company	**280**	28
Due to directors	**4,600**	4,697
	307,206	338,906

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44. CAPITAL MANAGEMENT

The Group's capital management objectives include:

(i) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for owners and benefits for other stakeholders;

(ii) to support the Group's stability and growth; and

(iii) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholders' returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose net debt is defined as borrowings, finance lease obligations and notes payable less cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

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

	2019 **HK$'000**	2018 HK$'000
Borrowings	**114,343**	152,508
Finance lease obligations	**2,917**	3,514
Notes payable	**140,000**	130,000
Less: Cash and cash equivalents	**(26,440)**	(37,023)
Net debt	**230,820**	248,999
Total equity	**430,897**	329,902
Net debt to equity ratio	**54%**	75%

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