# Synergy Group

Green tech 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

# 2019/20

Annual Report 年報

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# FINANCIAL SUMMARY

| | 2020 HK$'000 | 2019* HK$'000 | 2018 HK$'000 | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|---|---|
| Revenue | **129,288** | 246,536 | 278,137 | 256,607 | 130,068 |
| Continuing operations | **126,547** | 245,381 | 278,137 | 256,607 | 130,068 |
| Leasing services of energy saving systems | **11,161** | 15,344 | 8,550 | 97,198 | 21,383 |
| Trading of energy saving products | **96,121** | 208,249 | 242,937 | 137,440 | 78,896 |
| Consultancy service | **19,265** | 21,788 | 26,650 | 21,969 | 29,789 |
| Discontinued operations | **2,741** | 1,155 | – | – | – |
| Building AI (artificial intelligence) SaaS (Software-as-a-Service) | **2,741** | 1,155 | – | – | – |
| Gross profit/(loss) | **67,486** | 105,698 | 147,729 | 124,975 | 69,213 |
| Continuing operations | **70,108** | 106,563 | 147,729 | 124,975 | 69,213 |
| Discontinued operations | **(2,622)** | (865) | – | – | – |
| EBITDA (note 1) | **(84,507)** | 79,007 | 159,418 | 91,811 | 46,840 |
| EBIT (note 1) | **(95,722)** | 68,425 | 158,354 | 90,752 | 45,035 |
| (Loss)/profit attributable to the owners of Synergy Group Holdings International Limited (the "**Company**") | **(109,762)** | 44,554 | 125,704 | 74,072 | 35,402 |
| Basic (loss)/earnings per share (HK cents) | **(20.0)** | 8.1 | 25.1 | 14.8 | 7.1 |
| Diluted (loss)/earnings per share (HK cents) | **(20.0)** | 8.1 | 25.1 | 14.8 | 7.1 |
| Adjusted profit attributable to the owners of the Company excluding some major extraordinary or non-operating income and expenses (note 2) | **16,061** | 60,287 | 86,720 | n/a | n/a |
| Adjusted basic earnings per share (HK cents) (note 2) | **2.9** | 11.0 | 17.3 | n/a | n/a |
| Adjusted diluted earnings per share (HK cents) (note 2) | **2.9** | 11.0 | 17.3 | n/a | n/a |
| Total assets | **650,588** | 777,569 | 707,626 | 409,782 | 189,416 |
| Total liabilities | **335,506** | 346,672 | 377,724 | 204,072 | 57,180 |
| Net assets | **315,082** | 430,897 | 329,902 | 205,710 | 132,236 |

# FINANCIAL SUMMARY

* The Group has disposed of its 51.87% equity interest in Negawatt Utility Group Holdings Limited and its subsidiaries ("**Negawatt Group**") during the year ended 31 March 2020. The business of Building AI (artificial intelligence) SaaS, which are carried out by Negawatt Group has been presented as discontinued operations in the consolidated financial statements for the year ended 31 March 2020 and 2019.

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 19 to 20 of this report.

- The Group's revenue decreased by 48.5% from approximately HK$245.4 million for the year ended 31 March 2019 to approximately HK$126.5 million for the year ended 31 March 2020.
- The Group's gross profit decreased by 34.2% from approximately HK$106.6 million for the year ended 31 March 2019 to approximately HK$70.1 million for the year ended 31 March 2020.
- The Group's profit attributable to owners of the Company amounted to approximately HK$44.6 million for the year ended 31 March 2019 while the Group's loss attributable to owners of the Company amounted to approximately HK$109.8 million for the year ended 31 March 2020.
- The Group's adjusted profit attributable to owners of the Company excluding some major extraordinary or non-operating income and expenses decreased by 73.3% from approximately HK$60.3 million for the year ended 31 March 2019 to approximately HK$16.1 million for the year ended 31 March 2020.
- Basic or diluted earnings per share was approximately HK8.1 cents for the year ended 31 March 2019 while basic or diluted loss per share was approximately HK20.0 cents for the year ended 31 March 2020. Adjusted basic or diluted earnings per share calculated with reference to the adjusted profit decreased by 73.6% from approximately HK11.0 cents for the year ended 31 March 2019 to approximately HK2.9 cents for the year ended 31 March 2020.

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**"), I am pleased to present the audited annual results of Synergy Group Holdings International Limited (the "**Company**", together with its subsidiaries collectively referred to as the "**Group**") for the year ended 31 March 2020.

2019 was a very challenging year that had brought new risks and challenges: with COVID-19, and areas of geopolitical unrest had severely impacted the global economy. Through careful observations, the Group continues to be well-equipped to solidify our established market position in the green tech industry in Hong Kong and globally.

As reflected in the Company's motto: "Green tech economy; our new economy", we are committed to vitalizing a "Sustainable World" and will continue to move forward to courageously new and greater heights.

On behalf of the Board, I would like to express my sincere gratitude to all of our shareholders, investors, clients and business partners for their ongoing support. I would also like to extend my sincere appreciation to the Group's management and staff for their persistent efforts, commitment and dedication.

**WONG Man Fai Mansfield**
*Chairman, Chief Executive Officer and Executive Director*

Hong Kong
31 July 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

The total revenue of the Group was approximately HK$126.5 million for the year ended 31 March 2020, representing a decrease of approximately 48.4% as compared to that for the year ended 31 March 2019. The decrease in revenue was mainly attributable to the decrease in revenue in the trading of energy saving products segment due to the drop in customer demand and the delays in delivery of products as the customers and the distributors were adversely affected by the negative economic effects from the escalating uncertainty in the international trade policy, the global financial conditions and the outbreak of COVID-19 during the year ended 31 March 2020. Gross profit margin increased from approximately 43.4% for the year ended 31 March 2019 to approximately 55.4% for the year ended 31 March 2020. The increase mainly due to less sales in the trading segment which have a relatively lower gross profit margin than the leasing and consultancy segment.

Other income and gains for the year ended 31 March 2020 of approximately HK$5.2 million mainly included the gain on write off of deposit of approximately HK$3.5 million, and while the 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.

### Selling and distribution costs

The Group's selling and distribution costs for the year ended 31 March 2020 were approximately HK$5.3 million, representing a decrease of approximately 14.5% from approximately HK$6.2 million for the year ended 31 March 2019. 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 decrease of marketing fee due to less marketing activities was engaged during the year ended 31 March 2020.

### Administrative expenses

The Group's administrative expenses for the year ended 31 March 2020 were approximately HK$59.5 million, representing an increase of approximately 24.0% from approximately HK$48.0 million for the year ended 31 March 2019. The increase was mainly due to 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.

### Finance costs

The Group's finance costs were approximately HK$18.7 million for the year ended 31 March 2020, which were relatively stable compared to HK$18.2 million for the year ended 31 March 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Other expenses

The Group's other expenses increased to approximately HK$108.6 million for the year ended 31 March 2020 from approximately HK$45.9 million for the year ended 31 March 2019. The increase was mainly due to the increase in the provision for impairment of goodwill of Synergy Cooling Management Limited ("**SCML**") and its subsidiaries (collectively, "**SCML Group**") to approximately HK$32.4 million during the year ended 31 March 2020 from approximately HK$25.8 million during the year ended 31 Mar 2019, which was mainly due to the delays in progress of the major projects carried out by the SCML Group, where some of the projects involved the change of energy saving equipment in government buildings, hotels and clinics in Malaysia, which were adversely affected by COVID-19. The fair value loss on the equity investment increased to HK$22.0 million during the year ended 31 Mar 2020 from HK$19.0 million during the year ended 31 March 2019, which was mainly due to the significant decrease in the market price of vanadium. Provision for impairment loss of financial assets also increased by approximately HK$50.1 million during the year ended 31 March 2020, which was mainly due to the increase in the relevant expected credit losses as some of the customers were partly affect by outbreak of COVID-19 and had delayed their payments to the Group.

### Financial Assets Impairment

The Group has elected to measure loss allowances for trade receivables and finance lease receivables using Hong Kong Financial Reporting Standard 9 "Financial Instruments" ("**HKFRS 9**") simplified approach and has calculated expected credit losses ("**ECLs**") based on lifetime ECLs. The Group has established a provision matrix that is based on historical observed default rates, adjusted for forwardlooking factors specific to the debtors and the economic environment. To measure the ECLs using provision rates, trade receivables and finance lease receivables have been grouped based on shared credit risk characteristics and the days past due or repayment schedule.

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.

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 historical observed default rates, adjusted for forward-looking factors specific to the debtors and the economic environment. To measure the ECLs using provision rates, trade receivables and finance lease receivables have been grouped based on shared credit risk characteristics and the days past due or repayment schedule.

# MANAGEMENT DISCUSSION AND ANALYSIS

The expected credit losses were assessed taking into account the probability of default, exposure at default and loss given default. Probability of default is the risk that the borrower will be unable or unwilling to repay its debt in full or on time. The risk of default is derived by analyzing the obligor's capacity to repay the debt in accordance with contractual terms. It is generally associated with financial characteristics such as inadequate cash flow to service debt, declining revenues or operating margins, high leverage, declining or marginal liquidity, and the inability to successfully implement a business plan. The assessment of the default probabilities were referenced to Bloomberg, and the average cumulative issuer weighted global default rates stated in Annual Default Study: Defaults will edge higher in 2020 published by Moody's. Forward-looking information has been considered in adjusting the historical default rates to reflect forecasts of future economic conditions when calculating the expected credit losses, with reference to the default rate forecasts projected by Moody's.

According to Moody's, the macroeconomic and credit factors in formulating the default rate forecasts include performance of the economy, unemployment, high-yield spread, trade and geopolitical risks potentially clouding credit conditions, and the outbreak of the COVID-19 which demonstrated the potential for market swings.

Exposure at default is the amount of money that is invested in certain financial instrument that is exposed to credit risk. It represents the gross exposure under a facility upon default of an obligor, or a loss that a lender would suffer if the borrower (counterparty) fully defaults on his debt (e.g. cannot repay the loan received). The exposure at default was referenced to the amount of outstanding balances of the trade and finance lease receivables as at 31 March 2020.

Loss given default is the share of a financial asset that the lender shall lose if a borrower defaults and is calculated as "1 - recovery rate", in which the recovery rate is the remaining share of a financial asset that is expected to recover when a borrower defaults. The recovery rates for business enterprises in various countries or regions were referenced to the research from the World Bank.

The Financial Assets Impairment was due to the increase in the relevant ECLs, with the amount of approximately HK$11.0 million as at 31 March 2019 to HK$60. 8 million as at 31 March 2020. The Group first became aware of the Financial Assets Impairment in March 2020 when the Group took into account of the adverse effect brought by the outbreak of COVID-19, which increased the expected default rate. The increase in ECLs was due to the increase in default risk and credit risk of the debtors arising from the unfavorable macroeconomic environment because of the outbreak of COVID-19 as well as the longer ageing of the trade receivables during the year, in which some of the customers were affected by the outbreak of COVID-19 and had delayed their payments to the Group. The provision of ECLs was also adjusted for forward-looking factors specific to the debtors and the economic environment, where the unfavourable macroeconomic environment due to the outbreak of COVID-19 had been accounted for.

# MANAGEMENT DISCUSSION AND ANALYSIS

The tables below set out the comparison in key inputs used in the valuation of the expected credit loss of trade and finance lease receivables as at 31 March 2020 and 31 March 2019:

| Expected loss rate of trade receivables by past due status | **As at 31 March 2020** | As at 31 March 2019 |
|---|---|---|
| Neither past due nor impaired | **2.85%** | 0.58% |
| 1 to 30 days past due | **3.49%** | 1.89% |
| 31 to 90 days past due | **9.77%** | 4.10% |
| 91 to 180 days past due | **9.96%** | 7.32% |
| 181 to 365 days past due | **18.27%** | 9.51% |
| Over 365 days past due | **29.59%** | 15.84% |

| Expected loss rate of finance lease receivables by year | **As at 31 March 2020** | As at 31 March 2019 |
|---|---|---|
| Within 1 year | **2.03%** | 0.51% |
| Within 1 – 2 years | **4.15%** | 0.99% |
| Within 2 – 3 years | **6.31%** | 1.43% |
| Within 3 – 4 years | **7.49%** | 1.79% |
| Within 4 – 5 years | **5.37%** | 2.03% |
| Over 5 years | **6.02%** | N/A |

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 increase in expected loss rates was mainly due to the increase in the historical observed default rates and the forward-looking adjustment that may impact the customers' ability to repay the outstanding balances.

# MANAGEMENT DISCUSSION AND ANALYSIS

Impairment of goodwill

The Group owns approximately 63.04% interest in SCML, SCML became an indirect non-wholly owned subsidiary of the Group on 20 March 2018. The Directors performed impairment test on the goodwill of HK$66,963,000 (i.e. before recognition of the impairment loss of the year ended 31 March 2020) attributed to the cash-generating unit of SCML Group following the principles and requirements in Hong Kong Accounting Standard 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 2020 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 the first five years of the cash inflows forecast, the Directors estimated SCML Group's performance with reference to SCML Group's performance in the past three years and the Directors' understanding of the latest market developments and negotiation stages with various potential customers in the market where SCML Group is in.

For the net cash inflows in the sixth year and afterwards, the Directors applied a flat growth rate to the net cash inflows of the fifth year to extrapolate the future net cash inflows. In respect of the determination of the value in use of the cash-generating unit of SCML Group as at 31 March 2020 for financial reporting purpose, the Group has engaged an independent valuer to assist the Company in the relevant calculation of the value in use.

# MANAGEMENT DISCUSSION AND ANALYSIS

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, the COVID-19 situation since January 2020, 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$140 million as at 31 March 2019 to approximately HK$73 million as at 31 March 2020. Taking into account of the above factors, an impairment loss of approximately HK$32.4 million (the "**Impairment Loss**") was recognised for the year ended 31 March 2020.

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

| | | HK$'000 |
|---|---|---|
| **Carrying amount:** | | |
| Goodwill (grossed up) | Note (a) | 106,216 |
| Intangible assets | | 577 |
| Other non-financial assets | | 17,567 |
| | | 124,360 |
| **Recoverable amount:** | | 73,000 |
| Difference in recoverable amount and carrying amount | | 51,360 |
| Goodwill impairment | Note (b) | 32,379 |

Note (a) 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 2020 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 international trade conflicts effects and the COVID-19 situation, there was a delay in the development of the then existing projects in Malaysia.

In view of the uncertainty in the current economic environment as a result of the escalating uncertainty in the international trade conflicts since late 2018 and the COVID-19 situation delaying in the project development of the projects, the value in use of the cash-generating unit of SCML Group was lowered from approximately HK$140 million as at 31 March 2019 to approximately HK$73 million as at 31 March 2020. Taking into account of the above factors, the Impairment Loss of approximately HK$32.4 million was recognised for the year ended 31 March 2020.

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 2019 and 2020 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 2020 (i.e. HK$73 million) and 31 March 2019. The valuation approach has been consistently applied as at 31 March 2020 and 2019.

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.

# MANAGEMENT DISCUSSION AND ANALYSIS

The discounted cash flow analysis of the Income Approach, in particular, the free cash flows to the firm technique ("**FCFFB**", 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.

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 2021 ("**FY2021**") | 22,544 | N/A |
| Year ending 31 March 2022 ("**FY2022**") | 32,404 | 44% |
| Year ending 31 March 2023 ("**FY2023**") | 2,528 | –92% |
| Year ending 31 March 2024 ("**FY2024**") | 2,260 | –11% |
| Year ending 31 March 2025 ("**FY2025**") | 1,980 | 12% |

The table below sets out the comparable inputs used in the valuation of SCML Group as at 31 March 2020 and 31 March 2019:

| | **Valuation as at 31 March 2020** | Valuation as at 31 March 2019 |
|---|---|---|
| WACC (pre-tax) | **28%** | 27% |
| Long-term terminal growth rate | **2%** | 2% |
| Net cash flow, in HK$'000: | | |
| Year 1 to Year 3 | **57,476** | 191,849 |
| Year 4 to Year 5 | **4,240** | 20,463 |

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 COVID-19 situation, the expected cash flows contributed to SCML Group were reduced.

# MANAGEMENT DISCUSSION AND ANALYSIS

Details of the impact on the major projects during the year are as follows:

(i) The MOD Project and the MOH Project

The energy saving project at government buildings under the Ministry of Defense (the "**MOD Project**"), with the aim to reduce energy consumption at government buildings in Malaysia, and the energy saving project at hospitals and clinics under the Ministry of Health of Malaysia (the "**MOH Project**"), with the aim to reduce energy consumption at the hospitals and clinics in Malaysia, were adversely affected because of the outbreak of COVID-19, as the logistics arrangements were put on hold due to the lock down in Malaysia.

The Company first became aware of the delay in the projects around March 2020. While the Company had completed energy saving projects for five hospitals owned by the Ministry of Health of Malaysia ("**MOH**") in 2019, further energy saving projects with the MOH and the Ministry of Defense of Malaysia were put on hold since Malaysia was under lock down with the Movement Control Order issued in March 2020 in response to the outbreak of COVID-19.

(ii) The China Tower Project

The energy saving project with a Hong Kong-listed company, China Tower Corporation Limited (the "**China Tower Project**"), with the aim to reduce energy consumption at base stations at China, was adversely affected because the potential transaction which provides energy saving services to a mechanical room of China Tower Corporation in Zhejiang province was on hold due to the outbreak of COVID-19.

The Company first became aware of the delay in the China Tower Project around January 2020. During 2019, the project was still under progress where the directors of the Company travelled to Zhejiang province to discuss on the details of the project on 3 December 2019. However, since the outbreak of COVID-19 around January 2020 in China, further discussions were placed on hold. Without any further communications for months, the Directors currently have stopped any further marketing efforts.

(iii) The CIMC Project

The cooling saving management solution project (the "**CIMC Project**") with a Hong Kong-listed company, China International Marine Containers (Group) Co., Ltd ("**CIMC**"), with the aim to reduce energy consumption in portable data centers using portable cryptocurrency mining container, was delayed because of the significant drop in the price of cryptocurrency (mainly B itcoin) during the last quarter of 2019. This had adversely affected the profitability of cryptocurrency mining and also the other relevant businesses. Potential orders of the portable cryptocurrency mining container were not able to be recognised due to market uncertainty. Although the price of cryptocurrency (mainly Bitcoin) recovered in early 2020, the price of Bitcoin has fluctuated significantly again towards end of March 2020. With such market uncertainty, the Directors currently have stopped any further marketing efforts.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Company was still actively engaging in the marketing of the portable cryptocurrency mining container with CIMC until September 2019. The directors of the Company travelled to the factory of CIMC in Dalian on 4 September 2019 to confirm potential orders. However, during the last quarter of 2019, the Company became aware of the significant drop in the price of cryptocurrency (mainly Bitcoin) and had confirmed that potential orders were placed on hold around December 2019. With the price of Bitcoin fluctuated significantly again towards the end of March 2020, the Directors decided to stop any further marketing efforts.

Further details regarding the changes in the net cash flow of SCML Group adopted in the valuation of SCML Group as at 31 March 2020 and 31 March 2019 as as follows:

MOD Project and MOH Project

The MOD Project and MOH Project involved the change of energy saving equipment at government buildings, hospitals and clinics in Malaysia. The below table summarises the contribution of these projects in Malaysia to SCML Group in the valuation of the cash-generating unit of SCML Group as at 31 March 2019 and 2020.

| **Net cash inflow (HK$ million)** | **FY2020** | **FY2021** | **FY2022** | **FY2023** | **FY2024** | **FY2025** | **Total** |
|---|---|---|---|---|---|---|---|
| Valuation as at 31 March 2020 | – | 30.9 | 46.0 | 8.9 | 9.1 | 9.4 | 104.3 |
| Valuation as at 31 March 2019 | 43.4 | 77.1 | 74.9 | 195.4 | – | – | 390.8 |

Malaysia Retails Chain Project

The Malaysia retails chain project involved the change of energy saving equipment at a few sizeable chains of retail shops and supermarkets. The below table summarises the contribution of these projects in Malaysia to SCML Group in the valuation of the cash-generating unit of SCML Group as at 31 March 2019 and 2020.

| **Net cash inflow (HK$ million)** | **FY2020** | **FY2021** | **FY2022** | **FY2023** | **FY2024** | **FY2025** | **Total** |
|---|---|---|---|---|---|---|---|
| Valuation as at 31 March 2020 | – | 3.0 | 4.4 | 0.8 | 0.8 | 0.9 | 9.9 |
| Valuation as at 31 March 2019 | – | – | – | – | – | – | – |

# MANAGEMENT DISCUSSION AND ANALYSIS

China Tower Project

The China Tower Project involved the enhancement of cooling system at base stations in China in order to reduce energy consumption. The below table summarises the contribution of the China Tower Project to SCML Group in the valuation of the cash-generating unit of SCML Group as at 31 March 2019 and 2020. This project was on hold due to the outbreak of COVID-19 and without any further communications for months, the Directors have decided to stop any further marketing efforts in June 2020.

| Net cash inflow (HK$ million) | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 | Total |
|---|---|---|---|---|---|---|---|
| Valuation as at 31 March 2020 | – | – | – | – | – | – | – |
| Valuation as at 31 March 2019 | 0.1 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 21.6 |

The CIMC Project

The CIMC Project involved the the provision of cooling saving management solutions to portable data center. The below table summarises the contribution of the CIMC Project to SCML Group in the valuation of the cash-generating unit of SCML Group as at 31 March 2019 and 2020.

As the price of Bitcoin has fluctuated significantly towards end of March 2020, the Directors have decided to stop any further marketing efforts with such market uncertainty.

| Net cash inflow (HK$ million) | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 | Total |
|---|---|---|---|---|---|---|---|
| Valuation as at 31 March 2020 | - | - | - | - | - | - | - |
| Valuation as at 31 March 2019 | - | 14.2 | 21.3 | 22.6 | - | - | 58.1 |

Key parameters used in the valuation as at 31 March 2020 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.

The increase in the estimated WACC from 27% as at 31 March 2019 to 28% as at 31 March 2020 was mainly due to the increase in the beta derived from the comparable companies, market and small company risk premium.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Long-term terminal growth rate

The long-term terminal growth rate of 2% was referenced to the changes in consumer price indices of Malaysia, 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 has remained unchanged at 2% as at 31 March 2020 mainly due to the decrease in forecasted inflation rates sourced from Bloomberg L.P..

### Fair Value loss on the equity investment in InVinity

The Group's equity interest in InVinity (the "**Equity Investment**") represents the 2,400 shares of InVinity owned by the Group.

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 2020, 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

Certain key assumptions are being used in preparing the valuation, they are:

(i) Price of USD6.2/lb of Vanadium Pentoxide Flake 98% will be maintained in 2020;

(ii) Fixed assets being under construction will be able to maintain an annual production of 5,000 tonnes of Vanadium Pentoxide;

(iii) Renewal of mining license will be approved with annual mining capacity matching the mining plan;

(iv) There will be no material changes in the business strategy of InVinity and its operating structure;

(v) Key management, competent personnel, and technical staff will all be retained to support ongoing operations of InVinity;

(vi) There will be no major changes in the political, legal, economic or financial conditions and taxation laws in the jurisdiction where InVinity currently operates or will operate which will materially affect the revenues attributable to InVinity, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

(vii) Assumed InVinity can arrange production in accordance with the forecasted time and scale, and there is no big difference between actual and forecasted situation;

(viii) Assumed the forecasted profit and loss and cashflow provided by the InVinity already took the operating expenses in the financial projection into account;

(ix) Assumed geological report and related information provided by InVinity was accurate and with no big mistake;

(x) Interest rates and exchange rates in the localities for the operation of InVinity will not differ materially from those presently prevailing;

(xi) Assumed that the projected businesses and cashflow can be achieved with the effort of the management of InVinity; and

(xii) Assumed InVinity had already obtained all the necessary permits and licenses, included but not limited to the approval for Environmental Impact Assessment Report, Pollutant Emission Permit, Mining license, Safety Production License, Land use right certificate, Building ownership certificate, and all these permits and licenses will be renewed and without substantial cost.

# 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 2020 and 31 March 2019:

| | **Valuation as at 31 March 2020** | Valuation as at 31 March 2019 |
|---|---|---|
| Weighted average cost of capital | **14%** | 14% |
| Discount for lack of marketability | **35%** | 35% |
| Commodity price (note) | **Ranging from RMB98,000/ tonne RMB141,000/ tonne** | Ranging from RMB185,000/ tonne to RMB234,000/ 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% (31 March 2019: 2.5%) was adopted over the valuation period.

The fair value of the Equity Investment decreased from HK$71,000,000 as at 31 March 2019 to HK$49,000,000 as at 31 March 2020 and fair value loss of HK$22.0 million was recognised during the year. There has been a decreasing trend in the commodity price since October 2019, which is one of the explanations to a decrease in fair value of the Equity Investment.

In the calculation of the fair value of equity investment in InVinity, the drop of price of commodity (vanadium) was the main contributor to the decrease in the fair value of the equity investment. The decrease in vanadium price was mainly due to the worsening sentiment relating to the US-China trade war, which had decreased the demand for infrastructure investment and thus decreased the demand for strengthened steel products and vanadium (as vanadium is mostly used as additives for strengthened steel products), causing buyers to hold back on vanadium purchases. Apart from the price of vanadium, the calculation of fair value of equity investment in InVinity also took into account of the production timeline for Vanadium Pentoxide, where such timeline had been delayed due to the outbreak of COVID-19.

The Company first became aware of the Fair Value Loss around October 2019 when there was a drop in vanadium price, such drop was noted in October 2019, and the directors consider such short term fluctuation of price might not have material influence to the fair value of the investment.

Until around the first quarter of 2020, the vanadium price had remained at low level and tended to remain stable for a few months so, at that point, the directors of Company were of the opinion that it shall be fit and fair to the adopt the price of USD6.2/lb for any projection and thus recognised such fair value loses for the year ended 31 March 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Income tax credit/expense

The Group's income tax credit for the year ended 31 March 2020 was approximately HK$5.5 million while the Group's income tax expense for the year ended 31 March 2019 was approximately HK$9.0 million.

### Share of results of associates

The Group's share of results of associates for the year ended 31 March 2020 was the profit of approximately HK$2.4 million, decreased from the profit of approximately HK$15.6 million for the year ended 31 March 2019. The decrease was mainly due to the decrease in the amount of sharing of results of an associate and its subsidiaries, namely KSL Group (as defined below), as the installation of the customised LED products in the retail outlets of a major retailer in South Africa has been slowed down by the customer due to their internal operation decision during the year, and also the COVID-19 effects causing the country in lock down since January 2020 and pausing all the installation progress.

## EBITDA/EBIT

As a result of the foregoing, the Group's EBITDA decreased from approximately HK$79.0 million for the year ended 31 March 2019 to negative EBITDA of approximately HK$84.5 million for the year ended 31 March 2020. The Group's EBIT decreased from approximately HK$68.4 million for the year ended 31 March 2019 to negative EBIT of approximately HK$95.7 million for the year ended 31 March 2020.

### Loss/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 was approximately HK$44.6 million for the year ended 31 March 2019 while loss attributable to owners of the Company was approximately HK$109.8 million for the year ended 31 March 2020. Excluding some major extraordinary or non-operating income and expenses, the adjusted profit attributable to the owners of the Company was approximately HK$60.3 million for the year ended 31 March 2019 while adjusted profit attributable to owners of the Company was approximately HK$16.1 million for the year ended 31 March 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

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 (loss)/profit attributable to the owners of the Company for the years indicated:

| | Year ended 31 March | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| (Loss)/profit for the year attribute to the owners of the Company | **(109,762)** | 44,554 |
| Add major extraordinary or non-operating expenses: | | |
| Amortisation of intangible assets (included in administrative expenses) | **3,491** | 3,491 |
| Impairment loss of property, plant and equipment | **270** | – |
| Loss of fair value changes of the equity investment in InVinity | **22,000** | 19,000 |
| Net foreign exchange loss | **27,777** | 8,122 |
| Provision for impairment loss on financial assets, net of deferred tax | **42,877** | 580 |
| Impairment of goodwill allocated to the cash generating unit of SCML | **32,379** | 25,831 |
| Share-based payment expenses in respect of share options | **643** | 5,949 |
| | **19,675** | 107,527 |
| Less major extraordinary of non-operating income: | | |
| Gain on deemed disposal of InVinity | **–** | (47,240) |
| Gain on disposal of NU | **(3,614)** | – |
| Adjusted profit attributable to the owners of the Company excluding some major extraordinary or non-operating income and expenses | **16,061** | 60,287 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 2020, currents assets of the Group amounted to approximately HK$391.3 million, representing a decrease of 6.2% from approximately HK$417.0 million as at 31 March 2019. The current assets mainly comprised cash and bank balances (including pledged bank deposits) of approximately HK$11.9 million (2019: approximately HK$28.9 million), trade receivables of approximately HK$328.7 million (2019: approximately HK$322.2 million), and amount due from an associate of approximately HK$21.0 million (2019: approximately HK$30.4 million). As at 31 March 2020, the Group's current liabilities mainly comprised borrowings of approximately HK$102.0 million (2019: approximately HK$65.1 million), notes payable of HK$80 million (2019: HK$140.0 million), trade payables of approximately HK$11.1 million (2019: approximately HK$11.4 million) and accruals, other payables and deposits received of approximately HK$90.5 million (2019: approximately HK$34.6 million). The Group's current ratio decreased from approximately 1.5 times as at 31 March 2019 to approximately 1.3 times as at 31 March 2020. The Group has prepared cash flow projection for the year ending 31 March 2021, which demonstrates the Group has sufficient working capital to meet the current liquidity demand within at least 12 months from the date of this announcement. The total outstanding notes payable and borrowings of the Group as at 31 March 2020 was approximately HK$184.6 million (31 March 2019: approximately HK$254.3 million), of which approximately HK$57.3 million (31 March 2019: approximately HK$93.6 million) was due to banks, approximately HK$44.7 million (31 March 2019: approximately HK$20.7 million) was due to independent third parties, and notes payable of approximately HK$82.6 million (31 March 2019: HK$140.0 million). As at 31 March 2020, notes payable of HK$60.0 million and borrowings of HK$0.7 million have been due with reference to the terms and repayment schedule of the relevant agreements, and remain unsettled. The directors of the Company are in the progress with best efforts to improve the Group's liquidity and financial position, and have been taking proactive steps to discuss and negotiate with the relevant noteholder for the renewal of or extension for repayment schedule of its existing notes payable and also to look for additional funding sources. As at 31 March 2020, a time deposit of HK$2.5 million was pledged as a security for the bank facilities (31 March 2019: HK$2.5 million). The Group has certain receivables, trading contracts and equity investment assigned to secure bank and other loan. Save as disclosed above, the Group has no other charges on its assets as at 31 March 2020.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 March 2020.

## GUARANTEES

The Group had no material guarantees as at 31 March 2020.

# MANAGEMENT DISCUSSION AND ANALYSIS

## MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY OR ASSOCIATED COMPANY

On 28 February 2020, Synergy Group Worldwide Limited ("**Synergy Worldwide**"), a wholly-owned subsidiary of the Company, entered into an agreement with Jakaa Limited ("**Jakaa**"), an independent third party, pursuant to which Synergy Worldwide agreed to sell all of the shares (15,003 shares) in Negawatt Utility Group Holdings Limited ("**NU**") to Jakaa at a consideration of HK$7.2 million. During the time NU was a subsidiary of Synergy Worldwide and Synergy Worldwide was holding in approximately 51.87% of the shareholding in NU. The selling of the subsidiary created a gain on disposal of approximately HK$3.6 million.

Saved as disclosed above, the Group had no material acquisitions and disposal of subsidiaries and affiliated companies during the year ended 31 March 2020.

## 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 2020 was approximately HK$43.7 million (for the year ended 31 March 2019: approximately HK$98.0 million). The net profit attributable to the shareholders of KSL Group for the year ended 31 March 2020 was HK$5.0 million, decreased by approximately HK$28.7 million as compared to the year ended 31 March 2019, as the installation of the customised LED products in the retail outlets of a major retailer in South Africa had been slowed down by the customer due to their internal operation decision during the year, and also the COVID-19 effects causing the country in lock down since January 2020 and pausing all the installation progress.

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 2020.

## EMPLOYEES AND REMUNERATION POLICIES

As of 31 March 2020, the Group had 52 full-time employees (as of 31 March 2019: 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

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.

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 to certain qualified participants (as defined below), being employees of the Group, under the share option scheme (as defined below). Details of the which are set out in the Company's announcement dated 19 April 2018.

Subsequent to the year ended 31 March 2020, on 2 April 2020, the Company granted a total of 36,560,000 share options to subscribe for an aggregate of 36,560,000 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) 25,410,000 share options to certain qualified participants (as defined below), being employees of the Group, under the share option scheme (as defined below). Details of the which are set out in the Company's announcement dated 2 April 2020.

## SHARE OPTIONS 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**") to 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

The following table discloses movements in the Company's share options during the year ended 31 March 2020:

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| **Grantees** | **Date of grant** | **Exercise period** | **Exercise price** | **Outstanding as at 1 April 2019** | **Granted during the year** | **Lapsed/ forfeited during the year** | **Cancelled during the year** | **Outstanding as at 31 March 2020** |
| **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 2018 to 18 April 2020 | HK$1.268 per share | 3,206,200 | – | 133,600 | – | **3,072,600***|
| | 19 April 2018 | 19 April 2018 to 18 April 2021 | HK$1.268 per share | 1,650,000 | – | – | – | **1,650,000** |
| | | | | 21,506,200 | – | 16,783,600 | – | **4,722,600** |

* Such outstanding share options lapsed on 19 April 2020.

## 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 announcement. However, the Group will monitor its foreign exchange exposure and will consider hedging the foreign currency exposure should the need arises.

# MANAGEMENT DISCUSSION AND ANALYSIS

## GEARING RATIO

As at 31 March 2020, the gearing ratio of the Group, which is calculated on the basis of the amount of total debts divided by the total equity, was 77.7%, which was relatively stable compared to the 59.7% as at 31 March 2019.

## DIVIDEND

The Board has resolved not to recommend the payment of any dividend for the year ended 31 March 2020 (31 March 2019: Nil), on the assumption that the audited annual results of the Group for the year ended 31 March 2020 to be published upon completion of the auditing process are consistent in all material respects with the unaudited annual results set out herein.

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 2020 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 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 2020.

## 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 42 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 2020.

## ANNUAL RESULTS AND DISTRIBUTIONS

The annual results of the Group for the year ended 31 March 2020 are set out in the consolidated statement of comprehensive income on page 92. The Directors do not recommend the payment of a final dividend for the year ended 31 March 2020.

## FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years is set out on pages 2 to 3. This summary does not form part of the audited consolidated financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Group during the year ended 31 March 2020 are set out in Note 36 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group are set out in Note 37 to the consolidated financial statements. As at 31 March 2020, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounting to approximately HK$63.4 million (31 March 2019: approximately HK$67.2 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$2.3million, respectively as at 31 March 2020, 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 2020 amounted to HK$102.0 million (31 March 2019: HK$114.3 million). Particulars of borrowings are set out in Note 30 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 2020 are set out in Note 15 to the consolidated financial statements.

# DIRECTORS' REPORT

## DIRECTORS

The Directors during the year ended 31 March 2020 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 the Articles 84(1) and (2) of the Articles of Association, Mr. WONG Man Fai Mansfield and Mr. CHEUNG Yick Hung Jackie 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 86 to 88 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 2020 pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (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' REPORT

## DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out in Note 11 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2020, 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 the 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) |
|---|---|---|---|
| WONG Man Fai Mansfield (Note 2) | Interest in controlled corporation | 53,249,204(S) | 9.68% |
| LAM Arthur | Beneficial owner | 37,514,437(S) | 6.82% |
| CHEUNG Yick Hung Jackie | Beneficial owner | 100,000(L) | 0.02% |

Notes:

1. The letters "L" and "S" devote 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 2020 was 550,000,000.

# DIRECTORS' REPORT

Save as disclosed above, as at 31 March 2020, 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 2020, 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 the 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 5) |
|---|---|---|---|
| Abundance Development Limited (Note 2) | Beneficial owner | 53,249,204 (S) | 9.68% |
| Ms. CAI Linda Xin Xin (Note 3) | Interest of spouse | 53,249,204 (S) | 9.68% |
| Central Huijin Investment Ltd (Note 4) | Interest of controlled corporation | 110,001,641 (L) | 20.00% |
| China Construction Bank Corporation (Note 4) | Interest of controlled corporation | 110,001,641 (L) | 20.00% |
| CCB International Group Holdings Limited (Note 4) | Interest of controlled corporation | 110,001,641 (L) | 20.00% |
| CCB Financial Holdings Limited (Note 4) | Interest of controlled corporation | 110,001,641 (L) | 20.00% |
| CCB International (Holdings) Limited (Note 4) | Interest of controlled corporation | 110,001,641 (L) | 20.00% |
| CCBI Investments Limited (Note 4) | Interest of controlled corporation | 110,001,641 (L) | 20.00% |
| Wan Tai Investments Limited (Note 4) | 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 of the Company in which Mr. WONG Man Fai Mansfield is interested.

4. 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..

5. The total number of issued shares of the Company as at 31 March 2020 was 550,000,000.

Save as disclosed above, as at 31 March 2020, 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 five years.

The following table discloses movements in the Company's share options during the year ended 31 March 2020:

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| **Grantees** | **Date of grant** | **Exercise period** | **Exercise price** | **Outstanding as at 1 April 2019** | **Granted during the year** | **Lapsed/ forfeited during the year** | **Cancelled during the year** | **Outstanding as at 31 March 2020** |
| **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 | 3,206,200 | – | 133,600 | – | **3,072,600***|
| | 19 April 2018 | 19 April 2020 to 18 April 2021 | HK$1.268 per share | 1,650,000 | – | – | – | **1,650,000** |
| | | | | 21,506,200 | – | 16,783,600 | – | **4,722,600** |

* Such outstanding share options lapsed on 18 April 2020.

# 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 2020.

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 2020.

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 2020.

## MANAGEMENT CONTRACTS

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As of 31 March 2020, 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 2020.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2020, the aggregate percentage of purchase attributable to the Group's five largest suppliers is approximately 99.3% of the total purchases of the Group and the largest supplier included therein amounted to approximately 98.2%.

For the year ended 31 March 2020, the aggregate percentage of sales attributable to the Group's five largest customers is approximately 63.4% of the total sales of the Group and the largest customer included therein amounted to approximately 14.9%.

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 43 to the consolidated financial statements. Save for transactions disclosed under Note 43(a)(iii) 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.

## 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 2020.

## 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 2020.

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 66 to 83 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 financial statements for the year ended 31 March 2020.

## BUSINESS REVIEW

Details of review of the Group's business is set out in the "Management Discussion and Analysis" section on pages 5 to 25 of this Annual 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 equipment 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 2020 is set out in the "Environmental, Social and Governance Report" section on page 38 to 65 of the 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.

# DIRECTORS' REPORT

### 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.

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 2020.

## 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 amount of public float as required 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.

## AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL INFORMATION

The audit committee of the Board (the "**Audit Committee**") was established 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 main duties of the Audit Committee are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as reviewing the efficiency and effectiveness of the Group's operations, external audit and of risk management and internal control systems. The Audit Committee has reviewed the audited consolidated annual results of the Group for the year ended 31 March 2020, including the accounting principles and practices adopted by the Group, which was of the opinion that such financial information complied with the applicable accounting standards and requirements and the Listing Rules, and adequate disclosures had been made.

# DIRECTORS' REPORT

## THE BOARD AND THE AUDIT COMMITTEE'S PLAN TO ADDRESS THE DISCLAIMER OF OPINION

To tackle the issues raised by the auditor of the Company in its disclaimer of opinion, the Board shall spare no effort in enhancing the Group's operating cash flow. The Board has adopted different measures and taken various actions with different dimensions to further improve its cash flow:

(i) The Directors will implement stronger measures aiming at improving the working capital and cash flows of the Group, including but not limited to closely monitoring the general administrative expenses and operating costs;

(ii) The Directors are in the process of further reviewing and tightening the credit policy to current and new customers, and shortening the reporting intervals and improving follow up measures on account receivable collection; and

(iii) The Company is in negotiation with a number of potential investors for fundraising activities which are expected to provide immediate cashflow to the Group if they materialise, including but not limited to the possible issuance of convertible bonds and promissory notes by the Group. The Company is also negotiating with a number of investors who are interested in acquiring certain business segment and/or account receivables of the Group.

## INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 March 2020 have been audited by BDO Limited, who shall retire and, being eligible, offer themselves for re-appointment at the forthcoming 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 AGM.

There has been no change in auditor of the Company in the three years ended 31 March 2020.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Welcome to our Environmental, Social and Governance Report (the "**ESG Report**") for the year ended 31 March 2020. The ESG Report elaborates the various work of Synergy Group Holdings International Limited and its subsidiaries to fully implement the concept of sustainable development, perform its corporate social responsibilities, and its performance of social governance 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The ESG Guide Content Index can be found in this Report.

The data and statistics in the ESG Report mainly covers the operations in Hong Kong and other countries within the Group. For this reporting period, the scope has been extended to our subsidiary Negawatt Utility Limited in 2019. The financial data and corporate governance report are detailed in other sections of the 2019/2020 Annual Report.

The ESG Report has also been prepared consistently to allow for meaningful comparisons over time. There are no major changes from previous years in preparing this ESG report. Certain data for prior years had been restated for fair comparison of the performance data.

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

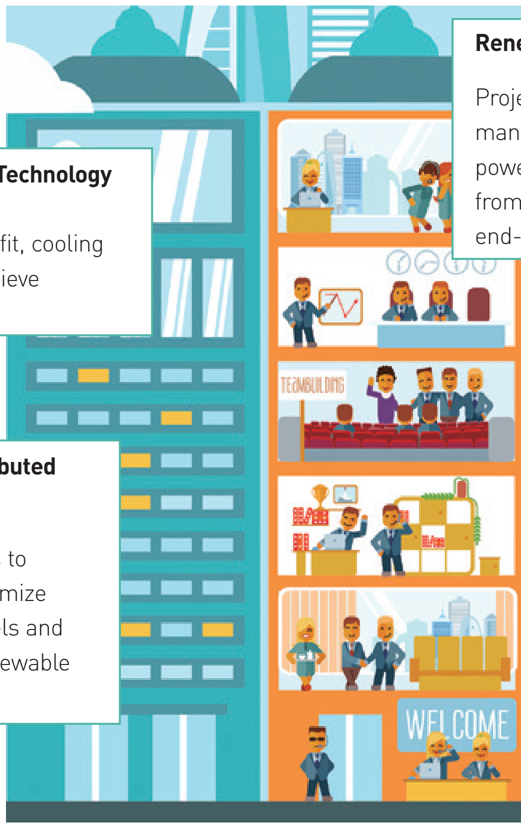
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1. WHO WE ARE

Synergy Group Holdings International Limited and together with its subsidiaries (the "**Group**") places the highest priority in upholding the stewardship of protecting the environment and bringing positive impact to the community. The Group also places emphasizes on its vision and mission statements as a guide for day to day operations. The ongoing and recent outbreak of COVID-19 has had dreadful impacts on the social context of people and global economy. The Group has implemented measures to safeguard the well-being of the global professionals and staffs since early January 2020. In Hong Kong, the Group adopted exceptional work procedures, reducing non-essential work, rolling out work-from-home and flexible hours policies.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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




**Renewables**

Project planning and management with solar power plant solutions from inception to plant end-of-life

**Energy Efficiency Technology**

LED lightings retrofit, cooling optimization to achieve energy savings

**Building Operating System**

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

**Energy Storage & Distributed Energy**

Energy storage solutions to reduce energy cost, minimize dependence on fossil fuels and increase reliability of renewable energy

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2. HOW WE CHANGE THE WORLD

**55%+**

Increase in $CO_2$ concentration since 10,000 years ago

**~4x**

Increase in annual no. of Very Hot Days by 2100

**275M**

No. of people that will be flooded in areas including Hong Kong at the latest projections by 2100

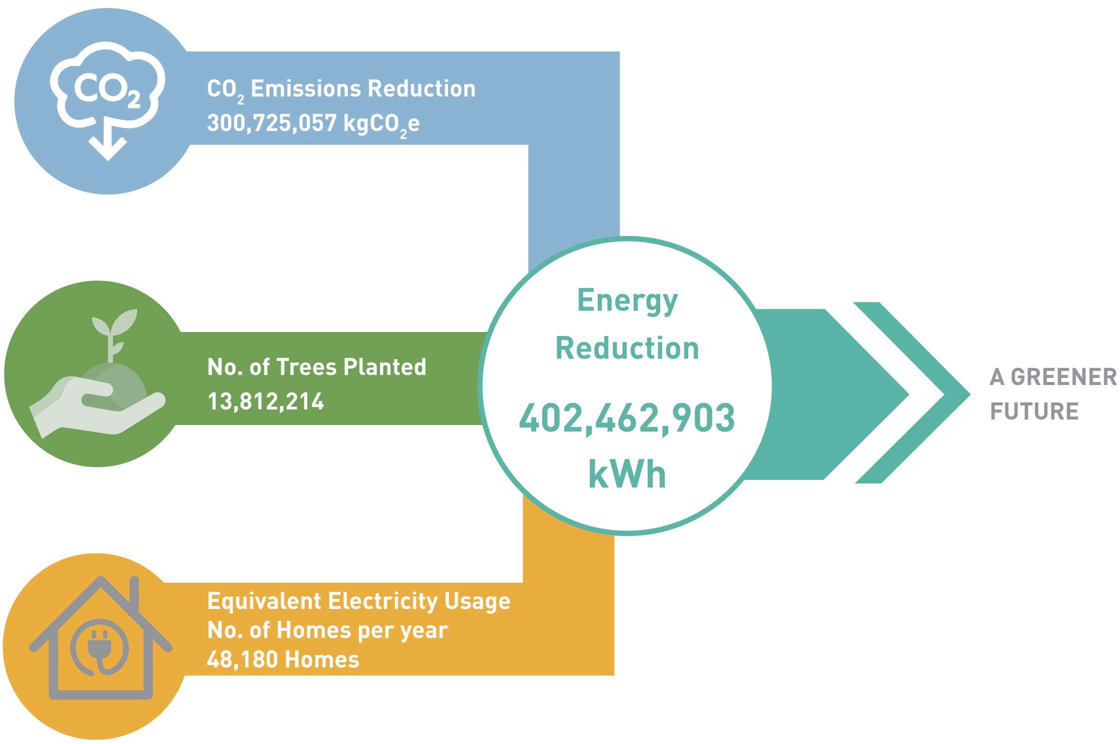
**0 (zero)**

No. of cold days in Hong Kong by 2100

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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




## Strategic Roadmap to a Sustainable Future

Our subsidiary Negawatt Utility Limited has further diversified our service portfolio in energy saving and management improvements. With the implementation of Negawatt's cloud-based building operating platform in several notable buildings in Hong Kong, including but not limited to, Hysan Place, California Tower and Exchange Tower. 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. Controls to optimization of chiller plant and power usage, resulting in significant energy savings. Negawatt's platform has won a number of awards last year including 2019 Deloitte Hong Kong Technology Fast and Rising Star Award and Certificate of Excellence, organized by IFMA Asia Pacific.

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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, together with the positive acknowledgement of our dedication in developing low carbon technology and environmental protection.

**2019/20 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*

香 港 環 境 卓 越 大 獎
Hong Kong Awards for Environmental Excellence

**2019 Deloitte Hong Kong Technology**

by Deloitte


**2019 IFMA Asia Pacific Award of Excellence Certificate of Excellence**

by IFMA

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**2018 Sustainable Business Award**

by World Green Organisation (WGO)

**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

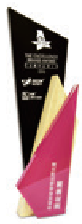

**2016 Social Caring Awards for Green Excellence**

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**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 values for the society and achieve sustainable growth. The Board and management oversee the ESG issues and take responsibility to control related risks to 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

Our stakeholders engagement approach is an ongoing process that is critical to understand the impacts of the business operations and identifying the key environmental and social issues at stakeholders' perspective in order to address their concerns properly. The Group's business involves a wide range of stakeholders' activities, the major stakeholders and the associated channel of communications are as below.

**Investors & Shareholders**

Achieve and maintain high standards of corporate governance with sustainable business development and return, enhancing corporate value, transparency and accountability

- Annual/ Special General Meeting
- Interim and Annual Reports
- Company Website
- Investor Meetings
- Security Analyst Posts
- Press Release/ Announcements

**Employees**

- Establish and continuously improve the employment policies and remuneration system
- Provide on-going training and development on improving employees' knowledge and skills
- Employment-related matters are in compliance with relevant laws and regulations

- Annual Performance Appraisal
- Face-to-face Talks
- Internal Newsletters
- Irregular Event Sessions

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Suppliers, Contractors and Agents**

Maintain good relationships and help in supporting ESG adoption and in compliance with relevant standards

- Supplier Assessment
- Site Inspection Visits
- Regular Supplier Meetings and Dialogues

**Customers**

Offer wide range of eco-friendly and energy saving products and services with quality guarantee

- Site Visits and Meetings
- Company Website
- Company Booklet and Product Catalogue

**NGOs, Professional Organizations 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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 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 ESG 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.

| 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<br>• Energy<br>• Material (e.g. packaging) | <br>✔<br>✔ | <br>✔<br>✔ | <br>✔<br>✔ | <br>✔<br>✔ | | 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 |
| General Impact on Environment & Natural Resources and Mitigation Policies | ✔ | ✔ | ✔ | | | Resource management in place |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Material Aspects | Boundaries | | | | | Major Impacts |
|---|---|---|---|---|---|---|
| | Investors & Shareholders | Employees | Suppliers & Contractors | Customers | Organisations & The Community | |
| | | | Social | | | |
| Employment | | | | | | Creating a diverse harmonious working environment |
| • General Working Conditions | | ✔ | ✔ | | | |
| • Benefits and Compensation | | ✔ | ✔ | | | |
| • Equal Opportunity, Diversity and Anti-Discrimination | | ✔ | ✔ | | | |
| 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 much as possible.

As a green business by its nature with no manufacturing facilities, the Group does not produce any 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

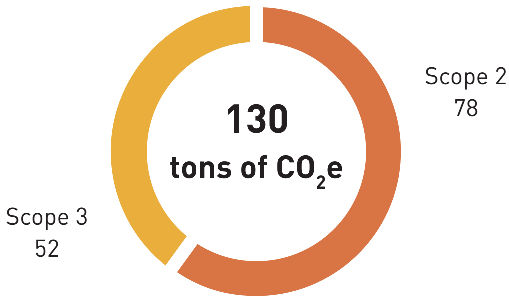
We measure our environmental performance with the following KPIs:

| Category | 2020 | 2019 | 2018 |
|---|---|---|---|
| Electricity Usage | 100,025 kWh | 85,396 kWh | 53,789 kWh |
| Electricity Usage Intensity | 2,083.9 kWh/person | 2,135 kWh/person | 1,921/person |
| Paper Usage | 242 kg | 360 kg | 454 kg |
| Recycled Materials | 166 kg | 133 kg | 97 kg |
| Hazardous Waste Produced | 0.41 tons | 1.1 tons | 5.6 tons |
| Non-Hazardous Waste Produced[3] | 2.39 tons | 7.7 tons | 5.8 tons |
| Packaging Material Used | 23 tons | 58 tons | 153 tons |

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Tons of $CO_2e$ | 2020 | 2019 | 2018 |
|---|---|---|---|
| Scope 2 Emissions[4] | 78 | 61 | 42 |
| Scope 3 Emissions[5] | 52 | 107 | 151 |
| Total GHG Emissions | 130 | 168 | 193 |




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 our subsidiary, Negawatt Utility Limited, in higher total emission footprint of the Group. The total electricity consumption was over 100 MWh, an increase from 85 MWh the previous year due to office expansion.

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

## 5.2 Our Green Office

We urge our employees to practice environmental conservation to achieve an eco-friendly workplace environment 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<br>• Maintain the air conditioner temperature to above 25 ℃<br>• Strengthen power saving measures including switch off lighting, electrical and electronic appliances when not in use and well maintained<br>• 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<br>• Reusable utensils in pantry | • Recycling/reusing papers<br>• Printing on both sides<br>• Using e-platforms |
| **Green Procurement** | **Water Conservation** | **Education & Awareness** |
| • Established a purchasing mechanism and use supplies according to need<br>• Recycle used printer toner cartridges | • Water strainers are adopted<br>• Report leaks and drips | • Environmental Policy is made available to each staff and posted in selected areas<br>• 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(s) 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 reduce 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 much as possible, which has 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 optimization of our supply chain and shipment planning. The packaging materials shall be reused or recycled to the extent as much 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 6. SUSTAINABLE OPERATIONS

### 6.1 Employment and Labor Practice

The Group is fully committed to realizing stellar ethical corporate behaviors, 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.

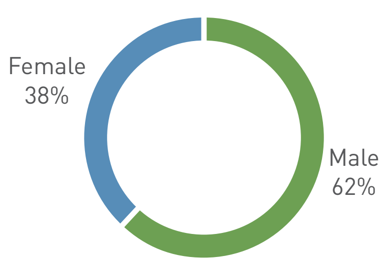
Synergy strictly abides to the local laws and regulations, including the Hong Kong Employment Ordinance (Chapter 57). The Group has not identified any breach of labor standards including labour standards relating to preventing child and forced labour, since establishment. The Group ensures its compliance through a series of human resources policies and procedures in relation to recruitment and promotion, employment conditions, equal opportunities, anti-discrimination, compensation and benefits and fair 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 provided 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 continuity of a fair, caring and favorable workplace environment for the employees. Since the establishment of the Group, we strongly condone any form of workplace harassment and discrimination.

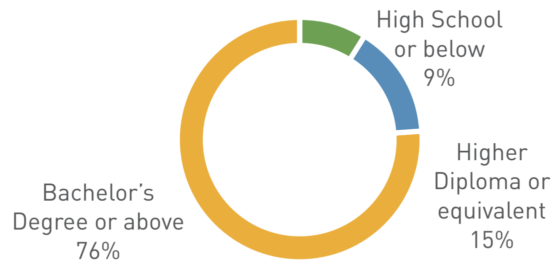
Synergy provides equal opportunities and select the best candidate from various backgrounds based on their ability and qualifications, irrespective of factors such as gender, age, race, religion or other measures of diversity. We prohibit the use of forced labor and child as well as young workers against any hazardous work. We have low vulnerability to child and forced labor 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 labor in our brand via our suppliers and contractors, we will enforce these legislations in our agreements, carry out regular audits and inspections to assess any potential violation of labor regulations may arise.

The Group further enriched its talent pool with increasing levels of female workforce participation to create a diverse and inclusive workplace profile. The following diagrams illustrate the Group's staff composition in Hong Kong as of 31 March 2020:

**Employee Gender Distribution**




**Employee Educational Profile**



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

#### 6.1.1. Development and Training

Synergy treats their employees fairly, responding to their needs and rewards their performances. We adopt an open-door communication policy and carry out annual performance review with our employees. The annual performance evaluates staff performance and recognizes outstanding work of our people, and 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. During the reporting period, we have reviewed and improved the feedback form to provide a more exhaustive coverage in different work aspects, thereby providing personalized opinions and encouraging individual performance.

To prepare employees for future leadership roles, the Group supports its employees in pursuing 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, take on specialized training relevant to their positions at external organizations. Study leaves and educational allowances are provided for employees on any job-related training and/or obtaining recognized qualifications.

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

#### 6.1.2. 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 in 2019. The aim was to recognize 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 developments of the Group.

#### 6.1.3. 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 started to organize sports sessions to promote physical and emotional well-being, as well as, supports flexible work arrangements to enhance engagement and ease work-related stress.

## 6.2 Operational Practice

Synergy ensures satisfactory customer experience through effective management and improvement of the entire supply chain. Mutually beneficial relationships between the Group and the suppliers is well maintained and regular feedback is obtained from customers to provide customized 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### 6.2.2. Supply Chain Management

Synergy has made continuous efforts to maintain long-term partnerships with suppliers and contractors. Synergy products are mainly sourced through our Original Equipment Manufacturer ("**OEM**") as well as some other suppliers. Most of the suppliers are required to satisfy high qualitative requirements standards.

The Group supports green procurement practices and purchase transactions are mainly carried out through via 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.

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 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The business development team will review and access all suppliers of the Group to ensure the product quality. The product comply with the overall requirements in Hong Kong. For existing suppliers, the business development representatives from the Group will conduct annual assessment. Only the suppliers with satisfactory assessment result will be included in the vendor list.

**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 recognized 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 standardized 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.

Active and regular engagement and communication with customers is important to understand their needs and create a high satisfaction level. The Group has received a number of testimonials regarding the high product qualities and great services 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### 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 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 access and compliance requirements, data protection measures, security assessment requirements and procedures. Access to these confidential data is strictly restricted to authorized 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 minimize 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. 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:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>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:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>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, Section 6.1.3 |
| **Aspect B2 Health and Safety** | | |
| General Disclosure | Information on:<br><br>(a) the policies; and<br><br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br><br>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 |
| **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 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Subject Areas, Aspects, General Disclosure and KPIs | | Cross References |
|---|---|---|
| **Aspect B4 Labour Standards** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>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:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress | Section 6.2.3 |
| 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 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Subject Areas, Aspects, General Disclosure and KPIs | | Cross References |
|---|---|---|
| **Aspect B7 Anti-Corruption** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>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 2020.

## 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 2020, 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 2020 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 86 to 88 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.

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.

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman of the Board and Chief Executive Officer of the Company have 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 the Group as the Chief Executive Officer and one of our 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 2020, 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 executive Director has entered into a supplemental service agreement with the Company for a fixed renewed term of three years commencing from 30 June 2020, their appointments may be terminated by either the Company or the Director 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/her 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 2020, 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 covered 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 2020, 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 2020 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 | 2/2 | 1/1 | 1/1 | 1/1 |
| Mr. CHEUNG Yick Hung Jackie | 4/4 | 2/2 | 1/1 | 1/1 | 1/1 |
| Dr. WONG Chi Ying Anthony | 4/4 | 2/2 | 1/1 | 1/1 | 1/1 |

The principal works performed by the Board during the year ended 31 March 2020 are summarized as follows:

- approval of the 2018/2019 Annual Report and annual results announcement
- approval of the 2019/2020 Interim Report and interim results announcement
- review of the Company's compliance with the Corporate Governance Code
- review of the effectiveness of the internal control system
- approval of the placing agreement with placing agent in relation to the placing of bonds
- recommendation to the shareholders regarding the proposal on the reappointment of BDO Limited as auditor
- received and considered recommendations from each Board Committee on a regular basis throughout the year at each Board meeting which followed a Committee meeting
- review and adoption of Nomination Policy

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 2020.

# CORPORATE GOVERNANCE REPORT

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.

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 Board 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 circumstances, at the Company's expenses.

# CORPORATE GOVERNANCE REPORT

## 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.

The Audit Committee shall meet at least two times per year, or more frequently as circumstances require. The Audit Committee held two meetings during the year ended 31 March 2020. Individual attendance records of each Audit Committee member are set out in the table on page 70 of this Annual Report.

The Audit Committee's main work during the year ended 31 March 2020 included:

- reviewing 2018/2019 Annual Report and annual results announcement
- reviewing 2019/2020 Interim Report and interim results announcement
- in relation to the external auditor, reviewing its audit 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)

The Group's annual results for the year ended 31 March 2020, 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 2020/2021. A resolution to this effect will be included in the notice of annual general meeting for the year 2020.

# CORPORATE GOVERNANCE REPORT

## 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 2020. Individual attendance records of each Nomination Committee member are set out in the table on page 70 of this Annual Report.

During the year ended 31 March 2020, 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.

# CORPORATE GOVERNANCE REPORT

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.

### 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.

# CORPORATE GOVERNANCE REPORT

- 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.

## 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.

# CORPORATE GOVERNANCE REPORT

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 2020. Individual attendance records of each Remuneration Committee member are set out in the table on page 70 of this Annual Report.

During the year ended 31 March 2020, 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 2021 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.

## 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 2020.

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.

# CORPORATE GOVERNANCE REPORT

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 89 to 91 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 2020 is set out below:

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

Details of the remuneration of each Director for the year ended 31 March 2020 are set out in note 11 to the consolidated financial statements for the year ended 31 March 2020.

## AUDITOR'S REMUNERATION

During the year ended 31 March 2020, 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 |

## 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.

# CORPORATE GOVERNANCE REPORT

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 2020.

During the year ended 31 March 2020, 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 2020. 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.

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 2020, 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 improvements given by the abovementioned external professional advisory firm accordingly.

# CORPORATE GOVERNANCE REPORT

### 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 2020. 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 2020.

Biographical details of the Company Secretary is set out in the section headed "Biographical Details of the Directors and Senior Management" on pages 86 to 88 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 of 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 is asked to attend the annual general meetings 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 2020. 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 FOR THE YEAR ("AGM") 2020

The forthcoming AGM of the Company is scheduled to be held on Wednesday, 16 September 2020. 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 Wednesday, 16 September 2020) be closed from Thursday, 10 September 2020 to Wednesday, 16 September 2020, 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 Wednesday, 9 September 2020.

## COMPLIANCE DISCLOSURES AND OTHER MATTERS

The Listing Rules require certain corporate governance disclosures to be made. This section of the report details certain disclosures that have not been covered above.

# CORPORATE GOVERNANCE REPORT

## DISCLOSURE OF DIRECTORS' INFORMATION PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

### Directors' Fees

On 31 March 2020, the Board approved (as recommended by the Remuneration Committee) the decrease of Director's remuneration and housing allowance of Mr. Mansfield WONG and Mr. LAM Arthur for their roles as executive Directors to HK$918,000 per annum and housing allowance of HK$42,500 per month with effect from 1 April 2020.

On 31 March 2020, the Board approved (as recommended by the Remuneration Committee) the decrease of Director's fee of Mr. CHUNG Koon Yan, Mr. CHEUNG Yick Hung Jackie and Dr. WONG Chi Ying Anthony for their roles as independent non-executive Directors to HK$205,200 per annum with effect from 1 April 2020.

### Renewal of Service Agreements

The service agreement of each of Mr. Mansfield WONG and Mr. LAM Arthur as executive Director was renewed for a term of three years commencing from 30 June 2020.

# CORPORATE INFORMATION

(As at 31 July 2020)

## 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 THE 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 THE 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 31 July 2020)

## 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 46, 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 35, 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 56, 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 23 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 had been

# BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

cancelled from trading on AIM since 29 March 2017, and an independent non-executive director of Winson Holdings Hong Kong Limited (stock code: 6812), the shares of which are listed on the Main Board of the Stock Exchange (transfer of listing of its shares from GEM to Main Board on 11 June 2020) since February 2017.

**Mr. Cheung Yick Hung Jackie**, aged 52, 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 64, 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 47, 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 10 years of management experience. He was the co-founder and a director of Synergy Green Technology 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

# BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

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 46, 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 20 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)

## DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Synergy Group Holdings International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 92 to 204, which comprise the consolidated statement of financial position as at 31 March 2020, 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.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the "Basis for Disclaimer of Opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR DISCLAIMER OF OPINION

### Appropriateness of the going concern assumption

As disclosed in note 3(c) to the consolidated financial statements, the Group incurred loss of HK$111,140,000 for the year ended 31 March 2020. As at 31 March 2020, the Group's current liabilities amounted to HK$304,087,000. Included in the current liabilities were borrowings of HK$674,000 (the "Borrowings") and notes payable of HK$60,000,000 (the "Notes Payable"), that were overdue and immediately repayable upon the request by the lenders (the "Lenders").

As at 31 March 2020, the Group had cash and cash equivalents of HK$9,370,000. Based on the historical settlement profile of the trade debtors and other operating cash flows projections, the directors of the Company were aware of that the Group may not be able to settle the Borrowings and the Notes Payable upon the request of immediate settlement from the Lenders.

# INDEPENDENT AUDITOR'S REPORT

## BASIS FOR DISCLAIMER OF OPINION (Continued)

### Appropriateness of the going concern assumption (Continued)

These events or conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

In view of such circumstances, the directors of the Company have prepared a cash flow forecast of the Group covering a period of twelve months from the end of the reporting period which have taken into account certain plans and measures as set out in note 3(c) to the consolidated financial statements (the "Cash Flow Forecast"). Based on the Cash Flow Forecast, the directors of the Company are of the opinion that the Group is able to continue as a going concern and it is appropriate to prepare the consolidated financial statements on a going concern basis.

The appropriateness of the consolidated financial statements prepared on a going concern basis largely depends on whether the assumptions underlying the Cash Flow Forecast are reasonable and supportable.

However, in respect of the assumptions that the Group will successfully (i) renew or extend the repayment date of the overdue notes payable amounting to HK$60,000,000 as at 31 March 2020; and (ii) obtain new financing to enhance the Group's liquidity, we sought but failed to obtain sufficient evidence and details to support that such assumptions are feasible and reasonable.

Due to the limitations on our scope of work as stated above, we were unable to obtain sufficient appropriate evidence to determine whether the directors' conclusion that the Group is able to continue as a going concern and the consolidated financial statements prepared on a going concern basis is appropriate.

Should the Group fail to continue as a going concern, adjustments would have to be made to write down the carrying values of the Group's 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 effects of these adjustments have not been reflected in these consolidated financial statements.

# INDEPENDENT AUDITOR'S REPORT

## 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 Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

However, because of the matter described in the "Basis for Disclaimer of Opinion" section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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.

**BDO Limited**
Certified Public Accountants

Cheung Wing Yin
Practising Certificate Number P06946

Hong Kong, 31 July 2020

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 7(a) | **126,547** | 245,381 |
| Cost of sales | | **(56,439)** | (138,818) |
| **Gross profit** | | **70,108** | 106,563 |
| Other income and gains | 7(b) | **5,180** | 48,363 |
| Administrative expenses | | **(59,513)** | (47,991) |
| Selling and distribution costs | | **(5,285)** | (6,220) |
| Finance costs | 8 | **(18,729)** | (18,179) |
| Other expenses | | **(108,583)** | (45,910) |
| Share of results of associates | | **2,371** | 15,555 |
| **(Loss)/profit before income tax** | 9 | **(114,451)** | 52,181 |
| Income tax credit/(expense) | 12(a) | **5,536** | (8,990) |
| **(Loss)/profit for the year from continuing operations** | | **(108,915)** | 43,191 |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 10 | **(2,225)** | (1,953) |
| **(Loss)/profit for the year** | | **(111,140)** | 41,238 |
| **Other comprehensive income for the year** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange difference arising on translation of financial statements of foreign operations | | **(2,679)** | (2,458) |
| Share of other comprehensive income of associates | | **(209)** | (26) |
| **Other comprehensive income for the year, net of tax** | | **(2,888)** | (2,484) |
| **Total comprehensive income for the year** | | **(114,028)** | 38,754 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **(Loss)/profit for the year attributable to:** | | | |
| Owners of the Company | | **(109,762)** | 44,554 |
| Non-controlling interests | | **(1,378)** | (3,316) |
| | | **(111,140)** | 41,238 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **(112,545)** | 42,068 |
| Non-controlling interests | | **(1,483)** | (3,314) |
| | | **(114,028)** | 38,754 |
| **(Loss)/earnings per share attributable to owners of the Company from continuing and discontinued operations:** | 14 | | |
| – Basic (HK cents) | | **(20.0)** | 8.1 |
| – Diluted (HK cents) | | **(20.0)** | 8.1 |
| **From continuing operations** | | | |
| – Basic (HK cents) | | **(20.1)** | 8.3 |
| – Diluted (HK cents) | | **(20.1)** | 8.3 |
| **From discontinued operations** | | | |
| – Basic (HK cent) | | **0.1** | (0.2) |
| – Diluted (HK cent) | | **0.1** | (0.2) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **18,652** | 28,329 |
| Intangible assets | 16 | **577** | 6,115 |
| Goodwill | 17 | **34,584** | 67,582 |
| Interests in associates | 18 | **48,393** | 46,231 |
| Equity investment at fair value through profit or loss | 19 | **49,000** | 71,000 |
| Other financial assets at fair value through profit or loss | 20 | **10,772** | 10,436 |
| Trade receivables | 23 | **57,697** | 83,776 |
| Finance lease receivables | 21 | **29,192** | 44,063 |
| Deposits and other receivables | 24 | **144** | 1,206 |
| Deferred tax assets | 12(b) | **10,251** | 1,871 |
| | | **259,262** | 360,609 |
| **Current assets** | | | |
| Inventories | 22 | **900** | 457 |
| Trade receivables | 23 | **328,697** | 322,221 |
| Finance lease receivables | 21 | **12,977** | 12,607 |
| Deposits, prepayments and other receivables | 24 | **15,879** | 22,382 |
| Due from an associate | 25(a) | **21,003** | 30,353 |
| Pledged bank deposits | 26 | **2,500** | 2,500 |
| Cash and cash equivalents | 26 | **9,370** | 26,440 |
| | | **391,326** | 416,960 |
| **Current liabilities** | | | |
| Trade payables | 27 | **11,099** | 11,437 |
| Contract liabilities | 28 | **4,495** | 9,704 |
| Accruals, other payables and deposits received | 29 | **90,545** | 34,579 |
| Borrowings | 30 | **102,010** | 65,055 |
| Finance lease obligations | 31 | **–** | 1,471 |
| Lease liabilities | 32 | **1,969** | – |
| Notes payable | 33 | **80,000** | 140,000 |
| Due to a related company | 25(b) | **616** | 280 |
| Due to directors | 25(c) | **10,605** | 4,600 |
| Provision for taxation | | **2,748** | 13,854 |
| | | **304,087** | 280,980 |
| **Net current assets** | | **87,239** | 135,980 |
| **Total assets less current liabilities** | | **346,501** | 496,589 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Trade payables | 27 | **16,317** | 9,334 |
| Deposits received | 29 | **5,254** | 5,624 |
| Bonds payable | 35 | **2,000** | – |
| Borrowings | 30 | **–** | 49,288 |
| Financial liabilities at fair value through profit or loss | 34 | **3,597** | – |
| Finance lease obligations | 31 | **–** | 1,446 |
| Lease liabilities | 32 | **1,651** | – |
| Notes payable | 33 | **2,600** | – |
| | | **31,419** | 65,692 |
| **Net assets** | | **315,082** | 430,897 |
| **EQUITY** | | | |
| Share capital | 36 | **5,500** | 5,500 |
| Reserves | 37 | **314,522** | 426,103 |
| **Equity attributable to owners of the Company** | | **320,022** | 431,603 |
| Non-controlling interests | | **(4,940)** | (706) |
| **Total equity** | | **315,082** | 430,897 |

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 2020

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 (note 36) | Share premium* HK$'000 (note 37) | Share option reserve* HK$'000 (note 37) | Capital reserves* HK$'000 (note 37) | Merger reserve* HK$'000 (note 37) | Available-for-sale investment revaluation reserve* HK$'000 (note 37) | Foreign exchange reserves* HK$'000 (note 37) | Retained profits* HK$'000 (note 37) | Subtotal HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| **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 Hong Kong Financial Reporting Standard ("HKFRS") 9 | – | – | – | – | – | 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 39) | – | – | – | – | – | – | – | – | – | 387 | 387 |
| Issue of shares, net of share issue expenses (note 36) | 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 39) | – | – | – | 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 associates | – | – | – | – | – | – | (26) | – | (26) | – | (26) |
| Total comprehensive income for the year | – | – | – | – | – | – | (2,486) | 44,554 | 42,068 | (3,314) | 38,754 |
| **At 31 March 2019 as originally presented** | **5,500** | **87,160** | **5,949** | **13,934** | **12,183** | **-** | **434** | **306,443** | **431,603** | **(706)** | **430,897** |
| Initial adoption of HKFRS 16 (note 2) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **321** | **321** | **-** | **321** |
| Adjusted balance at 1 April 2019 | **5,500** | **87,160** | **5,949** | **13,934** | **12,183** | **-** | **434** | **306,764** | **431,924** | **(706)** | **431,218** |
| Disposal of subsidiary (note 40) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(2,751)** | **(2,751)** |
| Release of capital reserve upon disposal of a subsidiary | **-** | **-** | **-** | **(6,546)** | **-** | **-** | **-** | **6,546** | **-** | **-** | **-** |
| Equity settled share option arrangements | **-** | **-** | **643** | **-** | **-** | **-** | **-** | **-** | **643** | **-** | **643** |
| Release of share option reserve upon the forfeit or lapse of share options | **-** | **-** | **(4,329)** | **-** | **-** | **-** | **-** | **4,329** | **-** | **-** | **-** |
| Loss for the year | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(109,762)** | **(109,762)** | **(1,378)** | **(111,140)** |
| Other comprehensive income | | | | | | | | | | | |
| Exchange difference arising on translation of financial statements of foreign operations | **-** | **-** | **-** | **-** | **-** | **-** | **(2,574)** | **-** | **(2,574)** | **(105)** | **(2,679)** |
| Share of other comprehensive income of associates | **-** | **-** | **-** | **-** | **-** | **-** | **(209)** | **-** | **(209)** | **-** | **(209)** |
| Total comprehensive income for the year | **-** | **-** | **-** | **-** | **-** | **-** | **(2,783)** | **(109,762)** | **(112,545)** | **(1,483)** | **(114,028)** |
| **At 31 March 2020** | **5,500** | **87,160** | **2,263** | **7,388** | **12,183** | **-** | **(2,349)** | **207,877** | **320,022** | **(4,940)** | **315,082** |

* These reserve accounts comprise the consolidated reserves of approximately HK$314,522,000 in the consolidated statement of financial position as at 31 March 2020 (2019: HK$426,103,000).

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before income tax | | | |
| Continuing operations | | **(114,451)** | 52,181 |
| Discontinued operations | | **(2,225)** | (1,953) |
| | | **(116,676)** | 50,228 |
| **Adjustments for:** | | | |
| Interest income | | **(576)** | (570) |
| Interest expense | | **18,520** | 17,661 |
| Amortisation of intangible assets | 9 | **5,538** | 5,538 |
| Depreciation of property, plant and equipment | | **6,223** | 5,044 |
| Equity-settled share option expense | 9 | **643** | 5,949 |
| Gain on disposal of a subsidiary | 10 | **(3,614)** | – |
| Gain on deemed disposal of associates | 7(b) | **–** | (47,240) |
| Fair value gains on other financial assets at fair value through profit or loss | 7(b) | **(336)** | (33) |
| Fair value loss on equity investment at fair value through profit or loss | 9 | **22,000** | 19,000 |
| Fair value gain on financial liabilities at fair value through profit or loss | 9 | **(18)** | – |
| Impairment loss of goodwill | 9 | **32,379** | 25,831 |
| Impairment loss of property, plant and equipment | 9 | **270** | – |
| Loss on disposals of property, plant and equipment | 9 | **251** | 80 |
| Premium and other charges on life insurance policies | | **127** | 121 |
| Provision for impairment loss of financial assets | 9 | **50,978** | 720 |
| Share of results of associates | | **(2,371)** | (15,555) |
| (Reversal of warranty provision)/Warranty provision, net | 9 | **(40)** | 772 |
| Write-off of inventories | 9 | **112** | – |
| Operating profit before working capital changes | | **13,410** | 67,546 |
| (Increase)/decrease in inventories | | **(536)** | 7,487 |
| Increase in trade receivables | | **(30,744)** | (81,193) |
| Decrease in finance lease receivables | | **20,135** | 12,961 |
| Decrease/(increase) in deposits, prepayments and other receivables | | **7,547** | (504) |
| Increase/(decrease) in trade payables | | **6,688** | (1,257) |
| Increase in amount due to a related company | | **336** | 252 |
| Decrease in contract liabilities | | **(5,056)** | (2,399) |
| Increase/(decrease) in accruals, other payables and deposits received | | **6,691** | (2,307) |
| Cash generated from operations | | **18,471** | 586 |
| Income tax paid | | **(13,950)** | (7,812) |
| **Net cash generated from/(used in) operating activities** | | **4,521** | (7,226) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | **(574)** | (2,858) |
| Proceed from disposals of property, plant and equipment | | **30** | – |
| Disposal of subsidiary, net of cash disposed | | **2,773** | – |
| Advances to associates | | **–** | (13,868) |
| Advance from an associate | | **21,946** | – |
| Repayments to an associate | | **(12,596)** | – |
| Advance to non-controlling interests | | **–** | (1,000) |
| Advance to an investee | | **(1,362)** | (1,938) |
| Interest received | | **97** | 135 |
| Acquisition of a subsidiary, net of cash acquired | 39 | **–** | (781) |
| **Net cash generated from/(used in) investing activities** | | **10,314** | (20,310) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | **–** | 54,500 |
| Proceeds from issue of redeemable preference shares | 34 | **3,615** | – |
| Proceeds from issue of bonds | 35 | **2,000** | – |
| Payments for share issue expenses | | **–** | (1,589) |
| Interest paid on borrowings | | **(4,136)** | (4,808) |
| Interest paid on notes | | **(13,987)** | (12,619) |
| Interest element on lease payments | | **(300)** | – |
| Capital element of lease payments | | **(3,515)** | – |
| Interest element on finance lease payments | | **–** | (234) |
| Capital element of finance lease payments | | **–** | (1,650) |
| Proceed from borrowings | | **30,265** | 12,800 |
| Repayment of borrowings | | **(42,598)** | (50,965) |
| Proceeds from issue of notes | | **2,600** | 20,000 |
| Repayment of notes | | **(10,000)** | (10,000) |
| Proceeds from dilution of interest in a subsidiary without loss of control | 39 | **–** | 12,463 |
| Advances from directors | | **6,005** | 4,500 |
| Repayments of advances from directors | | **–** | (4,597) |
| **Net cash (used in)/generated from financing activities** | | **(30,051)** | 17,801 |
| **Net decrease in cash and cash equivalents** | | **(15,216)** | (9,735) |
| **Cash and cash equivalents at beginning of the year** | | **26,440** | 37,023 |
| **Effect of foreign exchange rate changes** | | **(1,854)** | (848) |
| **Cash and cash equivalents at end of the year** | | **9,370** | 26,440 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 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 trading of energy saving products. Details of the principal activities of the Company's subsidiaries are set out in note 42 to the consolidated financial statements.

The consolidated financial statements for the year ended 31 March 2020 were approved and authorised for issue by the board of directors on 31 July 2020.

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

### (a) Adoption of new/revised HKFRSs – effective 1 April 2019

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 2019.

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC)-Interpretation 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 | Annual Improvements to HKFRSs 2015-2017 Cycle |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

### (a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

HKFRS 16 – Lease

**(i) Impact of the adoption of HKFRS 16**

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Interpretation 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Interpretation 15 Operating Leases-Incentives and HK(SIC)-Interpretation 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application. The comparative information presented for the year ended 31 March 2019 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

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

| | HK$'000 |
|---|---|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | 3,202 |

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

### (a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

HKFRS 16 – Lease (Continued)

**(i) Impact of the adoption of HKFRS 16 (Continued)**

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 as at 31 March 2019 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 April 2019:

| | HK$'000 |
|---|---|
| **Reconciliation of operating lease commitment to lease liabilities** | |
| Operating lease commitment as at 31 March 2019 | 3,288 |
| Less: short term leases for which lease terms end within 31 March 2020 | (249) |
| Less: discounted using the lessee's incremental borrowing rate at the date of initial application | (115) |
| Add: leases included in extension option which the Group considers reasonably certain to exercise | 278 |
| Add: Finance leases obligations as of 31 March 2019 | 2,917 |
| Total lease liabilities as of 1 April 2019 | 6,119 |
| Of which are: | |
| Current | 3,265 |
| Non-current | 2,854 |
| Total lease liabilities as of 1 April 2019 | 6,119 |

The weighted average interest rate implicit in the leases applied to lease liabilities recognised in the consolidated statement of financial position as at 1 April 2019 is 3.6%.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

### (a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

HKFRS 16 – Lease (Continued)

**(i) Impact of the adoption of HKFRS 16 (Continued)**

The following tables summarised the impact of the adoption of HKFRS 16 on the consolidated statement of financial position as of 1 April 2019 as follows:

| | Carrying amount as at 31 March 2019 | Reclassification of HKFRS 16 | Contract Capitalisation of HKFRS 16 | Derecognition of right-of-use assets upon reassessment | Carrying amount as at 1 April 2019 |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets:** | | | | | |
| Property, plant and equipment | 28,329 | – | 3,202 | (6,551) | 24,980 |
| Finance lease receivables | 56,670 | – | – | 6,872 | 63,542 |
| **Liabilities:** | | | | | |
| Finance lease obligations (current) | 1,471 | (1,471) | – | – | – |
| Lease liabilities (current) | – | 1,471 | 1,794 | – | 3,265 |
| Finance lease obligations (non-current) | 1,446 | (1,446) | – | – | – |
| Lease liabilities (non-current) | – | 1,446 | 1,408 | – | 2,854 |

**(ii) The new definition of a lease**

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

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

### (a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

HKFRS 16 – Lease (Continued)

**(iii) Accounting as a lessee**

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and not to recognise right-of-use assets and lease liabilities for leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised right-of-use assets and lease liabilities at the commencement date of a lease.

***Right-of-use assets***

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

### (a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

HKFRS 16 – Lease (Continued)

**(iii) Accounting as a lessee (Continued)**

***Lease liabilities***

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

**(iv) Accounting as a lessor**

As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on the consolidated financial statements.

The Group has leased out its lighting systems and cooling systems to a number of tenants. The application of HKFRS 16 resulted the changes in accounting policies as described in the "Significant Accounting Policies" section.

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. Significant judgement would be required for the assessment of whether the right to control the use of an identified asset is conveyed to the customer.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

### (a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

HKFRS 16 – Lease (Continued)

**(v) Transition**

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepayments or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before 1 April 2019. There were no onerous contracts that would have required a significant adjustment to the right-of-use assets at the date of initial application on 1 April 2019. The comparative information presented for the year ended 31 March 2019 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 April 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the interest rate implicit in the leases at 1 April 2019.

The Group has elected to recognise all the right-of-use assets at 1 April 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the interest rate implicit in the leases at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 April 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (i.e. 1 April 2019) and accounted for those leases as short-term leases; and (iii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)–Interpretation 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Interpretation 4.

For leases previously classified as finance leases under HKAS 17, the Group recognised the carrying amount of the lease assets and finance lease obligations immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application of HKFRS 16.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

### (a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

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.

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 fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

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

The amendment clarifies 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.

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

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

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

### (a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

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 clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

Saved as disclosed above, the adoption of these new/revised HKFRSs does not have significant impact on the Group's financial performance and financial position.

### (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.

| | |
|---|---|
| Amendments to HKFRS 3 | Definition of a Business[1] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[1] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[1] |
| Revised Conceptual Framework | Revised Conceptual Framework for Financial Reporting[1] |
| HKFRS 17 | Insurance Contracts[2] |
| Amendments to HKFRS 10 and HKAS28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 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 continue to be permitted.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

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

Amendments to HKFRS 3 – Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 – Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

Revised Conceptual Framework – Revised Conceptual Framework for Financial Reporting

The Revised Conceptual Framework for Financial Reporting supersedes the version that was issued in 2010 and is the equivalent of the Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board. The revised framework includes: i) new chapters on measurement and reporting financial performance; ii) new guidance on derecognition of assets and liabilities; iii) updated definitions of asset and liability; and iv) clarifications in the roles of stewardship, prudence and measurement uncertainty in financial reporting.

HKFRS 17 – Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

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

Amendments to HKFRS 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.

The directors of the Company anticipate that the application of these new/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").

### (b) Historical cost convention

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.

### (c) Going concern basis

The Group incurred loss of HK$111,140,000 for the year ended 31 March 2020. As at 31 March 2020, the Group's current liabilities amounted to HK$304,087,000. Included in the current liabilities were borrowings of HK$674,000 (the "Borrowings") and notes payable of HK$60,000,000 (the "Notes Payable"), that are overdue and immediately repayable upon the request by the lenders (the "Lenders").

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. BASIS OF PREPARATION (Continued)

### (c) Going concern basis (Continued)

As at 31 March 2020, the Group had cash and cash equivalents of HK$9,370,000. Based on the historical settlement profile of the trade debtors and other operating cash flows projections, the directors of the Company were aware of that the Group may not be able to settle the Borrowings and the Notes Payable upon the request of immediate settlement from the Lenders.

These events or conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

In view of such circumstances, the directors of the Company have prepared a cash flow forecast of the Group covering a period of twelve months from the end of the reporting period (the "Cash Flow Forecast") with plans and measures to improve its financial position which include, but are not limited to, are as follows:

(i) The Group has been actively negotiating with the lenders and note holders for the renewal or extension of repayment of the aforesaid overdue borrowings and notes payable;

(ii) The Group has been actively negotiating with various parties to obtain new financing from the capital market to enhance the Group's liquidity; and

(iii) Subsequent to the end of the reporting period, the Group has negotiated the repayment schedule with a major customer. In addition, the Group would closely monitor the market developments, review collection performance of trade receivables and bolster collection capability for the purpose of building up a stronger cash flow position in an earlier stage over the period of the Cash Flow Forecast.

Based on the Cash Flow Forecast, the directors of the Company are of the opinion that the Group is able to continue as a going concern and it is appropriate to prepare the consolidated financial statements on a going concern basis.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 3. BASIS OF PREPARATION (Continued)

### (c) Going concern basis (Continued)

Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's 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 effects of these adjustments have not been reflected in these consolidated financial statements.

### (d) 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.

## 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 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 non-controlling interests 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 interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interests' 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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.

### (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 interests 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Goodwill (Continued)

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.

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:

| | |
|---|---|
| Right-of-use assets | Over the lease terms of the leases or estimated useful life between 5 – 10 years, whichever is shorter |
| Leasehold improvements | 3 years over the terms of leases or 3 years, 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.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Revenue recognition

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

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

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

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

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

(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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Revenue recognition (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.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Leasing

(A) Accounting policies applied from 1 April 2019

**The Group as lessor**

The Group has leased out its lighting systems and cooling systems under property, plant and equipment to a number of tenants. Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of the lighting systems and cooling systems are classified as operating leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the machinery and the present value of the minimum lease payments not amounting to substantially all the fair value of the lighting systems and cooling systems, that it retains substantially all the significant risks and rewards incidental to ownership of these lighting systems and cooling systems which are leased out and accounts for the contracts as operating leases. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease terms.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When the Group is an intermediate lessor, the subleases are classified as a finance lease or as an operating lease with reference to the right-of-use assets arising from the head lease, instead of by reference to the underlying asset.

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. Significant judgement would be required for the assessment of whether the right to control the use of an identified asset is conveyed to the customer.

**The Group as lessee**

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Leasing (Continued)

(A) Accounting policies applied from 1 April 2019 (Continued)

**Right-of-use assets**

The right-of-use assets should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee; in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

**Lease liabilities**

The lease liabilities are recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liabilities by: (i) increasing the carrying amount to reflect interest on the lease liabilities; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Leasing (Continued)

(B) Accounting policies applied until 31 March 2019

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

For the year ended 31 March 2020

## 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

(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)

(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

For the year ended 31 March 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Financial instruments (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 HKFRS 16 "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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

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.

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

For the year ended 31 March 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Financial instruments (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 fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Financial instruments (Continued)

(iii) Financial liabilities (Continued)

**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, lease liabilities, notes payable and bonds 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)(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Financial instruments (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.

### (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.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Income taxes (Continued)

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (m) Foreign currency (Continued)

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.

### (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 of disposal and value-in-use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

### (p) 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.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

### (q) 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

For the year ended 31 March 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) 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.

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.

### (s) 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Segment reporting (Continued)

Segment assets included all assets except intangible assets, goodwill, interests in associate, equity investment at FVTPL, other financial assets at FVTPL, 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, lease obligations, notes payable, amount due to a related company, amounts due to directors, bonds payable, financial liabilities at fair value through profit or loss 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.

## 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"). By reference to the fact that the Group had consensus among other shareholders of InVinity not to involve in the board of directors of InVinity since September 2018, the Group does not have power to exercise significant influence over InVinity. The investment in InVinity is treated as an equity investment at FVTPL.

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

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

(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.

(iii) Conveyance of right to control

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group determines whether the customer has the right to direct use of the identified asset by reference to a) right to change the type of output that is provided by the assets; b) right to change when the output is produced; c) right to change where the output is produced; and d) right to change whether the produced, and the quantity of that output. Significant judgement is required for the assessment of whether the right to control the use of an identified asset is conveyed to the customer and the lease is existing.

(iv) Going concern assumption

As mentioned in note 3, the directors of the Company have prepared the consolidated financial statements for the year ended 31 March 2020 based on a going concern basis. The assessment of the going concern assumption involves making judgement by the directors of the Company at a particular point of time, about the future outcome of events or conditions which are uncertain. The Group's management has prepared a cash flow forecast of the Group covering over 12 months from 1 April 2020 to 31 March 2021 and concluded that there will be sufficient funds from the Group's existing cash and fund resources, and cash flows to be generated from its operations to finance its future operations to maintain the Group as a going concern in the year ending 31 March 2021. Accordingly, the directors of the Company consider that the Group and the Company have the capability to continue as a going concern.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 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 22.

(ii) Provision for ECLs on trade receivables and finance lease receivables

With the aid of the independent specialist engaged by the Group, 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 23 and 21, 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 15 and 16 respectively.

## 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 17.

(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 29.

(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$2,748,000 (2019: HK$13,854,000). The carrying amount of deferred tax assets is disclosed in note 12(b).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

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

(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 46. The carrying amount of unlisted equity investment is disclosed in note 19.

## 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; and

(3) Provision of consultancy service on leasing service of energy saving systems ("Consultancy service")

During the year, the Group has completed the disposal of the business of provision of artificial intelligence (AI) technology services ("Building AI SaaS"). In accordance with HKFRS 5, the segments of Business AI SaaS for the years ended 31 March 2020 and 2019 were presented as discontinued operations in the Group's consolidated financial statements.

## 6. SEGMENT INFORMATION (Continued)

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$'000** | **Total HK$'000** |
|---|---|---|---|---|
| **Year ended 31 March 2020** | | | | |
| Revenue from external customers | **11,161** | **96,121** | **19,265** | **126,547** |
| Reportable segment profit | **4,283** | **5,796** | **8,347** | **18,426** |
| Capital expenditure | **139** | **–** | **–** | **139** |
| Depreciation | **3,258** | **–** | **–** | **3,258** |
| **As at 31 March 2020** | | | | |
| Reportable segment assets | **68,090** | **352,699** | **35,291** | **456,080** |
| Reportable segment liabilities | **12,004** | **33,948** | **32** | **45,984** |

| | Leasing service of energy saving systems HK$'000 | Trading of energy saving products HK$'000 | Consultancy service HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Year ended 31 March 2019** | | | | |
| Revenue from external customers | 15,344 | 208,249 | 21,788 | 245,381 |
| Reportable segment profit | 8,236 | 76,006 | 19,837 | 104,079 |
| 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 | 509,152 |
| Reportable segment liabilities | 10,615 | 36,395 | 26 | 47,036 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 6. SEGMENT INFORMATION (Continued)

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented as follows:

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Reportable segment profit | **18,426** | 104,079 |
| Unallocated corporate income (note) | **4,714** | 47,902 |
| Unallocated corporate expenses (note) | **(121,233)** | (97,176) |
| Finance costs | **(18,729)** | (18,179) |
| Share of results of associates | **2,371** | 15,555 |
| (Loss)/profit before income tax from continuing operations | **(114,451)** | 52,181 |

Note: Unallocated corporate income mainly includes the deposit forfeited by a customer (2019: gain on deemed disposal of associates) (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.

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Reportable segment assets from continuing operations | **456,080** | 509,152 |
| Intangible assets | **577** | 6,115 |
| Goodwill | **34,584** | 67,582 |
| Interests in associates | **48,393** | 46,231 |
| Equity investment at FVTPL | **49,000** | 71,000 |
| Other financial assets at FVTPL | **10,772** | 10,436 |
| Pledged bank deposits | **2,500** | 2,500 |
| Cash and cash equivalents | **9,370** | 26,440 |
| Due from an associate | **21,003** | 30,353 |
| Deferred tax assets | **10,251** | 1,871 |
| Other corporate assets | **8,058** | 5,527 |
| Reportable segment assets from discontinued operations | **–** | 362 |
| Group assets | **650,588** | 777,569 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 6. SEGMENT INFORMATION (Continued)

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Reportable segment liabilities from continuing operations | **45,984** | 47,036 |
| Borrowings | **102,010** | 114,343 |
| Finance lease obligations | **–** | 2,917 |
| Lease liabilities | **3,620** | – |
| Settlement payables | **51,125** | – |
| Notes payable | **82,600** | 140,000 |
| Bonds payable | **2,000** | – |
| Financial liabilities at FVTPL | **3,597** | – |
| Provision for taxation | **2,748** | 13,854 |
| Due to a related company | **616** | 280 |
| Due to directors | **10,605** | 4,600 |
| Other corporate liabilities (note) | **30,601** | 23,609 |
| Reportable segment liabilities from discontinued operations | **–** | 33 |
| Group liabilities | **335,506** | 346,672 |

Note: Other corporate liabilities mainly include accruals and other payables for legal and professional fees, settlement payable, salaries and other operating expenses.

The Group's revenue from external customers are divided into the following geographical areas:

| | **Revenue from external customers (including continuing and discontinued operations)** | |
|---|---|---|
| | **2020** **HK$'000** | 2019 HK$'000 |
| Hong Kong (domiciled) | **22,865** | 73,453 |
| Japan | **17,647** | 28,116 |
| Australia | **26,204** | 67,486 |
| Malaysia | **33,875** | 45,305 |
| Indonesia | **7,787** | 11,009 |
| Singapore | **–** | 12,974 |
| Macau | **19,265** | 5,000 |
| Other overseas locations | **1,645** | 3,193 |
| | **129,288** | 246,536 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 6. SEGMENT INFORMATION (Continued)

The Group's non-current assets are located in Hong Kong and Malaysia, which are divided into the following geographical areas (other than financial assets and deferred tax assets):

| | Specified non-current assets | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Hong Kong (domiciled) | **84,853** | 120,909 |
| Malaysia | **17,353** | 27,554 |
| | **102,206** | 148,463 |

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".

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenues (including continuing and discontinued operations). Revenue derived from these customers are as follows:

| | Revenue from external customers | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Customer A ## | **19,265** | N/A |
| Customer B # | **17,647** | 28,116 |
| Customer C # | **17,255** | 39,614 |
| Customer D # | **14,482** | 45,895 |
| Customer E # | **13,363** | N/A |
| Customer F # | **N/A** | 36,340 |
| Customer G # | **N/A** | 27,872 |

# Attributable to segment of trading of energy saving products

## Attributable to segment of consultancy service

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 and consultancy service. An analysis of revenue is as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| **Revenue from contracts with customer within the scope of HKFRS 15** | | |
| Trading of energy saving products | **96,121** | 208,249 |
| Consultancy service income | **19,265** | 21,788 |
| | **115,386** | 230,037 |
| **Revenue from other sources** | | |
| Leasing service income | **11,161** | 15,344 |
| | **126,547** | 245,381 |
| **Timing of revenue recognition** | | |
| At a point in time | **115,386** | 230,037 |

The following table provides information about trade receivables and contract liabilities from contracts with customers:

| | 31 March 2020 HK$'000 | 31 March 2019 HK$'000 |
|---|---|---|
| Trade receivables (note 23) | **377,643** | 397,005 |
| Contract liabilities (note 28) | **4,495** | 9,704 |

The contract liabilities are mainly related to the advance consideration of sales of goods received from customers.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 7. REVENUE AND OTHER INCOME AND GAINS (Continued)

(b) An analysis of the Group's other income and gains is as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest income | | |
| – from bank deposits | 40 | 33 |
| – from other financial assets at FVTPL | 127 | 435 |
| – from other receivables (note 24(b)) | 352 | 64 |
| – from advance to non-controlling interests (note 24(c)) | 50 | 37 |
| | 569 | 569 |
| Fair value gains on other financial assets at FVTPL | 336 | 33 |
| Gain on deemed disposal of associates (note 19) | – | 47,240 |
| Others (note) | 4,275 | 521 |
| | 5,180 | 48,363 |

Note: The amounts mainly includes the deposit forfeited by a customer of approximately HK$3,500,000.

## 8. FINANCE COSTS

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest expenses for financial liabilities carried at amortised cost: | | |
| Interest on borrowings | 4,136 | 4,790 |
| Interest on notes payable | 13,987 | 12,619 |
| Interest on bonds payable | 60 | – |
| Interest on lease liabilities | 285 | – |
| Interest on finance leases | – | 234 |
| | 18,468 | 17,643 |
| Interest on financial liabilities at fair value through profit or loss | 37 | – |
| Transaction costs on bank borrowings and notes | 224 | 536 |
| | 18,729 | 18,179 |

## 9. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging/(crediting):

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Amortisation of intangible assets (included in administrative expenses) | **5,538** | 5,538 |
| Auditor's remuneration | **1,430** | 1,430 |
| Cost of inventories recognised as expenses | | |
| – Cost of inventories sold | **48,951** | 128,265 |
| – Write-off of inventories | **112** | – |
| | **49,063** | 128,265 |
| Depreciation of property, plant and equipment | | |
| – Owned | **3,734** | 4,407 |
| – Right-of-use assets | **1,943** | – |
| – Held under finance leases | **–** | 637 |
| | **5,677** | 5,044 |
| Employee benefit expenses (including directors' remuneration (note 11(a))) | | |
| – Salaries and welfare | **19,040** | 19,609 |
| – Equity-settled share option expense | **643** | 5,949 |
| – Defined contributions | **1,114** | 1,059 |
| | **20,797** | 26,617 |
| (Reversal of warranty provision)/warranty provision, net | **(40)** | 772 |
| Provision for impairment loss of financial assets | **50,978** | 719 |
| Fair value loss on equity investment at FVTPL | **22,000** | 19,000 |
| Fair value gain on financial liabilities at FVTPL | **(18)** | – |
| Impairment loss of goodwill | **32,379** | 25,831 |
| Impairment loss of property, plant and equipment | **270** | – |
| Loss on disposals of property, plant and equipment | **251** | 80 |
| Net foreign exchange loss | **27,773** | 8,343 |
| Minimum lease payments under operating leases in respect of offices, warehouses and an office equipment | **–** | 2,360 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 10. DISCONTINUED OPERATIONS

In February 2020, the Group has completed to dispose Negawatt Utility Group Holdings Limited ("NU"), 51.87% equity interest held by the Group to an independent third party. The principal activities of NU is Buildings AI SaaS Business, which represented the separated line of major business and is classified as discontinued operations for the year. For the purpose of presenting discontinued operation, the comparative consolidated statement of comprehensive income and the related notes have been represented.

The results of the Building AI SaaS Business for the year ended 31 March 2020 and 2019 are as follows:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Revenue | **2,741** | 1,155 |
| Cost of sales | **(5,363)** | (2,020) |
| Gross loss | **(2,622)** | (865) |
| Other income and gains | **13** | 1 |
| Administrative expenses | **(3,072)** | (1,070) |
| Selling expenses | **(141)** | – |
| Finance costs | **(15)** | (18) |
| Other expenses | **(2)** | (1) |
| Loss before income tax | **(5,839)** | (1,953) |
| Gain on disposal of discontinued operations (note 40) | **3,614** | – |
| Income tax expense | **–** | – |
| Loss for the year from discontinued operations | **(2,225)** | (1,953) |
| Operating cash outflows | **(6,639)** | (2,359) |
| Investing cash (outflows)/inflows | **(404)** | 826 |
| Financing cash (outflows)/inflows | **(814)** | 13,698 |
| Total cash (outflows)/inflows | **(7,857)** | 12,165 |

Employee benefit expense of discontinued Building AI SaaS Business for the year HK$4,889,000 (2019: HK$2,025,000) included salaries and welfare of HK$4,677,000 (2019: HK$1,763,000) and defined contribution of HK$212,000 (2019: HK$78,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' remuneration

Directors' remunerations are disclosed as follows:

| | Fees | Salaries, allowances and benefits in kind | Equity-settled share option expense | Defined contributions | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Year ended 31 March 2020** | | | | | |
| *Executive directors:* | | | | | |
| Wong Man Fai Mansfield ("Mr. Mansfield Wong") | **–** | **1,680** | **–** | **18** | **1,698** |
| Lam Arthur ("Mr. Arthur Lam") | **–** | **1,680** | **–** | **18** | **1,698** |
| *Independent non-executive directors:* | | | | | |
| Chung Koon Yan | **228** | **–** | **–** | **–** | **228** |
| Cheung Yick Hung Jackie | **228** | **–** | **–** | **–** | **228** |
| Wong Chi Ying Anthony | **228** | **–** | **–** | **–** | **228** |
| Total | **684** | **3,360** | **–** | **36** | **4,080** |
| **Year ended 31 March 2019** | | | | | |
| *Executive directors:* | | | | | |
| Mr. Mansfield Wong | – | 1,680 | 1,419 | 18 | 3,117 |
| 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 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 11. 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 (2019: 2) directors are included.

The analysis of the emolument of the remaining 3 highest paid individuals for the year (2019: 3) are set out below:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **2,580** | 2,603 |
| Equity-settled share option expense | **–** | 1,518 |
| Defined contributions | **54** | 54 |
| | **2,634** | 4,175 |

Their emoluments were within the following bands:

| | **2020**<br>**No. of**<br>**individual** | 2019<br>No. of<br>individual |
|---|---|---|
| HK$1 to HK$1,000,000 | **2** | 2 |
| HK$1,000,001 to HK$1,500,000 | **1** | – |
| 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 (2019: 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 (2019: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 12. INCOME TAX (CREDIT)/EXPENSE

### (a) Income tax

The amount of taxation in the consolidated statement of comprehensive income represents:

| | 2020 Continuing operations HK$'000 | 2020 Discontinued operations HK$'000 | Total HK$'000 | 2019 Continuing operations HK$'000 | 2019 Discontinued operations HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Current tax | | | | | | |
| – Tax for the year | 2,844 | – | 2,844 | 9,611 | – | 9,611 |
| – Over-provision in respect of prior years | – | – | – | (406) | – | (406) |
| | 2,844 | – | 2,844 | 9,205 | – | 9,205 |
| Deferred tax | | | | | | |
| – Current year | (8,380) | – | (8,380) | (215) | – | (215) |
| Income tax (credit)/expense | (5,536) | – | (5,536) | 8,990 | – | 8,990 |

Hong Kong profits tax is calculated at the rate of 16.5% (2019: 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 2019/20.

Provision for the EIT in the People's Republic of China (the "PRC") is calculated based on a statutory tax rate 25% (2019: 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

For the year ended 31 March 2020

## 12. INCOME TAX (CREDIT)/EXPENSE (Continued)

### (a) Income tax (Continued)

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

| | **2020 Continuing operations HK$'000** | **2020 Discontinued operations HK$'000** | **Total HK$'000** | 2019 Continuing operations HK$'000 | 2019 Discontinued operations HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| (Loss)/profit before income tax | **(114,451)** | **(2,225)** | **(116,676)** | 52,181 | (1,953) | 50,228 |
| Tax calculated at the rates applicable to profits or losses in the tax jurisdictions concerned | **(18,445)** | **(367)** | **(18,812)** | 8,052 | (325) | 7,727 |
| Effect of share of results of associates | **(391)** | **–** | **(391)** | (2,566) | – | (2,566) |
| Effect of non-taxable revenue | **(1,275)** | **(597)** | **(1,872)** | (7,795) | – | (7,795) |
| Effect of non-deductible expenses | **15,725** | **24** | **15,749** | 11,660 | 25 | 11,685 |
| Effect of temporary differences not recognised | **(1,020)** | **52** | **(968)** | (203) | 18 | (185) |
| Effect of tax losses not recognised | **440** | **888** | **1,328** | 617 | 282 | 899 |
| Effect of utilisation of tax losses previously not recognised | **(385)** | **–** | **(385)** | (184) | – | (184) |
| Under/(over)-provision in respect of prior years | **–** | **–** | **–** | (406) | – | (406) |
| Tax concession | **(185)** | **–** | **(185)** | (185) | – | (185) |
| Income tax (credit)/expense | **(5,536)** | **–** | **(5,536)** | 8,990 | – | 8,990 |

## 12. INCOME TAX (CREDIT)/EXPENSE (Continued)

### (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 31 March 2018 | – | 97 | 97 |
| Initial application of HKFRS 9 | 1,559 | – | 1,559 |
| At 1 April 2018, as restated | 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 |
| Credited to profit or loss for the year | 8,101 | 279 | 8,380 |
| At 31 March 2020 | 9,789 | 462 | 10,251 |

As at 31 March 2020, the Group has unutilised estimated tax losses of approximately HK$23,799,000 (2019: HK$28,805,000) 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$19,507,000 (2019: HK$26,339,000) can be carried forward indefinitely. Remaining tax losses will expire after five years from the year of assessment to which they relate to.

## 13. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2019: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 14. (LOSS)/EARNINGS PER SHARE

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| **Earnings** | | |
| (Loss)/profit attributable to owners of the Company | | |
| – Continuing operations | **(110,300)** | 45,719 |
| – Discontinued operations | **538** | (1,165) |
| (Loss)/profit from continuing operations and discontinued operations | **(109,762)** | 44,554 |

| | 2020 '000 | 2019 '000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of shares for the purpose of basic (loss)/earnings per share | **550,000** | 549,589 |
| Effect of dilutive potential ordinary shares: | | |
| – Share options | **–** | 1,114 |
| Weighted average number of shares for the purpose of diluted (loss)/earnings per share | **550,000** | 550,703 |

For the year ended 31 March 2020, basic loss per share is the same as diluted loss per share. There are no dilutive effects on the impact of the exercise of the share options as they are anti-dilutive.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Right-of-use assets HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and office equipment HK$'000 | Energy saving systems HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 April 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 39) | – | 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 and 1 April 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 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

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

| | Right-of-use assets HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and office equipment HK$'000 | Energy saving systems HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Year ended 31 March 2020 | | | | | | |
| Opening net book amount | - | 270 | 277 | 27,328 | 454 | 28,329 |
| Initial recognition upon the adoption of HKFRS16 | 3,202 | - | - | - | - | 3,202 |
| Derecognition of right-of-use assets upon reassessment | - | - | - | (6,551) | - | (6,551) |
| Opening net book amount, as restated | 3,202 | 270 | 277 | 20,777 | 454 | 24,980 |
| Additions | 1,795 | - | 435 | 139 | - | 2,369 |
| Transfer in/(out) | - | - | 67 | - | (67) | - |
| Reclassification | - | - | - | - | (19) | (19) |
| Disposals | - | - | - | (281) | - | (281) |
| Depreciation | (2,259) | (254) | (452) | (3,258) | - | (6,223) |
| Impairment loss | (270) | - | - | - | - | (270) |
| Disposal of a subsidiary (note 40) | (446) | - | (305) | - | - | (751) |
| Exchange realignment | (73) | - | - | (1,055) | (25) | (1,153) |
| Closing net book amount | 1,949 | 16 | 22 | 16,322 | 343 | 18,652 |
| At 31 March 2020 | | | | | | |
| Cost | 4,023 | 748 | 1,267 | 20,710 | 343 | 27,091 |
| Accumulated depreciation and impairment | (2,074) | (732) | (1,245) | (4,388) | - | (8,439) |
| Net book amount | 1,949 | 16 | 22 | 16,322 | 343 | 18,652 |

| ***Right-of-Use assets*** | **Land and buildings leased for own use** HK$'000 | **Office equipment leased for own use** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| As at 31 March 2019 | – | – | – |
| Initial recognition upon the adoption of HKFRS 16 | 3,119 | 83 | 3,202 |
| Addition | 1,795 | – | 1,795 |
| Depreciation | (2,241) | (18) | (2,259) |
| Impairment loss | (270) | – | (270) |
| Disposal of a subsidiary (note 40) | (446) | – | (446) |
| Exchange realignment | (73) | – | (73) |
| As at 31 March 2020 | 1,884 | 65 | 1,949 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 16. INTANGIBLE ASSETS

| | Exclusive rights HK$'000 |
|---|---|
| At 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 and 1 April 2019 | |
| Cost | 15,851 |
| Accumulated amortisation | (9,736) |
| Net book amount | 6,115 |
| Year ended 31 March 2020 | |
| Opening net book amount | 6,115 |
| Amortisation | (5,538) |
| Closing net book amount | 577 |
| At 31 March 2020 | |
| Cost | 15,851 |
| Accumulated amortisation | (15,274) |
| Net book amount | 577 |

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 17. GOODWILL

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| At beginning of the year | **67,582** | 92,794 |
| Acquisition of a subsidiary (note 39) | **–** | 619 |
| Disposal of a subsidiary (note 40) | **(619)** | – |
| | **66,963** | 93,413 |
| Less: Provision for impairment loss of goodwill | **(32,379)** | (25,831) |
| At end of the year | **34,584** | 67,582 |

The goodwill comprises goodwill arising from acquisitions of Synergy Cooling Management Limited ("SCML") and Negawatt Utility Limited ("NU"), 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.

In February 2020, the Group has completed to dispose NU, 51.87% equity interest held by the Group to independent third parties.

### Impairment testing on goodwill

The carrying amount of goodwill has been allocated to the cash generating unit ("CGU") for impairment testing as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Cooling business CGU | **34,584** | 66,963 |
| Building AI SaaS business CGU | **–** | 619 |
| | **34,584** | 67,582 |

## 17. GOODWILL

### Impairment testing on goodwill (Continued)

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 and the cashflow projections are prepared with the aid of the independent specialist engaged by the Group. 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% (2019: 2%) for this CGU, which does not exceed the long-term growth rate for the cooling business, and discount rate of 28% (2019: 27%), 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.

For the year ended 31 March 2020, the cooling business CGU faced the 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 and the outbreak of COVID-19. This had an adverse impact on the estimated value-in-use of that CGU and an impairment loss on goodwill of approximately HK$32,379,000 (2019: HK$25,831,000) was recognised in other expenses. The recoverable amount of the cooling business CGU is approximately HK$73,000,000 (2019: HK$140,000,000) as at 31 March 2020. 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

For the year ended 31 March 2019, 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 18. INTERESTS IN ASSOCIATES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Share of net assets | **23,799** | 21,637 |
| Goodwill | **24,594** | 24,594 |
| | **48,393** | 46,231 |

Particulars of the associates, which are accounted for using the equity method in the consolidated financial statements as at 31 March 2020, are as follows:

| Name of companies | Place and date of incorporation | Issued share capital/registered capital | Percentage of equity interest attributable to the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | **Direct** | **Indirect** | |
| **Kedah Synergy Limited ("Kedah Synergy") and its subsidiaries (collectively referred to as "Kedah Synergy Group")** | | | | | |
| Kedah Synergy | BVI<br>18 April 2016 | United States Dollar ("US$") 10,000 | 47.5% | – | Investment holding |
| Kedah Synergy Hong Kong Limited | Hong Kong<br>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<br>30 October 2017 | – | – | 47.5% | Provision of cost-saving energy management solutions |

All associates are unlisted corporate entities whose quoted market price is not available.

## 18. INTERESTS IN ASSOCIATES (Continued)

The summarised financial information of Kedah Synergy Group extracted from management accounts prepared in accordance with HKFRS is set out below:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Non-current assets | 90,994 | 53,897 |
| Current assets | 20,274 | 68,280 |
| Current liabilities | (61,165) | (76,625) |
| Net assets attributable to owners of associates | 50,103 | 45,552 |

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Revenue | 43,699 | 98,035 |
| Profit for the year | 4,991 | 33,692 |
| Other comprehensive income | (440) | (54) |
| Total comprehensive income | 4,551 | 33,638 |

Reconciliation to the Group's interests in Kedah Synergy Group as at reporting dates:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Net assets of Kedah Synergy Group | 50,103 | 45,552 |
| Percentage of equity interest attributable to the Group | 47.5% | 47.5% |
| The Group's share of Kedah Synergy Group's net assets | 23,799 | 21,637 |
| Goodwill | 24,594 | 24,594 |
| Carrying amount of the Group's interests in Kedah Synergy Group | 48,393 | 46,231 |

Reconciliation to the Group's share of results of Kedah Synergy Group:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Percentage of equity interest attributable to the Group | 47.5% | 47.5% |
| Group's share of profits of the associates | 2,371 | 16,003 |
| Group's share of other comprehensive income of the associates | (209) | (26) |
| Share of total comprehensive income of the associates | 2,162 | 15,977 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 19. EQUITY INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Unlisted equity investment, at fair value | **49,000** | 71,000 |

The unlisted equity investment represented the Group's investment in InVinity.

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"). 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, in 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 (the "Deemed Disposal") and 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, respectively after sharing approximately HK$449,000 loss from associates for the period from 1 April 2018 to 25 September 2018).

The fair value of unlisted equity investment is determined by reference to valuation carried out by external independent valuer and is a Level 3 recurring fair value measurement. The details of assessment are set out in note 46. The fair value loss amounting to HK$22,000,000 has been recognised in profit or loss for the year (2019: HK$19,000,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 20. OTHER FINANCIAL ASSETS AT FAIR VALUE THOUGH PROFIT OR LOSS

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Investment in life insurance policy, at fair value | **10,772** | 10,436 |

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 paid an one-off premium payment of US$1,533,000 (equivalent to approximately HK$11,986,000) in the previous years. 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 (2019: FVTPL) have been pledged to a bank as securities for bank borrowings of approximately HK$9,218,000 (2019: HK$9,784,000) granted to the Group.

The fair value gain amounting to approximately HK$336,000 has been recognised in the profit or loss for the year (2019: HK$33,000).

Included in other financial assets at FVTPL are the following amounts denominated in currencies other than the functional currencies:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| US$ | **10,772** | 10,436 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 21. 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 | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Within one year | **15,662** | 15,818 | **13,246** | 12,671 |
| In the second to fifth years, inclusive | **32,877** | 49,200 | **30,492** | 44,712 |
| Over fifth years | **394** | – | **382** | – |
| | **48,933** | 65,018 | **44,120** | 57,383 |
| Less: Unearned finance lease income | **(4,813)** | (7,635) | **n/a** | n/a |
| Present value of minimum lease payments | **44,120** | 57,383 | **44,120** | 57,383 |
| Less: Provision for impairment loss | **(1,951)** | (713) | **(1,951)** | (713) |
| | **42,169** | 56,670 | **42,169** | 56,670 |
| Analysed for reporting purposes as: | | | | |
| – Current assets | | | **12,977** | 12,607 |
| – Non-current assets | | | **29,192** | 44,063 |
| | | | **42,169** | 56,670 |

The effective interest rates of the Group's finance leases are ranging from 5% to 87% per annum (2019: 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 2020 and 2019.

Included in finance lease receivables are the following amounts denominated in currencies other than the functional currencies:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Indonesian Rupiah ("IDR") | **36,088** | 54,829 |

The Group has assigned receivables of a customer to a bank to secure banking facilities of HK$100,000,000 (2019: HK$100,000,000) granted to the Group (the "Assignment"). As at 31 March 2020, there were bank loan balances of approximately HK$40,102,000 (2019: HK$60,077,000) secured by the Assignment. As at 31 March 2020, finance lease receivables of approximately HK$36,088,000 (2019: HK$54,829,000) 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 46.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 22. INVENTORIES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Finished goods | **900** | 457 |

## 23. TRADE RECEIVABLES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Trade receivables | **447,169** | 417,032 |
| Less: Provision for impairment loss | **(60,775)** | (11,035) |
| Trade receivables, net | **386,394** | 405,997 |
| Classified as: | | |
| Non-current assets (note) | **57,697** | 83,776 |
| Current assets | **328,697** | 322,221 |
| | **386,394** | 405,997 |

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.

The following table provides information about trade receivables from contracts with customers and other sources:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Trade receivables from contracts with customers | **377,643** | 397,005 |
| Trade receivables from other sources | **8,751** | 8,992 |
| | **386,394** | 405,997 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 23. TRADE RECEIVABLES (Continued)

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:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| 0 to 30 days | **3,497** | 4,024 |
| 31 to 90 days | **6,933** | 8,080 |
| 91 to 180 days | **5,818** | 55,701 |
| 181 to 365 days | **93,578** | 128,712 |
| Over 365 days | **276,568** | 209,480 |
| | **386,394** | 405,997 |

Included in trade receivables are the following amounts denominated in currencies other than the functional currencies:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| US$ | **200,585** | 165,148 |
| IDR | **137,845** | 192,645 |

As at 31 March 2020, trade receivables of approximately HK$137,845,000 (2019: HK$192,645,000) were subject to the Assignment as detailed in note 21.

Included In trade receivables are amount due from associates of HK$24,000 as at 31 March 2020 (2019: Nil).

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 46.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Current assets: | | | |
| Deposits | (a) | **10,162** | 18,874 |
| Prepayments | | **820** | 1,328 |
| Other receivables | (b), (c) | **4,897** | 2,180 |
| | | **15,879** | 22,382 |
| Non-current assets: | | | |
| Rental deposits | | **144** | 206 |
| Other receivables | (c) | **–** | 1,000 |
| | | **144** | 1,206 |

Notes:

(a) Deposits mainly represented the deposits paid to suppliers for purchase of goods.

(b) Included in the other receivables as at 31 March 2020 represented the amount due from InVinity of approximately HK$3,300,000 (2019: HK$1,938,000). 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 interests with principal amount of HK$1,000,000 (2019: HK$1,000,000), which was unsecured, bore fixed interest rate of 5% per annum and repayable by July 2020.

## 25. DUE FROM/TO AN ASSOCIATE/A RELATED COMPANY/DIRECTORS

(a) Amount due from an associate of approximately HK$21,003,000 as at 31 March 2020 (2019: HK$30,353,000) represented the net non-trading outstanding balances with Kedah Synergy which were unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was HK$30,354,000 (2019: HK$30,353,000).

(b) Amount due to a related company of HK$616,000 as at 31 March 2020 (2019: HK$280,000) represented the outstanding payables of computer software consultancy service to a related company as detailed in note 43(a)(ii), wholly owned by Mr. Mansfield Wong. The balances were unsecured, interest free, and repayable on demand.

(c) Amounts due to directors of approximately HK$10,605,000 as at 31 March 2020 (2019: HK$4,600,000) were unsecured, interest-free and repayable on demand. Subsequent to the reporting date and up to the date of this report, the directors of the Company have further advanced of HK$650,000 to the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 26. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

| | Note | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|---|
| Cash and bank balances | | **11,870** | 28,940 |
| Less: Pledged bank deposits | (a) | **(2,500)** | (2,500) |
| Cash and cash equivalents | | **9,370** | 26,440 |

Notes:

(a) Bank deposits have been pledged to a bank as securities for banking facilities of HK$10,000,000 (2019: HK$15,000,000) granted to the Group. As at 31 March 2020, there were bank borrowing balances of approximately HK$8,000,000 (2019: HK$13,750,000), as set out in note 30.

(b) As at 31 March 2020, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$95,000 (2019: HK$539,000). 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.

Included in cash and cash equivalents are the following amounts denominated in currencies other than the functional currencies:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| US$ | **6,994** | 6,987 |
| RM | **2** | 45 |

The Group's cash at banks earns interest at floating rates based on daily bank deposit rates.

## 27. TRADE PAYABLES

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| Trade payables | **27,416** | 20,771 |
| Classified as: | | |
| Non-current liabilities | **16,317** | 9,334 |
| Current liabilities | **11,099** | 11,437 |
| | **27,416** | 20,771 |

Based on goods receipts date, ageing analysis of the Group's trade payables is as follows:

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| 0 to 30 days | **110** | 862 |
| 31 to 90 days | **63** | 751 |
| 91 to 180 days | **318** | 114 |
| 181 to 365 days | **12,526** | 4,785 |
| Over 365 days | **14,399** | 14,259 |
| | **27,416** | 20,771 |

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:

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| US$ | **1,036** | 570 |
| RMB | **23,886** | 16,918 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 28. CONTRACT LIABILITIES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Contract liabilities arising from: | | |
| Trading of energy saving products | **4,495** | 9,704 |

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.

Movements in contract liabilities are as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **Balance as at the beginning of the year** | **9,704** | 12,103 |
| Decrease in contract liabilities as a result of recognising revenue during the year | **(19,106)** | (8,284) |
| Increase in contract liabilities as a result of billing in advance of sales of goods | **13,897** | 5,885 |
| **Balance as at the end of the year** | **4,495** | 9,704 |

Note: Included in contract liabilities as at 31 March 2020 are the advance payments received from Kedah Synergy Group amounted to approximately HK$3,925,000 (2019: HK$3,800,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 29. ACCRUALS, OTHER PAYABLES AND DEPOSITS RECEIVED

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Current liabilities: | | | |
| Accruals | | **12,964** | 7,529 |
| Other payables | (a) | **22,684** | 23,217 |
| Settlement payable | (b) | **51,125** | – |
| Warranty provision | (c) | **2,518** | 2,558 |
| Deposits received | (d) | **1,254** | 1,275 |
| | | **90,545** | 34,579 |
| Non-current liabilities: | | | |
| Deposits received | (d) | **5,254** | 5,624 |

Notes:

(a) Included in the other payables is the consideration payable for the investment in InVinity of approximately HK$12,400,000 (2019: HK$12,400,000) which will be paid when certain milestones are met (note 19).

(b) On 12 March 2020, the Group has entered into a deed of settlement with a noteholder. Repayment schedule has been agreed and the outstanding balance would be settled with installments by not later than March 2021 (note 33).

(c) The movements in the warranty provision are as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| At beginning of the year | **2,558** | 1,786 |
| Provision for the year | **413** | 1,215 |
| Unused amounts reversed | **(453)** | (443) |
| At end of the year | **2,518** | 2,558 |

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 is properly reflecting the outstanding obligation over the warranty period.

(d) The deposits received 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:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| RM | **341** | 807 |
| IDR | **4,420** | 5,703 |
| US$ | **12,406** | 12,408 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 30. BORROWINGS

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Secured and guaranteed bank loans: | | | |
| Amounts repayable within one year | (a) | **22,136** | 34,323 |
| Amounts repayable after one year but contain a repayable on demand clause | (a) | **35,184** | – |
| Unsecured and guaranteed bank loans: | | | |
| Amounts repayable within one year | | **–** | 10,000 |
| Secured and guaranteed other loans: | | | |
| Amounts repayable within one year | | **19,490** | – |
| Amounts repayable after one year but contain a repayable on demand clause | | **6,617** | – |
| Unsecured and guaranteed other loans: | | | |
| Amounts repayable within one year | (b) | **13,427** | 9,482 |
| Amounts repayable after one year but contain a repayable on demand clause | (c) | **5,156** | 11,250 |
| Current liabilities | | **102,010** | 65,055 |
| Secured and guaranteed bank loans: | | | |
| Amounts repayable in second to fifth year | (a) | **–** | 49,288 |
| Non-current liabilities | | **–** | 49,288 |
| Total borrowings | | **102,010** | 114,343 |

## 30. BORROWINGS (Continued)

Notes:

(a) As at 31 March 2019, the bank loans classified as non-current liabilities of approximately HK$49,288,000 represented bank loans scheduled for repayment after 31 March 2020. The related credit facilities agreements contain a clause that provides the bank with overriding to demand repayment at any time after the committed period. On 24 March 2020, the facilities have been revised and they have become uncommitted loan facilities. Accordingly, all remaining outstanding balances as at 31 March 2020 have been classified as current liabilities.

(b) As at 31 March 2020, other loans of HK$674,000 has been overdue.

(c) 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.

(d) As at 31 March 2020, the Group's interest-bearing borrowings bore effective interest rate ranging from 2.65% to 15.5% per annum (2019: 1.74% to 4.65%).

(e) As at 31 March 2020, the bank loans are secured by the pledge of bank deposits of approximately HK$2,500,000 (2019: HK$2,500,000) (note 26), finance lease receivables of approximately HK$36,088,000 (2019: HK$54,829,000) (note 21) under the Assignment, trade receivables of approximately HK$137,845,000 (2019: HK$192,645,000) (note 23) under the Assignment and other financial assets at FVTPL (2019: other financial assets at FVPTL) of approximately HK$10,772,000 (2019: HK$10,436,000) (note 20). Borrowings are also under the corporate guarantees from the Company and/or Synergy Group Worldwide Limited ("Synergy Worldwide"), a subsidiary of the Company.

(f) The Group's credit facilities amounted to approximately HK$197,024,000 (2019: HK$173,274,000), of which HK$160,149,000 have been utilised as at 31 March 2020 (2019: all utilised).

(g) Subsequent to the reporting date, the Group has obtained the new financing of approximately HK$6,574,000 from an independent third party and the Group has been approved by a bank for the deferral of principal repayment for a half year commencing from 1 May 2020.

Based on the schedule repayment dates set out in the bank loan and other loan agreements and ignore the effect of any repayment on demand clause, the borrowings are repayable as follows:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Within one year | **55,053** | 53,805 |
| In the second year | **33,606** | 28,589 |
| In the third to fifth year | **13,351** | 31,949 |
| More than five years | **–** | – |
| | **102,010** | 114,343 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 31. FINANCE LEASE OBLIGATIONS

The Group leases energy saving products under finance leases. The Group's finance lease obligations are as follows:

| | **Minimum lease payments** 2019 HK$'000 | **Present value of minimum lease payments** 2019 HK$'000 |
|---|---|---|
| Within one year | 1,649 | 1,471 |
| In the second to fifth years, inclusive | 1,606 | 1,446 |
| | 3,255 | 2,917 |
| Less: Future finance charges | (338) | n/a |
| Present value of minimum lease payments | 2,917 | 2,917 |
| Analysed for reporting purposes as: | | |
| – Current liabilities | | 1,471 |
| – Non-current liabilities | | 1,446 |
| | | 2,917 |
| Initial application of HKFRS 16 (note 2(a)(i)) | | (2,917) |
| At 1 April 2019 | | – |

The effective interest rates of the Group's finance leases are ranging from 8% to 10% per annum for the year ended 31 March 2019. Finance lease obligations are secured over the leased assets. No contingent rent arrangements were made during the year ended 31 March 2019.

The Group has applied HKFRS 16 using the cumulative approach to recognise lease liabilities relating to leases which were previously classified as finance leases at the date of initial application. Further details on the impact of the transition are set out in note 2(a)(i).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 32. LEASE LIABILITIES

The amount included in the consolidated statement of financial position in respect of the carrying amounts of lease liabilities and the movements during the year is as follows:

| | Office HK$'000 | Energy saving systems HK$'000 | Total HK$'000 |
|---|---|---|---|
| **As at 31 March 2019** | – | – | – |
| Recognition upon initial application of HKFRS 16 | 3,202 | 2,917 | 6,119 |
| **Opening balance under HKFRS 16 as at 1 April 2019, as restated** | 3,202 | 2,917 | 6,119 |
| Additions | 1,795 | – | 1,795 |
| Interest expenses | 124 | 176 | 300 |
| Lease payments | (2,371) | (1,444) | (3,815) |
| Disposal of a subsidiary (note 40) | (451) | – | (451) |
| Exchange realignment | (39) | (289) | (328) |
| **As at 31 March 2020** | 2,260 | 1,360 | 3,620 |

| | **2020 HK$'000** |
|---|---|
| Minimum lease payments due: | |
| – Within one year | **2,116** |
| – In the second to fifth years, inclusive | **1,789** |
| – After fifth years | **–** |
| Less: Future finance charges | **(285)** |
| Present value of minimum lease payments | **3,620** |
| Analysed for reporting purposes as: | |
| – Current liabilities | **1,969** |
| – Non-current liabilities | **1,651** |
| | **3,620** |

| | **2020 HK$'000** |
|---|---|
| Short term leases expenses | **278** |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 33. NOTES PAYABLE

| | Notes | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| HK$60,000,000 (2019: HK$70,000,000) 9.5% notes | (a) | **60,000** | 70,000 |
| HK$Nil (2019:HK$50,000,000) 10% notes | (b) | **–** | 50,000 |
| HK$22,600,000 (2019:HK$20,000,000) 2.5% notes | (c) | **22,600** | 20,000 |
| | | **82,600** | 140,000 |
| Classified as: | | | |
| Current liabilities | | **80,000** | 140,000 |
| Non-current liabilities | | **2,600** | – |
| | | **82,600** | 140,000 |

Notes:

**(a) HK$60,000,000 (2019: HK$70,000,000) 9.5% 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. For the year ended 31 March 2019, 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. Upon the consent of the noteholder, the note could be extended to 16 November 2020 in accordance with the agreement term. As at 31 March 2020, the notes payable have been overdue.

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.

## 33. NOTES PAYABLE (Continued)

Notes: (Continued)

**(a) HK$60,000,000 (2019: HK$70,000,000) 9.5% notes (Continued)**

***(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.

**(b) HK$Nil (2019: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, and the extension is being negotiated.

***(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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 33. NOTES PAYABLE (Continued)

Notes: (Continued)

**(b) HK$Nil (2019:HK$50,000,000) 10% notes (Continued)**

***(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.

On 12 March 2020, the Group has entered into a deed of settlement with a noteholder. Repayment schedule has been agreed and the outstanding balance would be settled with installments by not later than March 2021.

**(c) HK$22,600,000 (2019:HK$20,000,000) 2.5% notes**

During the year ended 31 March 2019, 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. On 6 January 2020, the Group entered into an extension with the promissory note with the noteholder for further 12 months based on the terms of the last agreement signed on 7 January 2019.

## 34. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Redeemable preference shares, at fair value | **3,597** | – |

During the year, a subsidiary of the Group issued 2,000,000 redeemable preference shares to an independent third party at RM1.00 each with the total amount of RM2,000,000 (equivalents to HK$3,615,000). The redeemable preference shares shall be redeemed in full on the date falling two years after the issuance of the redeemable preference shares.

The preference shares will be redeemed in cash at an amount equal to the subscription price at RM1.00 per share plus interest at the rate of 12% per annum to the holder of the preference shares.

The management has designated the redeemable preference shares as financial liabilities at FVTPL as it is managed and its performance is evaluated on a fair value basis. For the year ended 31 March 2020, a fair value gain of HK$18,000 of the redeemable preference shares was recognised.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 35. BONDS PAYABLE

On 18 November 2019, the Company issued the bond with principal amount at HK$2,000,000 to an independent third party, which will mature on the second anniversary of the date of issue of the bond bears interest at 10% per annum. The Company has the right to early redeem, after the first anniversary of the date of issue, the corporate bond by giving prior notice to and obtaining written approval from the corporate bond holder.

The corporate bond was issued for the working capital purpose.

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Bonds payable | **2,000** | – |
| Classified as: | | |
| Non-current liabilities | **2,000** | – |

## 36. SHARE CAPITAL

| | **Number of shares** | **Amount**<br>HK$'000 |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.01 each | | |
| At 1 April 2018, 31 March 2019, 1 April 2019 and 31 March 2020 | 50,000,000,000 | 500,000 |
| Issued and fully paid: | | |
| At 1 April 2018 | 500,000,000 | 5,000 |
| Issue of shares by placing (note) | 50,000,000 | 500 |
| At 31 March 2019 and 31 March 2020 | 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

For the year ended 31 March 2020

## 37. 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.

### 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.

## 37. 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 2018 | 34,749 | – | 3,236 | (25,618) | 12,367 |
| Issue of shares, net of share issue expenses (note 36) | 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 and 1 April 2019 | 87,160 | 5,949 | 3,236 | (29,099) | 67,246 |
| Equity-settled share option arrangements | – | 643 | – | – | 643 |
| Release of share option reserve upon the forfeit or lapse of share options | – | (4,329) | – | 4,329 | – |
| Loss for the year and total comprehensive income for the year | – | – | – | (4,509) | (4,509) |
| At 31 March 2020 | 87,160 | 2,263 | 3,236 | (29,279) | 63,380 |

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

For the year ended 31 March 2020

## 38. OPERATING LEASE ARRANGEMENT

### (a) As lessor

As at 31 March 2020, future minimum lease rental receivables under non-cancellable operating leases of the Group in respect of energy saving systems are as follows:

| | **2020** | 2019 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **4,597** | 7,406 |
| Within second to fifth year | **9,693** | 15,011 |
| Over fifth year | **428** | 1,338 |
| | **14,718** | 23,755 |

The Group leases energy saving systems under operating leases. The leases run for an initial period of 2 to 7 years (2019: 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$942,000 (2019: HK$753,000).

### (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 |
| Within one year | 2,038 |
| Within second to fifth year | 1,250 |
| | 3,288 |

As at 31 March 2019, the Group leases offices, warehouses and an office equipment under operating leases. The leases run for an initial period of 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 39. ACQUISITION OF A SUBSIDIARY IN PRIOR 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 39. ACQUISITION OF A SUBSIDIARY IN PRIOR YEAR (Continued)

The Group had 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.

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 had been expensed and were included in administrative expenses for the year ended 31 March 2019.

Deferred consideration of HK$300,000 has been settled by the Group for the year ended 31 March 2020.

### Dilution of interest in NU without loss of control

For the year ended 31 March 2019, 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.

## 40. DISPOSAL OF A SUBSIDIARY

On 28 February 2020, the Group entered into an agreement with an independent third party to dispose of the entire equity interest of NU at a consideration of HK$7,200,000. Gain on disposal amounted to HK$3,614,000 was analysed as follows:

| | HK$'000 |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | 751 |
| Goodwill | 619 |
| Trade receivables | 607 |
| Deposits, prepayments and other receivables | 1,732 |
| Cash and cash equivalents | 4,427 |
| Trade payables | (43) |
| Accruals and other payables | (1,152) |
| Contract liabilities | (153) |
| Lease liabilities | (451) |
| | 6,337 |
| Non-controlling interests | (2,751) |
| | 3,586 |
| Less: Proceeds from disposal | (7,200) |
| Gain on disposal | (3,614) |

Cash consideration of HK$7,200,000 from the disposal of NU has been received in full as at 31 March 2020.

An analysis of the cash flows in respect of the disposal of NU is as follows:

| | HK$'000 |
|---|---|
| Cash consideration received as of 31 March 2020 | 7,200 |
| Cash and cash equivalents disposed | (4,427) |
| Net cash inflow from the disposal | 2,773 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| **ASSETS AND LIABILITIES** | | |
| **Non-current assets** | | |
| Investment in a subsidiary | **13,978** | 13,335 |
| **Current assets** | | |
| Prepayments | **212** | 244 |
| Due from subsidiaries | **198,979** | 203,718 |
| Cash and cash equivalents | **–** | 18 |
| | **199,191** | 203,980 |
| **Current liabilities** | | |
| Accruals and other payables | **59,689** | 4,569 |
| Notes payable | **80,000** | 140,000 |
| | **139,689** | 144,569 |
| **Net current assets** | **59,502** | 59,411 |
| **Total assets less current liabilities** | **73,480** | 72,746 |
| **Non-current liabilities** | | |
| Bonds payable | **2,000** | – |
| Notes payable | **2,600** | – |
| **Net assets** | **68,880** | 72,746 |
| **EQUITY** | | |
| Equity attributable to owners of the Company | | |
| Share capital | **5,500** | 5,500 |
| Reserves | **63,380** | 67,246 |
| Total equity | **68,880** | 72,746 |

On behalf of the Board

Wong Man Fai Mansfield
Director

Lam Arthur
Director

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 42. INTERESTS IN SUBSIDIARIES

Details of subsidiaries as at 31 March 2020 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<br>8 August 2008 | US$22,608 | 100% | – | Investment holding | Hong Kong |
| Synergy Lighting Limited | Hong Kong<br>3 December 2008 | HK$100 | – | 100% | Leasing, consultancy services and trading of energy saving products | Hong Kong |
| Synergy Energy Saving Company Limited | Malaysia<br>17 October 2016 | US$1 | – | 100% | Trading of energy saving products | Malaysia |
| Synergy Energy Efficiency Technology (China) Company Limited | Hong Kong<br>2 March 2017 | HK$100 | – | 100% | Investment holding | Hong Kong |
| 廣州先能馳節能科技有限公司* | PRC<br>27 June 2017 | RMB10,000,000 | – | 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<br>28 March 2018 | RMB10,000,000 | – | 100% | Trading of energy saving products and provision of energy management systems solutions | PRC |
| Synergy Group Investment Holding (Saudi Arabia) Limited | BVI<br>31 October 2017 | US$10,000 | – | 100% | Investment holding | Hong Kong |
| Synergy Investment Holding (Saudi Arabia) Limited | Hong Kong<br>9 November 2017 | HK$10,000 | – | 100% | Inactive | Hong Kong |
| SCML | BVI<br>1 April 2011 | US$18,400 | – | 63.04% | Investment holding | Hong Kong |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 42. 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 | 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. | Malaysia 17 April 2014 | RM950,000 | – | 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 |

* 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

## 42. INTERESTS IN SUBSIDIARIES (Continued)

The following table lists out the information relating to SCML Group, the subsidiary of the Group which has material non-controlling interests. The summarised financial information presented below represents the amounts before any inter-company elimination.

| | SCML Group | | NU Group |
|---|---|---|---|
| | **2020** | 2019 | 2019 |
| | **HK$'000** | HK$'000 | HK$'000 |
| **Non-controlling interests percentage** | **36.96%** | 36.96% | 48.13% |
| **As at 31 March** | | | |
| Current assets | **9,501** | 8,523 | 12,768 |
| Non-current assets | **26,792** | 33,784 | 128 |
| Current liabilities | **(32,773)** | (41,555) | (1,438) |
| Non-current liabilities | **(16,597)** | (17,601) | – |
| Net (liabilities)/assets | **(13,077)** | (16,849) | 11,458 |
| Accumulated non-controlling interests | **(4,833)** | (6,227) | 5,515 |
| **For the year ended 31 March** | | | |
| Revenue | **21,288** | 14,676 | 1,155 |
| Profit/(loss) for the year | **3,733** | (6,853) | (1,972) |
| Total comprehensive income | **3,449** | (6,848) | (1,972) |
| Total comprehensive income for the year allocated to non-controlling interests | **1,275** | (2,531) | (789) |
| Dividends paid to non-controlling interests | **–** | – | – |
| Cash flows (used in)/generated from operating activities | **(1,464)** | 13,395 | (2,359) |
| Cash flows (used in)/generated from investing activities | **(139)** | (2,548) | 826 |
| Cash flows (used in)/generated from financing activities | **(1,681)** | (10,296) | 13,698 |
| Net cash (outflow)/inflow | **(3,284)** | 551 | 12,165 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 43. 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 | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|---|
| Sales to associates | (i) | **14,482** | 45,895 |
| Computer software consultancy service fees paid to a related company | (ii) | **336** | 336 |
| Rental expenses paid to a related company | (iii) | **244** | 238 |

Notes:

(i) The total sales of goods amounted to approximately HK$14,482,000 during the year (2019: HK$45,895,000) 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 2020 and 2019 are detailed in notes 28.

(ii) The Group has paid computer software consultancy service fees of HK$336,000 during the year (2019: 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 2020 and 2019 are detailed in note 25(b).

(iii) The Group has paid rental expenses of approximately HK$244,000 during the year (2019: HK$238,000) 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.

## 43. RELATED PARTY TRANSACTIONS (Continued)

### (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 33.

### (c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Short-term employee benefits | **5,796** | 5,796 |
| Equity-settled share option expense | **643** | 4,879 |
| | **6,439** | 10,675 |

## 44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

(i) During the year, the Group has transferred certain construction in progress to inventories with net book amount amounting to approximately HK$19,000, upon the change of usage of energy saving products acquired.

(ii) During the year ended 31 March 2019, the Group has transferred certain inventories to energy saving products and construction in progress with net book amount amounting to approximately HK$60,000 and HK$2,000 respectively, upon the change of usage of energy saving products acquired.

(iii) During the year ended 31 March 2019, 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Reconciliation of liabilities arising from financing activities

| | Borrowings HK$'000 | Lease liabilities HK$'000 | Notes payable HK$'000 | Due to directors HK$'000 | Financial liabilities at FVTPL HK$'000 | Bonds payable HK$'000 |
|---|---|---|---|---|---|---|
| At 31 March 2019 and 1 April 2019 | 114,343 | – | 140,000 | 4,600 | – | – |
| Initial recognition upon the adoption of HKFRS 16 | – | 6,119 | – | – | – | – |
| At 1 April, as restated | 114,343 | 6,119 | 140,000 | 4,600 | – | – |
| Changes from financing cash flows: | | | | | | |
| Interest paid on borrowings | (4,136) | – | – | – | – | – |
| Interest paid on notes | – | – | (13,987) | – | – | – |
| Interest element on lease payments | – | (300) | – | – | – | – |
| Capital element of lease payments | – | (3,515) | – | – | – | – |
| Proceed from borrowings | 30,265 | – | – | – | – | – |
| Repayment of borrowings | (42,598) | – | – | – | – | – |
| Proceeds from issue of notes | – | – | 2,600 | – | – | – |
| Repayment of notes | – | – | (10,000) | – | – | – |
| Advance from a directors | – | – | – | 6,005 | – | – |
| Proceeds from issue of redeemable preference shares | – | – | – | – | 3,615 | – |
| Proceeds from issue of bonds | – | – | – | – | – | 2,000 |
| Total changes from financing cash flows | (16,469) | (3,815) | (21,387) | 6,005 | 3,615 | 2,000 |
| Other changes: | | | | | | |
| Interest expense | 4,136 | 300 | 13,987 | – | – | – |
| Increase in lease liabilities from entering into new lease during the year | – | 1,795 | – | – | – | – |
| Change in fair value | – | – | – | – | (18) | – |
| Disposal of a subsidiary (note 40) | – | (451) | – | – | – | – |
| Transfer to other payable | – | – | (50,000) | – | – | – |
| Exchange realignment | – | (328) | – | – | – | – |
| Total other changes | 4,136 | 1,316 | (36,013) | – | (18) | – |
| At 31 March 2020 | 102,010 | 3,620 | 82,600 | 10,605 | 3,597 | 2,000 |

## 44. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

### (b) Reconciliation of liabilities arising from financing activities (Continued)

| | Borrowings | Finance lease obligations | Notes payable | Due to directors |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 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 and 1 April 2019 | 114,343 | 2,917 | 140,000 | 4,600 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 45. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

A share option scheme (the "Share Option Scheme") was approved by its shareholders to adopt on 5 March 2015 and was 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.

## 45. 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:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$** | **Number** | Weighted average exercise price HK$ | Number |
| Outstanding at beginning of the year | **1.268** | **21,506,200** | n/a | |
| Granted during the year | **–** | **–** | 1.268 | 21,532,400 |
| Forfeited during the year | **1.268** | **(133,600)** | 1.268 | (26,200) |
| Lapsed during the year | **1.268** | **(16,650,000)** | – | – |
| Outstanding at end of the year | **1.268** | **4,722,600** | 1.268 | 21,506,200 |
| Exercisable at end of the year | **1.268** | **3,072,600** | 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 (2019: HK$1.268) and their weighted average remaining contractual life was approximately 0.2 year (2019: 0.6 year).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 45. 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 ended 31 March 2019 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 46. 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, lease liabilities and notes payables. Borrowings, lease liabilities 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, lease liabilities and notes payable are disclosed in notes 30, 32 and 33, 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, lease liabilities and notes payable at the end of the reporting period.

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Effective interest rate (%)** | **HK$'000** | Effective interest rate (%) | HK$'000 |
| Floating rate borrowings | **2.65% to 5.15%** | **71,070** | 1.74% to 4.5% | 112,361 |
| Fixed rate borrowings | **4.65% to 15.5%** | **30,940** | 4.65% | 1,982 |
| Fixed rate lease liabilities/finance lease obligations | **2.8% to 10%** | **3,620** | 8% to 10% | 2,917 |
| Fixed rate notes payable | **2.5% to 9.5%** | **82,600** | 2.5% to 10% | 140,000 |
| | | **188,230** | | 257,260 |

At 31 March 2020, 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$510,000 (2019: HK$562,000). No impact would be on other components of consolidated equity in response to the general increase/decrease in interest rates.

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, lease liabilities 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 2019.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### 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 2020, the Group's assets and liabilities denominated in currencies other than functional currencies are disclosed in notes 20, 21, 23, 26, 27 and 29. 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.

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| RMB | **(261)** | (994) |
| RM | **(118)** | 1 |
| IDR | **(8,697)** | (12,374) |

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 2019.

## 46. 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 2020, 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$173,933,000 as at 31 March 2020 (2019: HK$247,474,000).

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

For the year ended 31 March 2020

## 46. 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 2020:

| **As at 31 March 2020** | **Expected loss rate %** | **Gross carrying amount HK$'000** | **Loss allowance HK$'000** | **Net carrying amount HK$'000** |
|---|---|---|---|---|
| Neither past due nor impaired | **2.85%** | **166,304** | **(4,740)** | **161,564** |
| 1 to 30 days past due | **3.49%** | **1,891** | **(66)** | **1,825** |
| 31 to 90 days past due | **9.77%** | **6,328** | **(618)** | **5,710** |
| 91 to 180 days past due | **9.96%** | **57,518** | **(5,728)** | **51,790** |
| 181 to 365 days past due | **18.27%** | **123,965** | **(22,648)** | **101,317** |
| Over 365 days past due | **29.59%** | **91,163** | **(26,975)** | **64,188** |
| | | **447,169** | **(60,775)** | **386,394** |

| 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.

## 46. 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 finance lease receivables as at 31 March 2020:

| **As at 31 March 2020** | **Expected loss rate %** | **Gross carrying amount HK$'000** | **Loss allowance HK$'000** | **Net carrying amount HK$'000** |
|---|---|---|---|---|
| Within 1 year | **2.03%** | **13,246** | **(269)** | **12,977** |
| Within 1 – 2 years | **4.15%** | **13,751** | **(571)** | **13,180** |
| Within 2 – 3 years | **6.31%** | **13,175** | **(832)** | **12,343** |
| Within 3 – 4 years | **7.49%** | **3,045** | **(228)** | **2,817** |
| Within 4 – 5 years | **5.37%** | **521** | **(28)** | **493** |
| Over 5 years | **6.02%** | **382** | **(23)** | **359** |
| | | **44,120** | **(1,951)** | **42,169** |

| 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 |

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit risk (Continued)

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.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Balance at 31 March under HKAS 39 | **–** | – |
| Impact of initial application of HKFRS 9 | **–** | 10,018 |
| Balance at 1 April | **11,035** | 10,018 |
| Impairment losses recognised (note 9) | **49,740** | 1,017 |
| Balance at 31 March | **60,775** | 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:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Balance at 31 March under HKAS 39 | **–** | – |
| Impact of initial application of HKFRS 9 | **–** | 1,010 |
| Balance at 1 April | **713** | 1,010 |
| Impairment losses recognised/(Reversal of impairment losses) (note 9) | **1,238** | (297) |
| Balance at 31 March | **1,951** | 713 |

The settlement of finance lease receivables net of those originated resulted in a decrease in loss allowance.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 46. 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 2020** | | | | | | | |
| Trade payables | 27,416 | 27,416 | 8,817 | 2,282 | 4,529 | 3,729 | 8,059 |
| Accruals and other payables | 81,961 | 81,961 | 81,961 | – | – | – | – |
| Borrowings | 102,010 | 108,342 | 31,477 | 28,525 | 34,718 | 4,907 | 8,715 |
| Bonds payable | 2,000 | 2,400 | – | – | 2,400 | – | – |
| Lease liabilities | 3,620 | 3,905 | 1,515 | 601 | 915 | 474 | 400 |
| Notes payable | 82,600 | 89,699 | 5,251 | 81,718 | 2,730 | – | – |
| Due to a related company | 616 | 616 | 616 | – | – | – | – |
| Due to directors | 10,605 | 10,605 | 10,605 | – | – | – | – |
| Financial liabilities at FVTPL | 3,597 | 3,615 | – | – | 3,615 | – | – |
| | 314,425 | 328,559 | 140,242 | 113,126 | 48,907 | 9,110 | 17,174 |

| | 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 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 46. 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).

| | **2020** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| **Equity investment at FVTPL** | | | | |
| Unlisted equity investment | **–** | **–** | **49,000** | **49,000** |
| **Other financial assets at FVTPL** | | | | |
| Investment in life insurance policy | **–** | **10,772** | **–** | **10,772** |
| | **–** | **10,772** | **49,000** | **59,772** |
| **Financial liabilities at FVTPL** | | | | |
| Redeemable preference shares | **–** | **–** | **(3,597)** | **(3,597)** |
| | **–** | **–** | **(3,597)** | **(3,597)** |

| | 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 |

There were no transfers between different levels during the year.

## 46. 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 2020** | 31 March 2019 | | | | |
| | **HK$'000** | HK$'000 | | | | |
| Unlisted equity investment | **49,000** | 71,000 | Discounted cash flow method | Weighted average cost of capital | 14% (2019: 14%) | A 5% increase (decrease) in WACC would result in decrease (increase) in fair value by approximately HK$2,000,000 |
| | | | | Discount for lack of marketability | 35% (2019: 35%) | A 5% increase (decrease) in discount for lack of marketability would result in decrease (increase) in fair value by approximately HK$1,000,000 |

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

| | Unlisted equity investment | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| At beginning of the year | **71,000** | – |
| Arising from the Deemed Disposal | **–** | 90,000 |
| Fair value change during the year | **(22,000)** | (19,000) |
| At end of the year | **49,000** | 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments are as follows:

### Financial assets

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Financial assets at FVTPL | | |
| Equity investment at FVTPL | **49,000** | 71,000 |
| Other financial assets at FVTPL | **10,772** | 10,436 |
| | **59,772** | 81,436 |
| At amortised cost | | |
| Trade receivables | **386,394** | 405,997 |
| Finance lease receivables | **42,169** | 56,670 |
| Other receivables | **4,897** | 3,180 |
| Due from an associate | **21,003** | 30,353 |
| Pledged bank deposits | **2,500** | 2,500 |
| Cash and cash equivalents | **9,370** | 26,440 |
| | **466,333** | 525,140 |

### Financial liabilities

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Financial liabilities at FVTPL | **3,597** | – |
| At amortised cost | | |
| Trade payables | **27,416** | 20,771 |
| Accruals and other payables | **81,961** | 24,295 |
| Bonds payable | **2,000** | – |
| Borrowings | **102,010** | 114,343 |
| Finance lease obligations | **–** | 2,917 |
| Lease liabilities | **3,620** | – |
| Notes payable | **82,600** | 140,000 |
| Due to a related company | **616** | 280 |
| Due to directors | **10,605** | 4,600 |
| | **310,828** | 307,206 |

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2020

## 48. 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:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Bonds payable | **2,000** | – |
| Borrowings | **102,010** | 114,343 |
| Finance lease obligations | **–** | 2,917 |
| Lease liabilities | **3,620** | – |
| Notes payable | **82,600** | 140,000 |
| Other payable | **51,125** | – |
| Financial liabilities at FVTPL | **3,597** | – |
| Less: Cash and cash equivalents | **(9,370)** | (26,440) |
| Net debt | **235,582** | 230,820 |
| Total equity | **315,082** | 430,897 |
| Net debt to equity ratio | **75%** | 54% |

## 49. SIGNIFICANT EVENT DURING THE YEAR

The outbreak of the Novel Coronavirus ("COVID-19") since early 2020 has resulted in significant decrease in commercial activities in various locations the Group operates and negatively affected the Group's business operations, particularly during the months January and March 2020 for the year ended 31 March 2020.

The outbreak of Coronavirus Disease 2019 ("COVID-19") had led to the suspension of work or delay of installation work in the sites as requested by the Group's customers for ongoing contracts due to lockdowns and restrictions resulted from various antipandemic measures by the relevant local authorities. The COVID-19 has also brought additional uncertainties to the economic outlook and resulted in a decrease in demand to the Group's products and services and delay in settlement from customers.

In preparing these consolidated financial statements, the Group has taken into account the increased risks caused by COVID-19 on impairment of the Group's financial and non-financial assets when assessing assets impairment mainly including trade receivables, financial lease receivables, goodwill and equity investment at FVTPL.

Management has been closely monitoring the development of the COVID-19 outbreak and considered that, save as disclosed above, there is no other matters that would result in a significant adverse impact on the Group's results and financial position as at the reporting date as result of the COVID-19.

## 50. EVENT AFTER REPORTING PERIOD

On 2 April 2020, the Company has granted a total of 36,560,000 share options (the "Share Options", each a "Share Option") to subscribe for an aggregate of 36,560,000 ordinary shares of HK$0.01 each in the capital of the Company (the "Shares", each a "Share"), comprising (i) 11,150,000 Share Options to five Directors; and (ii) 25,410,000 Share Options to certain qualified participants, being employees of the Group, subject to acceptance of such grantees of the Share Options, under the share option scheme adopted by the Company on 5 March 2015 (as amended on 26 October 2016). Further details are set out in the Company's announcement dated 2 April 2020.

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