# POSITIONING FOR THE FUTURE

ANNUAL REPORT 2019

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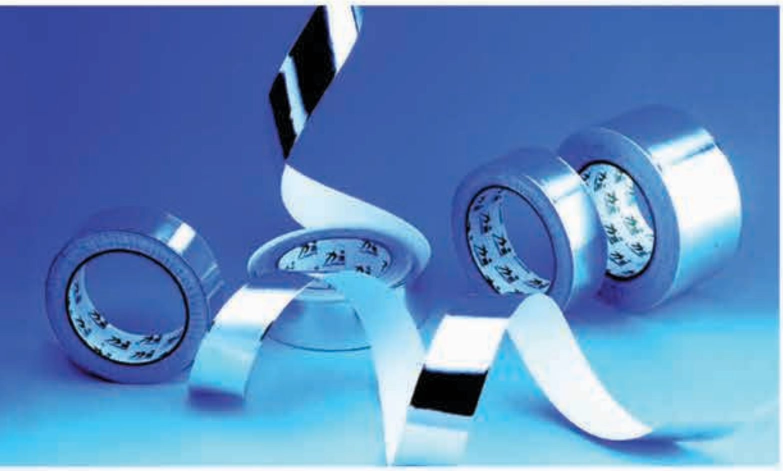


# CORPORATE PROFILE

Established in 1995, Luxking Group Holdings Limited ("Luxking") is a reputable manufacturer of pressure-sensitive adhesive ("PSA") tape products in the People's Republic of China, excluding Hong Kong and Macau (the "PRC").

Backed by strong research and development ("R&D") capabilities, Luxking has developed a broad range of industrial specialty tapes ("IS tapes") which are higher-grade products for use in the electronics and consumer electronics industries. The Group has established a sound reputation and track record for the supply of quality IS tapes, including PET spacers and optical clear adhesive tapes which are used in the production of consumer electronic devices. Luxking also manufactures general purpose adhesive tapes ("General tapes"), as well as biaxially oriented polypropylene ("BOPP") films, including higher-grade products that are used for paper laminations and specialty industrial packaging.

Luxking's products are used by more than 1,000 customers in the PRC and overseas markets from diverse industries spanning the printing, packaging, automotive and electronics sectors.

The Group's large-scale and vertically-integrated manufacturing capabilities enhance its competitive edge. Luxking produces PSA tape products based on its proprietary formulations and also manufactures BOPP films which are used in the production of adhesive tapes. To deliver high quality and innovative products to its customers, Luxking continually invests in R&D programs, technical training, as well as state-of-the-art equipment at its manufacturing facility in Zhongshan, the PRC.

Luxking was listed on the Main Board of the Singapore Exchange Securities Trading Limited ("SGX-ST") since 2005.

# CORPORATE STRUCTURE

**LUXKING GROUP HOLDINGS LIMITED**
(Incorporated in Bermuda)

100%

**EXCEL GLORY LIMITED**
(Incorporated in the British Virgin Islands)

100%

**CHINA KING INTERNATIONAL TRADING LIMITED**
(Incorporated in Hong Kong)

100%

**TIAN HOLDINGS LIMITED**
(Incorporated in Hong Kong)

100%

**ZHONGSHAN NEW ASIA ADHESIVE PRODUCTS CO., LTD.**
(Established in the PRC)

100%

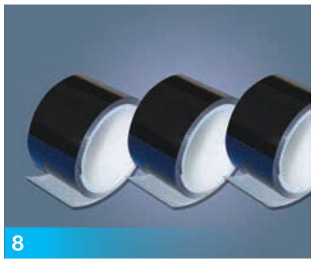
**湖北力王新材料有限公司**
(Established in the PRC)

100%

**LUXKING INVESTMENT LIMITED**
(Incorporated in Hong Kong)

100%

**LUXKING INTERNATIONAL CHEMICALS LIMITED**
(Incorporated in Hong Kong)




### #1 PET Spacer
**Characteristics:**
Excellent adhesion, temperature resistance and good punchability

**Applications:**
Acts as a spacer in membrane switches used in consumer electronics such as home appliances, mobile phones etc.

### #2 Aluminum Foil Tape
**Characteristics:**
Water-proof, moistureproof, flame retardant, provide physical insulation

**Applications:**
Protects gas, exhaust, water and oil pipes against corrosion and also for insulation

### #3 PVC Double-Sided Tape
**Characteristics:**
Excellent adhesion, good holding power, provide electrical insulation

**Applications:**
Used in demanding bonding applications

### #4 BOPP Films
**Characteristics:**
High clarity, transparent, flexible

**Applications:**
Can be used directly or coated with other materials for packaging purpose

### #5 Optical Clear Transfer Tape For LCDs
**Characteristics:**
Superior clarity and adhesion

**Applications:**
Used in bonding of film and glass laminates in touch screen displays, mounting of transparent graphic overlays and bonding of optical film/backlight module to LCD

### #6 High Performance Double-Sided Tape
**Characteristics:**
Excellent adhesion to various surfaces and materials, good punchability, temperature and repulsion resistance

**Applications:**
Used in mounting of metal or plastic name plates and in foam and films lamination

### #7 General Purpose Double-Sided Tape
**Characteristics:**
Good tensile strength, strong adhesion

**Applications:**
General applications in offices and homes

### #8 Light Shielding/Reflecting Double-Sided Tape
**Characteristics:**
Special black and white carrier, white side is light reflecting and black is light absorbing, strong peel adhesion and holding power to various substrates, good aging properties and is resistant to weather changes

**Applications:**
Used in mounting of LCD and backlight module of handheld devices

# MESSAGE TO SHAREHOLDERS

**Dear Shareholders,**

I would like to present Luxking Group Holdings Limited's ("Luxking" or the "Group") annual report for the financial year ended 30 June 2019 ("FY2019").

It was a challenging year in FY2019 as companies braced for the fallout from the escalating trade tensions between the USA and PRC. Indeed, the trade war and a slowing economy in the PRC have already taken a toll on the business activities of some of the Group's customers. As a result of the deterioration in business conditions, the Group experienced a steep fall in demand for its biaxially oriented polypropylene films ("BOPP films") products, as well as heightened price pressures across its other product segments during FY2019.

## BUSINESS REVIEW

For FY2019, the Group recorded a 29.1% decline in revenue to RMB376.9 million. This was dragged down mainly by the significant reduction in sales of BOPP films which fell 51.3% to RMB155.0 million in FY2019. Demand for BOPP films contracted considerably as some of the Group's customers were adversely affected by the protracted trade conflict and the PRC's economic slowdown.

The weaker performance of the BOPP films segment was however partially buffered by higher revenue generated from the industrial specialty tapes ("IS tapes") segment in FY2019. Notwithstanding difficult market conditions and mounting pressure on selling prices, the Group still achieved an 8.1% growth in sales of IS tapes to RMB127.6 million in FY2019. This increase was attributed mainly to the Group's continual efforts to expand customer base and widen product range. Sales of general purpose tapes ("General tapes") were relatively stable at RMB94.3 million in FY2019.

As a result, the IS tapes segment accounted for a higher 33.8% of total sales in FY2019 compared to FY2018. Revenue contribution from the General tapes segment also grew to 25.0% while the proportion of sales from BOPP films dropped to 41.1% in FY2019. The reduced sales of BOPP films also led to a decline in revenue contribution from domestic market to 77.6% of Group revenue in FY2019. On the other hand, the proportion of sales from overseas markets rose to 22.4% on the back of higher exports of IS tapes and General tapes in FY2019.

The significant decline in Group revenue in FY2019 resulted in under-absorption of fixed overheads. Coupled with intensified competition and pressure on average selling prices, the Group's gross profit margin narrowed to 7.1% in FY2019 from 10.6% in FY2018.

During FY2019, the Group also incurred a substantial impairment of trade and bills receivables of RMB29.2 million. The impairment of trade and bills receivables mainly arose from outstanding amounts that were long past overdue from four customers whose businesses had closed abruptly or were severely affected by the trade tensions and economic slowdown. The Group has taken the necessary actions to pursue legal recourse and initiated discussions to establish a repayment plan with the customers as appropriate. More details of the impairment of trade and bills receivables are provided in the Financial Review section of this annual report.

Other operating expenses in FY2019 were due mainly to compensation to customers for quality issues with certain batches of higher grade BOPP films. The Group had reached amicable agreements with these affected customers and also resolved the production signal glitch in its BOPP film manufacturing equipment.

The impact of lower revenue and gross profit, combined with higher other operating expenses resulted in the Group posting a significant loss after tax of RMB64.8 million in FY2019 compared to a net profit of RMB3.5 million in FY2018.

Nevertheless, the Group still generated positive net cash flow from operating activities of RMB23.8 million in FY2019. The Group had also continued to pare down its borrowings through consistent repayment of a long-term loan over the past years.

## BUSINESS OUTLOOK

The Group is maintaining a cautious business outlook in view of the challenging operating environment. The escalating trade tensions between the USA and the PRC continues to cloud the outlook of the global economy. In addition, businesses in the PRC will have to grapple with the effects of the country's weaker economic growth. These factors may potentially affect market demand for the Group's products and also drive up industry competition which could lead to further pressure on selling prices. In addition, the Group's profit margins are subject to changes in material costs, operating expenses, environmental compliance costs as well as volatility in foreign currency exchange rates.

Notwithstanding the current difficult operating conditions, the Group plans to stay the course on its business strategy to optimise revenue mix and build a resilient business model for the long-term. Luxking will continue to develop sales of its IS tapes and higher grade BOPP films through ongoing initiatives to expand product offering and drive customer growth. The Group will concurrently work on improving production efficiency and manufacturing processes to maximise production yield. At the same time, it will ensure a tight watch on operational costs to mitigate the impact of potential price and cost pressures.

Leveraging on its in-house research and development ("R&D") capabilities, the Group is constantly in collaboration with customers to provide tailor-made adhesive products in accordance to their projects and changing needs. This enables Luxking to improve its competitive position and remain relevant to customers as the Group seeks to sustain and expand its share of business with existing customers.

The Group has also embarked on internally-driven R&D programs to develop new IS tapes to penetrate new market segments such as electronic displays, automotive components and medical products. This initiative will enable Luxking to broaden its customer and revenue base by expanding the coverage of its IS tapes business beyond the current primary market segments in smartphones and household electrical appliances.

In FY2019, the Group has completed successful customer trials of the new IS tapes that are used for electronic displays and automotive components. However, the new range of IS tapes is not expected to contribute significantly to revenue in the near-term as it takes time to build sales, especially in this present climate when market sentiment remains uncertain. To keep pace with the expansion of its IS tapes business, the Group has added two IS tapes manufacturing lines to raise production capacity. These new lines have begun commercial production during FY2019.

As part of its strategy to grow its customer base, the Group is setting up a new manufacturing facility in Hubei, the PRC. Luxking's present manufacturing facilities are located in Guangdong province, the Southern region of the PRC. By setting up a direct presence in Hubei, the Group will be able to enhance its local support to existing customers in the Northern region. In addition, Luxking will be better positioned to extend its market penetration and gain new prospective customers. The Group is currently in the early stages of planning for the new plant in Hubei and targets to complete construction of the new factory by the year 2022.

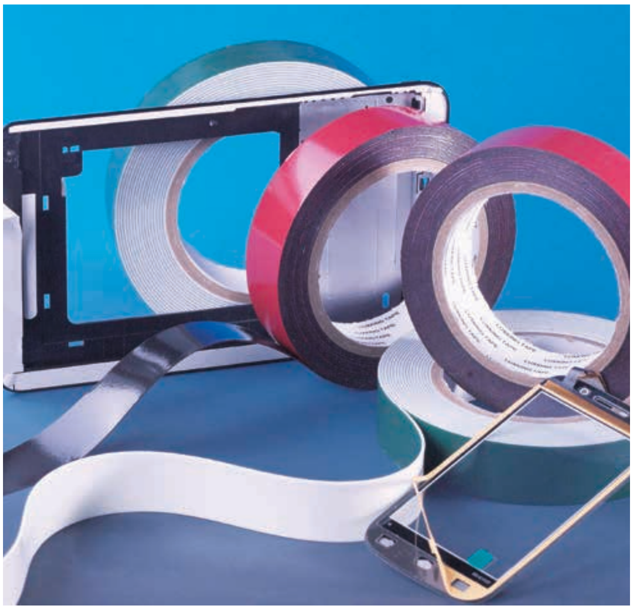
## APPRECIATION

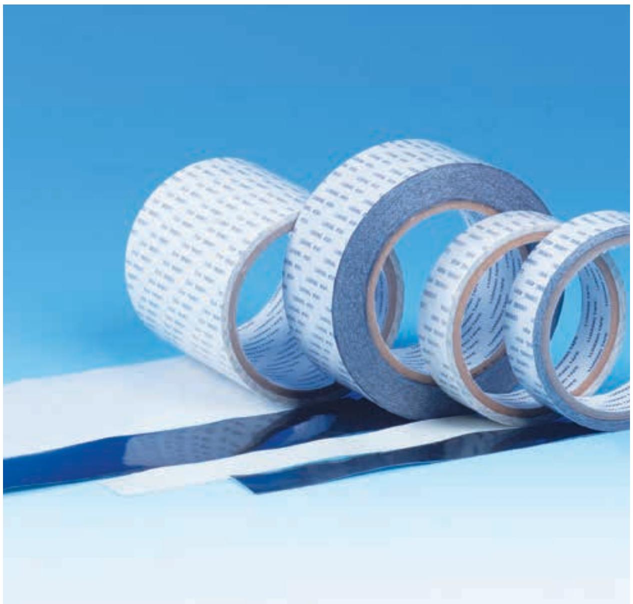
On behalf of the Board of Directors, I wish to extend our appreciation to our management and staff for the dedicated service, commitment and hard work. I would also like to express my gratitude to our valued shareholders, customers, suppliers and business partners for their continued trust and support of Luxking.

In closing, I would like to record my appreciation to our directors, Mr Chan Kin Sang and Mr Tan Tew Han for their invaluable counsel and contributions to the Group. Both Mr Chan and Mr Tan will step down from the Board after the upcoming Annual General Meeting. We also wish to extend a warm welcome to Mr Er Kwong Wah who has joined the Group as our Independent and Non-Executive Director on 9 September 2019.

**Leung Chee Kwong**
*Executive Chairman and Chief Executive Officer*
20 September 2019

# FINANCIAL REVIEW





## GROUP REVENUE

For the financial year ended 30 June 2019 ("FY2019"), the Group's revenue decreased 29.1% to RMB376.9 million from RMB531.8 million in FY2018. The decrease was due mainly to the biaxally oriented polypropylene films ("BOPP films") segment which recorded a substantial drop in sales of 51.3% from RMB318.1 million in FY2018 to RMB155.0 million in FY2019.

Demand for BOPP films contracted considerably in FY2019 as the escalating trade tensions between the PRC and USA, coupled with a slowdown in the PRC economy, had an adverse impact on the business activities for some of the Group's customers.

In contrast, the Group's sales of industrial specialty tapes ("IS tapes") increased 8.1% from RMB118.0 million in FY2018 to RMB127.6 million in FY2019, driven mainly by its expanded customer base and wider product range. Sales of general purpose tapes ("General tapes") dipped marginally from RMB95.7 million in FY2018 to RMB94.3 million in FY2019.

As a result, the BOPP films segment's revenue contribution decreased to 41.1% in FY2019 compared to 59.8% in FY2018. The IS tapes segment accounted for a higher 33.8% of total sales in FY2019 compared to 22.2% in FY2018. Revenue contribution from the General tapes segment also increased to 25.0% from 18.0% in FY2018.

In terms of revenue by geographical markets, sales to the domestic market fell 35.0% from RMB449.9 million to RMB292.4 million in FY2019, attributable mainly to lower sales of BOPP films. Accordingly, the contribution of the domestic market to Group revenue declined to 77.6% in FY2019 from 84.6% in FY2018. Sales to overseas markets improved slightly by 3.2% from RMB81.9 million in FY2018 to RMB84.5 million in FY2019 on the back of higher export sales of IS tapes and General tapes.

## PROFITABILITY

The Group's gross profit declined 52.2% from RMB56.3 million in FY2018 to RMB26.9 million in FY2019. Correspondingly, gross profit margin narrowed from 10.6% in FY2018 to 7.1% in FY2019. This was attributed mainly to the substantial reduction in revenue which resulted in under-absorption of fixed overheads. The decline was also due to intensified competition which led to significant pressure on average selling prices.

Other income decreased from RMB1.2 million to RMB0.9 million in FY2019. This was due mainly to a net foreign exchange loss incurred for FY2019 as compared to a net foreign exchange gain in FY2018. The net foreign exchange loss was reflected in administrative expenses.

Selling and distribution costs increased 10.4% from RMB15.2 million in FY2018 to RMB16.8 million in FY2019, due mainly to higher transportation costs and export fees in tandem with increased sales to overseas markets, higher staff costs and marketing-related expenses.

Administrative expenses increased 5.7% from RMB27.7 million in FY2018 to RMB29.3 million in FY2019. This was attributed mainly to a net foreign exchange loss of approximately RMB1.9 million as a result of the depreciation of the Renminbi.

Impairment loss of trade and bills receivables incurred in FY2019 amounted to RMB29.2 million was due mainly to:

1) impairment of trade and bills receivables of RMB28.0 million in relation to outstanding amounts that are long past overdue from four customers whose businesses had closed abruptly or were severely affected by the trade tensions and economic slowdown. An impairment of RMB17.4 million arose from a longstanding customer of 16 years that had absconded after shutting down its factory in Guangzhou and removing all assets (Please refer to the Company's announcements on 3 April 2019 and 26 April 2019). An impairment of RMB3.5 million was also recognised from a customer who had been trading regularly with the Group for 7 years and after unsuccessful negotiations for settlement, the Group has proceeded with legal claims against the customer. In addition, an impairment for an aggregate amount of RMB6.8 million was made for outstanding receivables from two other longstanding customers who are encountering cash-flow problems due to the negative impact of the trade tensions on their businesses. The Group is currently in active discussions with these two customers to establish a repayment plan.

2) provision for expected credit losses ("ECL") of RMB1.4 million for collectively assessed trade and bills receivables in line with the adoption of IFRS 9. Details of ECLs assessment are shown on pages 93 to 94 of this annual report.

Other operating expenses incurred in FY2019 amounted to RMB8.9 million was due mainly to compensation to customers amounting to RMB8.8 million for certain batches of higher grade BOPP films that had quality issues as a result of a production signal glitch in the manufacturing equipment. In order to maintain good business relationships with these customers, the Group had reached amicable agreements with them.

Finance costs declined 6.3% from RMB6.9 million in FY2018 to RMB6.4 million in FY2019 due mainly to a decrease in other borrowings.

The Group incurred income tax expense of RMB2.0 million for FY2019 which included payment of certain taxes allocated by the local provincial government. As a result of the aforesaid factors, the Group recorded a significant loss after tax of RMB64.8 million in FY2019, as compared to a profit of RMB3.5 million in FY2018.

## FINANCIAL POSITION

Non-current assets decreased from RMB85.8 million as at 30 June 2018 to RMB82.2 million as at 30 June 2019. This was due mainly to depreciation of property, plant and equipment, partially offset by the acquisition of land use rights in Hubei, the PRC.

Inventories decreased from RMB59.2 million as at 30 June 2018 to RMB53.9 million as at 30 June 2019 in tandem with the slower demand conditions.

Trade and bills receivables decreased from RMB180.1 million as at 30 June 2018 to RMB117.8 million as at 30 June 2019 due to lower sales and impairment of trade and bills receivables. Debtor turnover days shortened to around 114 days in FY2019 as compared to 124 days in FY2018. Prepayments, deposits and other receivables increased slightly to RMB12.4 million as at 30 June 2019 from RMB12.3 million as at 30 June 2018.

# FINANCIAL REVIEW

Cash and bank balances increased from RMB18.6 million as at 30 June 2018 to RMB19.2 million as at 30 June 2019. This was attributable mainly to net cash generated from operating activities of RMB23.8 million which was offset partially by net cash used in investing activities, interest payment and net repayment of other borrowings. Total borrowings, which includes other borrowings, declined from RMB133.9 million as at 30 June 2018 to RMB124.5 million as at 30 June 2019, due mainly to repayment of other borrowings of RMB18.0 million.

Trade payables decreased marginally from RMB34.9 million as at 30 June 2018 to RMB34.1 million as at 30 June 2019. Accrued expenses and other payables decreased from RMB14.7 million to RMB14.2 million as at 30 June 2019 due to settlement of outstanding expenses and payables.

Income tax payables were steady at RMB1.0 million as at 30 June 2019. The Group recorded deferred income of RMB4.1 million as at 30 June 2019 which arose from a local government grant for its new plant in Hubei, the PRC.

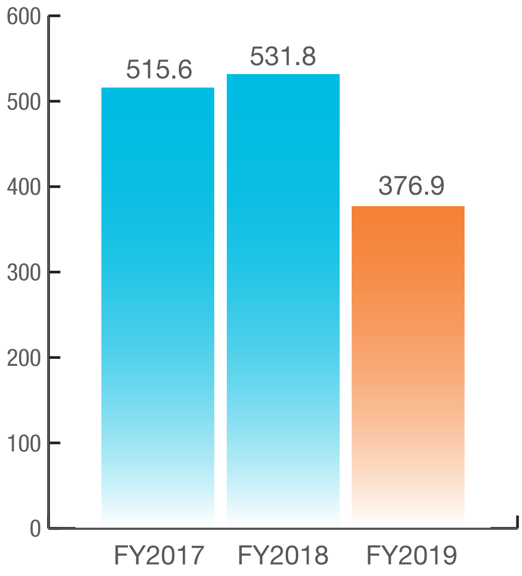
## CASH FLOW

The Group generated net cash from operating activities of RMB23.8 million in FY2019. This was derived primarily from net working capital inflows of around RMB37.2 million, which offset the operating loss before working capital changes of around RMB11.5 million.

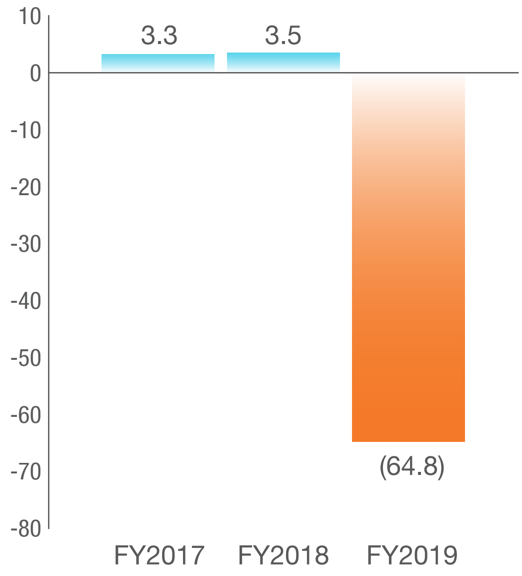
Net cash used in investing activities during FY2019 was RMB11.0 million, attributed mainly to the purchase of plant and equipment and the acquisition of land use rights in Hubei, the PRC.

Net cash used in financing activities amounted to RMB12.3 million, due mainly to interest payments on bank borrowings and other borrowings and repayments of bank borrowings and other borrowings.

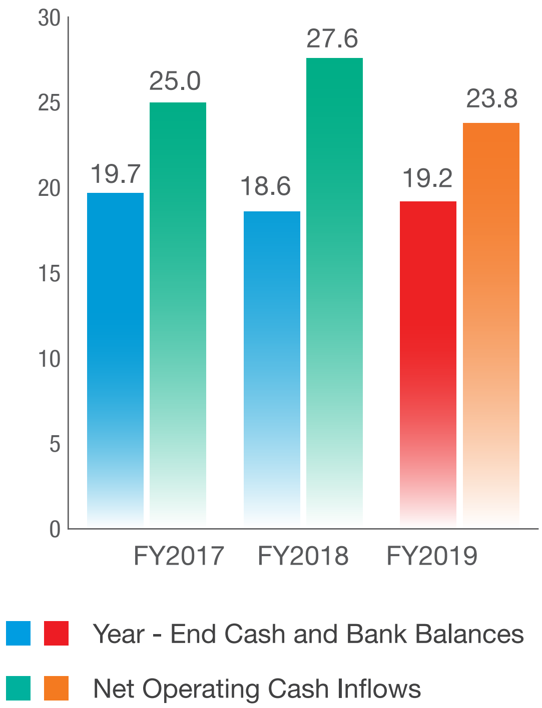
**Revenue** (RMB million)



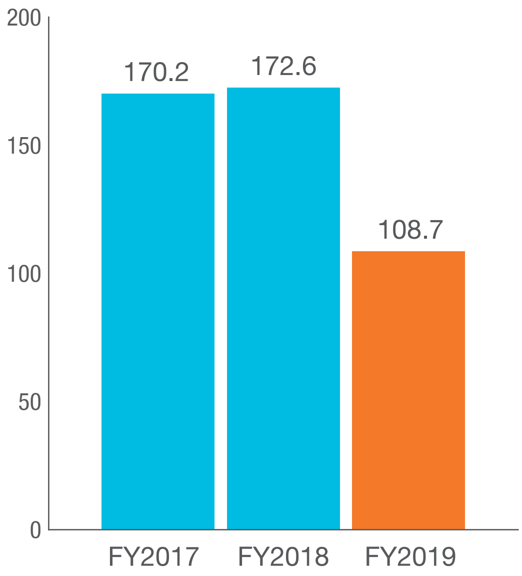

**Net Profit/(Loss)** (RMB million)




**Year-End Cash And Bank Balances And Net Operating Cash Inflows**
(RMB million)




**Shareholders' Equity** (RMB million)



# BOARD OF DIRECTORS

## Mr Leung Chee Kwong

*Executive Chairman and Chief Executive Officer*

Mr Leung is a founder of our Group and is responsible for the formulation and execution of overall business strategies and policies as well as the overall management of our Group. He has more than 20 years of experience in the adhesive tape business. Mr Leung was previously the Vice-Manager of Wingtai Adhesive Product Factory Co. Ltd. from 1984 and was subsequently promoted to General Manager in 1989. He also worked as a salesperson and an operations worker in several companies and factories in Zhongshan Yongning.

Mr Leung was last re-elected a Director of the Company on 22 October 2018.

## Ms Leung Hi Man

*Executive Director*

Ms Leung joined the Group in 2005 and was appointed an Executive Director of the Company on 1 September 2017. She oversees the finance department, and assists the Executive Chairman in the formulation and execution of overall business strategies and policies of the Group. She is also Assistant Sales Manager of the Group and is responsible for managing business relationships, overseeing sales operations, fomulating marketing strategies and assisting product development of the Group's Hong Kong subsidiaries, Luxking International Chemicals Limited and China King International Trading Limited. She obtained her Master in Science (Honours) in Chemistry from Imperial College London, United Kingdom in 2005.

Ms Leung was last re-elected a Director of the Company on 23 October 2017.

## Mr Tan Tew Han

*Lead Independent and Non-Executive Director*

Mr Tan was appointed as an Independent and Non-Executive Director of the Company on 17 June 2005 and Lead Independent Director on 1 September 2013. Mr Tan started his banking career 39 years ago and has since held a number of senior positions in various foreign banks. Before his career in the banking industry, he was with the Administrative Service of the Singapore Civil Service. He joined the Overseas Union Bank ("OUB") in 1987 and was seconded to the International Bank of Singapore Limited, a then wholly owned subsidiary of OUB, as Head of Corporate Banking and the Overseas Department. He was subsequently appointed as Senior Vice President of Investment Banking and Corporate Finance Division of OUB in 1992. In 1999, he was promoted to the position of Executive Vice President where he was in charge of fund management, corporate finance, capital markets, syndication and trustee and custodian Services. Mr Tan retired from OUB in 2001. Mr Tan obtained his Bachelor of Science (Honours) degree from the University of Singapore in 1971 and his Master of Business Administration degree from the University of British Columbia, Canada in 1979.

Mr Tan was last re-elected a Director of the Company on 23 October 2017 and will step down effective 31 October 2019 on health grounds and also for progressive renewal of the Board.

## Mr Chan Kin Sang

*Independent and Non-Executive Director*

Mr Chan was appointed as an Independent and Non-Executive Director of the Company on 17 June 2005. A practicing solicitor in Hong Kong since 1982, he is presently the senior partner of Messrs. Peter K. S. Chan & Co. Solicitors and Notaries. Mr Chan graduated from the University of Hong Kong with a Bachelor of Laws degree in 1979. He was admitted as a Notary Public in 1997 and as a China-appointed Attesting Officer in 2000. He is a Fellow of the Hong Kong Institute of Directors and acts as independent non-executive director or non-executive director on the board of directors of several listed companies in Hong Kong or Singapore. He also acts as a director of a listed company in the PRC.

Mr Chan will not be seeking re-appointment at the forthcoming Annual General Meeting of the Company and will retire as a Director of the Company after the conclusion of the Annual General Meeting.

## Mr Chng Hee Kok

*Independent and Non-Executive Director*

Mr Chng was appointed as an Independent and Non-Executive Director of the Company on 17 June 2005. He is Chairman of Ellipsiz Ltd. Mr Chng had served as the Chief Executive Officer of Scotts Holdings Limited, Yeo Hiap Seng Limited, Hartawan Holdings Ltd., HG Metals Manufacturing Ltd. and LH Group Ltd. He was a Member of Parliament of Singapore from 1984 to 2001. Mr Chng served on the boards of Sentosa Development Corporation and Singapore Institute of Directors. Currently he sits on the boards of a number of listed companies which include Samudera Shipping Line Limited, United Food Holdings Ltd, Full Apex (Holdings) Limited and Blackgold Natural Resources Ltd. Mr Chng was awarded a Merit Scholarship by the Singapore Government and graduated with a BEng (First Class Honours) from the University of Singapore in 1972. He also holds a MBA from the National University of Singapore.

Mr Chng was last re-elected a Director of the Company on 23 October 2017.

## Mr Er Kwong Wah

*Independent and Non-Executive Director*

Mr Er was appointed as an Independent and Non-Executive Director of the Company on 9 September 2019 and will be seeking re-appointment at the forthcoming Annual General Meeting of the Company.

Mr. Er spent 27 years in the service of the Singapore Government. Whilst in the civil service, he served in various ministries such as the Ministry of Defense, the Public Service Commission, Ministry of Finance, Ministry of Education and the Ministry of Community Development. He held Permanent Secretary Position first with the Ministry of Education from 1987-1994 and then with the Ministry of Community Development until his retirement in 1998. After his retirement from the civil service, he was appointed Executive Chairman of Sembawang Maritime and Logistic Ltd till 2001 when he left to take up the position of Executive Director of a leading private education institution in Singapore.

At present, he sits as an independent director on the Boards of several public companies listed in Singapore. The public companies include COSCO Shipping International (Singapore) Ltd, CFM Holdings Ltd, The Place Holdings Ltd, ecoWise Holdings Ltd, Chaswood Resources Ltd and USP Group Ltd.

A Colombo Plan and Bank of Tokyo Scholar, Mr Er Kwong Wah obtained the Bachelor of Applied Science degree (BASc) with Honors in Electrical Engineering at the University of Toronto, Canada in 1970, and the Master in Business Administration (MBA) from the Manchester Business School, University of Manchester in 1978.

Whilst in the Civil Service, he was conferred the Public Administration Medal (Gold) in 1990. In 1991, he was conferred the Commandeur dans l'Ordre des Palmes Academiques by the Government of France.

For his contributions in serving the community, he was conferred the Public Service Medal (2004) and the Public Service Star (2009) by the Government of Singapore.

# KEY EXECUTIVES

## Mr Yuen Kwun Ki Anthony
*Financial Controller*

Mr Yuen joined our Group as Financial Controller in November 2006. He is responsible for all finance and accounts matters, statutory compliance and corporate governance of our Group. Mr Yuen is currently a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He also holds a Master of Finance degree from the Curtin University of Technology, Australia.

## Mr Yang Yongqiang
*Vice General Manager*

Mr Yang joined our Group in 2001 and was promoted to his current position in 2014. He is responsible for the production process of adhesive tapes, overseeing our Group's research and development activities including development of new adhesive tape products and improvement of existing products. Mr Yang graduated from the China Zhongshan Institute of Zhongshan University (中山大学孙文学院), specialising in Applied Chemistry.

## Mr Xiao Yichi
*Vice General Manager*

Mr Xiao joined our group in 2001. He is responsible for the production process, sales and marketing activities of our BOPP films. He was promoted to his current position in 2014. Mr Xiao graduated with a Bachelor in Chemical Machinery from the Wuhan Institute of Technology（武汉工程大学）in 2001.

## Mr Zhong Zhaoqiang
*Adhesive Tape Production Manager*

Mr Zhong, who joined our Group since 1999, was promoted as our Adhesive Tape Production Manager in December 2005. He is responsible for monitoring the production process of adhesive tapes, such as integration of adhesive solvents, and coating and cutting of finished goods. Mr Zhong graduated in 1999 from the China Zhongshan Institute of Zhongshan University (中山大学孙文学院), where he specialised in Applied Chemistry.

## Mr Huang Zhilin
*Purchasing Manager*

Mr Huang is responsible for establishing and administering our Group's purchasing policies. He joined our Group in 1996 as a Manager of our Technical Department where he was responsible for quality control and technology development. Mr Huang was promoted to Research and Development Manager in 2003 and was subsequently transferred to his current position in 2006. Prior to joining our Group, he was the Production Head of Union Carbide (Guangdong Zhongshan) Co. Ltd. (联合碳化(广东中山)有限公司) from 1992 to 1995. Mr Huang graduated from the China Zhongshan Institute of Zhongshan University (中山大学孙文学院) in 1992, specialising in Applied Chemistry.

## Mr Zhang Hongxi
*Finance Manager*

Mr Zhang assists our Financial Controller in overseeing accounting and financial matters of Zhongshan New Asia Adhesive Products Co., Ltd. Before joining our Group in 2000, he was a Finance Manager at the Zhongshan Mingtian Group (中山明天集团) from 1986 to 1995 and an Accountant at Zhongshan Xiaolan Industrial Company 〔中山市小榄镇工业总公司〕 from 1995 to 2000. Mr Zhang graduated from the Accounting Branch of the China Agricultural Broadcast and Television School (中央农业广播电视学校会计分校) in 1988 and was certified by the Committee of Science and Technology of Zhongshan City (中山市科学技术委员会) to be a qualified accountant in 1989.

## EXECUTIVE DIRECTORS :
Leung Chee Kwong (Executive Chairman and Chief Executive Officer)
Leung Hi Man

## NON-EXECUTIVE DIRECTORS :
Tan Tew Han (Lead Independent)
Chan Kin Sang (Independent)
Chng Hee Kok (Independent)
Er Kwong Wah (Independent) (Appointed with effect from 9 September 2019)

## AUDIT COMMITTEE
Chng Hee Kok (Chairman)
Chan Kin Sang
Tan Tew Han

## NOMINATING COMMITTEE
Tan Tew Han (Chairman)
Chan Kin Sang
Chng Hee Kok

## REMUNERATION COMMITEE
Chan Kin Sang (Chairman)
Chng Hee Kok
Tan Tew Han

## SECRETARIES
Cheng Lisa
Conyers Corporate Services (Bermuda) Limited
(Assistant Secretary)

## REGISTERED OFFICE
Clarendon House
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Hamilton, HM11
Bermuda
Tel: (441) 295 5950
Fax: (441) 292 4720

## BUSINESS OFFICE
Lianfeng Road, Jiu Zhouji, Xiaolan Town
Zhongshan City, Guangdong Province
People's Republic of China
Tel: (86) 760 2212 6315
Fax: (86) 760 2212 6267
Website: www.newasiatapes.com
Email: office@luxkinggroup.com

Unit 6, 12/F, Tower A, New Mandarin Plaza
14 Science Museum Road, Tsimshatsui
Kowloon, Hong Kong

## BERMUDA SHARE REGISTRAR
Conyers Corporate Services (Bermuda) Limited
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## JOINT AUDITORS
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Engagement Director:
Cheung Or Ping
(Commencing from the financial year ended 30 June 2018)

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# CORPORATE GOVERNANCE REPORT

For the year ended 30 June 2019

The Board of Directors (the "Board") and Management of Luxking Group Holdings Limited (the "Company") together with its subsidiaries (together referred to as the "Group") are committed to maintaining high standards of corporate governance within the Company and the Group respectively and places importance on its corporate governance processes and systems so as to ensure greater transparency, accountability and maximisation of long-term shareholder value.

The new Code of Corporate Governance 2018 was issued on 6 August 2018 (the "2018 Code"), and will only effect for annual reports covering financial year commencing from 1 January 2019. As such, the 2018 Code is not updated into the Company's corporate governance report for the financial year ended 30 June 2019 ("FY2019").

This report sets out the Company's corporate governance framework and practices for FY2019 with reference to the Code of Corporate Governance 2012 (the "2012 Code"). The Board is pleased to report the compliance with the principles and guidelines as set out in the 2012 Code except where otherwise stated and explained.

## (A) BOARD MATTERS

### Board's Conduct of its Affairs

**Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.**

The Board currently comprises the following six members:

**Executive Directors**
Mr Leung Chee Kwong
Ms Leung Hi Man

**Independent and Non-Executive Directors**
Mr Tan Tew Han (Lead Independent Director)
Mr Chan Kin Sang
Mr Chng Hee Kok
Mr Er Kwong Wah (Appointed with effect from 9 September 2019)

The Board is entrusted to lead and oversee the Company, with the fundamental principle to act in the best interests and hold Management accountable for performance of the Company and the Group. Apart from its statutory duties and responsibilities, the Board is primarily responsible for:

- overseeing the management and affairs of the Group;
- approving the Group's corporate and strategic direction;
- regularly reviewing business plans of the Group and the Company;
- reviewing and monitoring financial performance of the Group and the Company;
- establishing and maintaining a sound system of internal controls, covering not only financial controls but also operational and compliance controls;
- reviewing the adequacy and improvement of its internal control systems; and
- consider sustainability issues, e.g. environmental and social factors, as part of the Group's strategic formulation

The Group has in place internal guidelines on matters which are specifically reserved for Board decision include (but not limited to) the following:

- the financial results and corporate strategies of the Group;
- the appointment of directors of the Company ("Directors") and key personnel;
- material acquisitions and disposal of assets;
- corporate or financial restructuring;
- policies relating to financial matters such as risk management and internal control and compliance;
- shares issuance and declaration of dividends; and
- conflict of interest for a substantial shareholder or a Director

To facilitate the execution of its responsibilities, the Board has established various Board Committees, such as Nominating Committee ("NC"), Remuneration Committee ("RC") and Audit Committee ("AC"). These Committees function within clearly defined terms of reference, which are subject to review on a regular basis. The Chairman of the respective Committees reports to the Board on the outcome of the Committee meetings.

Formal Board meetings are held at least half-yearly basis to coincide with the announcement of the Group's half-year and full-year results and to keep the Board updated on the business activities and financial performance of the Group. Ad-hoc meetings are also convened, when required, to address any significant issues that may arise. The Company's Bye-laws provides for telephonic attendance and conference via audio-visual communication at Board meetings to facilitate Board participation.

In FY2019, the Board held two meetings to review the business of the Group and approve the Group's half-year and full-year financial statements. The attendance of Directors at meetings of the Board and Board Committees in FY2019 are summarised as follows:

| **Name of Director** | | **Board** | **Audit Committee** | **Remuneration Committee** | **Nominating Committee** |
|---|---|---|---|---|---|
| **No. of meetings held in FY2019** | | **2** | **2** | **1** | **1** |
| Mr Leung Chee Kwong | Executive Chairman and Chief Executive Officer | 1 | N/A | N/A | N/A |
| Ms Leung Hi Man | Executive Director | 2 | N/A | N/A | N/A |
| Mr Chan Kin Sang | Independent Director | 2 | 2 | 1 | 1 |
| Mr Chng Hee Kok | Independent Director | 2 | 2 | 1 | 1 |
| Mr Tan Tew Han | Lead Independent Director | 2 | 2 | 1 | 1 |
| Mr Er Kwong Wah (Appointed with effect from 9 September 2019) | Independent Director | N/A | N/A | N/A | N/A |

N/A: Not applicable

Orientations are organised for new Directors, when appointed, that include briefing by Management on the Group's structure, business strategies and operations. All newly appointed Directors who have no prior experience as a director of a listed company in Singapore will be provided with relevant training in the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange. New Directors (if appointed) will be provided with a letter of appointment setting out their duties, obligations and terms of appointment. Mr Er Kwong Wah who was appointed 9 September 2019, was given letter of appointment setting out his duties, obligations and the terms of appointment, and was briefed on the Group's structure, business, operations and policies as well as arranging site visit for him.

As part of their continuing education and to keep themselves apprised and updated, Directors would attend courses/briefings on directors' duties and responsibilities and/or developments in the corporate governance practices, financial reporting standards and regulatory, legal and other requirements, including insider trading legislation and the continuing listing requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST"), at the Company's expenses.

The updated sessions, seminars and training programmes attended by the Directors collectively for FY2019 include –

- The Company's external auditors updated the AC members on developments and/or changes on the accounting standards.
- Management updated on the business activities and strategic directions of the Group.
- The Directors are updated on changes to the listing rules, corporate governance and other regulatory requirements, on a regular basis.
- Relevant training courses organized by the Singapore Institute of Directors.

**Board Composition and Guidance**

**Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.**

The Board comprises six Directors, four of whom are Independent and Non-Executive Directors. The Board comprises experienced and qualified members who provide core competencies, such as business and management experience, industry knowledge, finance, legal and strategic planning experience that are necessary and critical to meet the Group's objectives. Details of the Directors' background are set out on pages 10 to 11 of the Annual Report.

The composition of the Board and Board Committees and the skills and core competencies of its members are reviewed by the NC which is of the view that the current size and composition of the Board and Board Committees are appropriate and effective, taking into account the nature and scope of the Group's operations. As majority of the Board comprises Independent Directors, the Board is able to exercise independent judgement on corporate affairs and issues and avoid domination by any individual or small group of individuals in the Board's decision-making process. The requirement of the 2012 Code that Independent Directors make up a majority of the Board where the Chairman is not independent is satisfied.

The NC has reviewed the independence of the Board members with reference to the guidelines set out in the 2012 Code and the Board is of the view that all Independent and Non-Executive Directors to be independent. Each member of the NC has abstained from deliberations in respect of assessment of his own independence.

The Board noted that three Independent and Non-Executive Directors (namely, Mr Chng Hee Kok, Mr Chan Kin Sang and Mr Tan Tew Han) have served on the Board for more than 9 years. The Board is of the view that the length of service has not compromised the objectivity of these three Independent and Non-Executive Directors and their commitment and ability to discharge their duties.

The rigorous review and the factors taken into consideration by the Board to assess and determine the independence of the three Independent and Non-Executive Directors include:

- Their contributions in terms of professionalism, integrity, objectively and ability to exercise independence of judgement in their deliberation in the interest of the Company/Group;

- They have no relationship with the Company's related corporations, substantial shareholders, officers and Management that could impair their fair judgement;

- They, through their years of involvement with the Company, have gained valuable insight and understanding of the Group's business and together with their diverse experience and expertise, have contributed effectively as Independent and Non-Executive Directors by providing impartial and autonomous views at all times;

- They have constructively engaged and challenged Management in the best interest of the Company/Group; and

- Their own declaration on their continuation to express their viewpoints, debate issues, scrutinise objectively and challenge Management's proposals on business activities as well as active participation on transactions involving conflicts of interests and other complexities.

The Board is of the view that the three Independent and Non-Executive Directors are considered independent and have the ability to continue exercising independent judgement in the best interest of the Company in discharging their duties as Directors, despite their extended tenure in office. The three Independent and Non-Executive Directors have abstained from deliberations in respect of their own rigorous review of independence.

Having served on the Board since 2005, Mr Tan Tew Han has decided to step down as Lead Independent Director of the Company effective 31 October 2019 on health grounds and for progressive renewal of the Board. He would also cease to be the Chairman of the Nominating Committee and members of the Audit Committee and Remuneration Committee, effective 31 October 2019.

The Non-Executive Directors contribute to the Board process by monitoring and reviewing Management's performance. Their views and opinions provide alternative perspectives to the Group's business and they bring independent judgement to bear on business activities and transactions which may involve conflicts of interest and other complexities.

Non-Executive Directors communicate with each other without the presence of Management as and when the need arises.

**Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.**

Mr Leung Chee Kwong is the Executive Chairman and Chief Executive Officer ("CEO"). As one of the co-founders of the Group, Mr Leung has in-depth knowledge of the adhesive tape industry. He is also experienced in managing the business. The Board supports his role as Chairman and CEO. Although the Company has not complied with the recommendation for the Chairman and CEO to be in principle separate persons, having Mr Leung assume both roles has not compromised accountability and independent decision making, as the Board comprises majority of Independent Directors. All major decisions relating to operations and management of the Group are jointly and collectively made by the Board after taking into account the views of all Directors. As such, there is a balance of power and authority and no individual dominates the decision-making process of the Group.

As Chairman, Mr Leung ensures the integrity and effectiveness of the governance process of the Board. In addition, he is also responsible for representing the Board to shareholders, ensuring that Board meetings are held when necessary, setting the Board meeting agenda, acting as facilitator at Board meetings and maintaining regular dialogue with Management on all operational matters. He also ensures that Board members are provided with complete, adequate and timely information.

Mr Tan Tew Han, the Lead Independent Director of the Company, is available to address shareholders' where they have concerns and for which contact through the normal channels of communication with the Chairman or Financial Controller are inappropriate or inadequate and ensures the Company has no unfettered powers of decision.

**Board Membership**

**Principle 4: There should be a formal and transparent process for the appointment and reappointment of directors to the Board.**

The NC comprises three members, all of whom are Independent and Non-Executive Directors. The Chairman of the NC is not related to any substantial shareholder of the Company.

The NC members are as follows:

**Independent and Non-Executive Directors:**
Mr Tan Tew Han (Chairman)
Mr Chan Kin Sang
Mr Chng Hee Kok

Under its terms of reference, the duties of the NC include the following:

- To make recommendations to the Board on the appointment of new Directors, including making recommendations on the composition of the Board generally and the balance between Executive and Non-Executive Directors appointed to the Board;
- To regularly review the Board structure, size and composition and make recommendations to the Board with regards to any adjustments that are deemed necessary;
- To be responsible for assessing nominees or candidates for appointment or election to the Board, and determining whether or not such nominee has the requisite qualifications and whether or not he/she is independent;
- To make plans for succession, in particular for the Chairman and CEO;

- To determine, on an annual basis, if a Director is independent. If the NC determines that a Director, who has one or more of the relationships mentioned under the 2012 Code is in fact independent, the Company would disclose in full, the nature of the Director's relationship and bear responsibility for explaining why he should be considered independent;

- To recommend nominations of Directors retiring by rotation for re-election;

- To review training and professional development programs for the Board;

- To decide whether or not a Director is able to and has been adequately carrying out his duties as a Director of the Company, particularly when he/she has multiple board representations; and

- To be responsible for assessing the effectiveness of the Board and Board Committees as a whole and the contribution of each individual Director to the effectiveness of the Board.

The NC would evaluate the current needs of the Board to determine the relevant competencies required. The Company has in place formal and written procedures for the selection and appointment of new Directors. Potential candidates are sourced from the Board's and Management's network of contacts and are identified based on the needs and the relevant expertise required by the Company. The Company may appoint professional search firms and recruitment consultants to assist in the selection and evaluation process of the appointment requires specific skill set or industry specialisation. The NC, having assessed each candidate based on the essential and desirable competencies for a particular appointment, will nominate the most suitable candidate for appointment to the Board.

Each Director was abstained from discussion on any resolution in respect of the assessment of his/her performance and contribution for re-appointment as a Director of the Company.

As at the date of this report, none of the Directors have appointed alternate director.

Under the Company's Bye-laws, all Directors are subject to retirement at least once every three years by rotation and all newly-appointed Directors are required to retire at the next Annual General Meeting ("AGM") following their appointment. The retiring Directors may offer themselves for re-election.

In recommending a Director for re-appointment to the Board, the NC considers, amongst other things, his/her attendance and participation at Board and Board Committee meetings and the time and efforts accorded to the Group's business and affairs.

The NC had recommended the nomination of Mr Chan Kin Sang and Mr Er Kwong Wah for re-appointment as Directors of the Company at the forthcoming AGM. Mr Chan Kin Sang had informed the Board that he will not be seeking for re-appointment at the forthcoming AGM and will accordingly retire from office as a Director of the Company after the conclusion of the AGM. Mr Er has given his consent to continue in office. The Board had accepted the NC's recommendation and accordingly, Mr Er will be offering himself for re-appointment at this AGM.

There is no changes in respect of the requirements under 720(6) of the SGX Listing Manual for re-appointment of Mr Er Kwong Wah as a Director of the Company, which was announced on 9 September 2019.

The NC has reviewed the independence of the Board members with reference to the guidelines set out in the 2012 Code and has determined that Mr Tan Tew Han, Mr Chng Hee Kok, Mr Chan Kin Sang and Mr Er Kwong Wah to be independent.

The NC has reviewed from time to time competing commitments of Directors who serve on multiple boards and have other major commitments. Confirmations have been obtained from the Independent and Non-Executive Directors that despite their other Board representations, they are able to discharge their responsibilities as Directors of the Company. They had all contributed to the Board process through their attendance and participation at Board and Board Committee meetings and through consultation outside of these meetings as may be required. The NC is satisfied that the Directors have devoted sufficient time and attention to the affairs of the Group to adequately discharge their duties as Directors of the Company. The NC is of the view that it would not fix maximum number of multiple board representations which may be held by a Director.

Details of each Director's academic and professional qualifications, directorships in other companies and other major appointments are presented on pages 10 to 11 of this Annual Report.

**Board Performance**

**Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and its Board committees and the contribution by each director to the effectiveness of the Board.**

The performance evaluation was conducted for the Board as a whole and each of the Board Committees (namely the AC, NC and RC) in FY2019 in assessing the contribution by the Chairman and each of the Board Committees' members to the effectiveness of the Board. These evaluation exercise provides an opportunity to obtain feedback from each Director on whether the Board's and Board Committees' procedures and processes have allowed him to discharge his duties effectively and to propose changes to enhance the effectiveness of the Board and Board Committees.

In evaluating the Board's and its Board Committees' performance, the NC considers a set of quantitative and qualitative performance criterions which include:

- Board size and composition;
- Board information;
- Board process and accountability;
- Board Committees performance in relation to discharging their responsibilities set out in the respective terms of reference; and
- Standards of conduct.

The NC has assessed the performance of the Board as a whole and the Board Committees based on the above quantitative and qualitative performance criterions.

The following director's performance criterions were assessed by the NC during the annual Board performance evaluation:

- Interactive skills;
- Knowledge including professional expertise, specialist or functional contribution and regional expertise; and
- Duties including attendance at meetings, meeting preparation, participation and performance of specific assignments.

The performance evaluation for FY2019 was conducted by having all Directors complete questionnaires, which included questions on the Board and Board Committees' composition and effectiveness as well as process and contribution, timeliness of the Board information and accountability. The NC discussed the results of the performance evaluation and tabled the appropriate improvements to be taken up with the Chairman of the Board and of each Board Committees. No external facilitator had been engaged by the Board for this purpose.

In view of the size of the current operation of the Group, the NC is of the view that the performance of the Board and Board Committees were satisfactory and had met the respective performance objectives as set out. The NC has reviewed from time to time commitments and efforts contributed by each of the Directors to the affairs of the Company through their participation at Board and Board Committee meetings.

**Access to information**

**Principle 6: In order to fulfill their responsibilities, directors should be provided with complete, adequate and timely information prior to Board meetings and on an ongoing basis so as to enable them to make informed decisions to discharge their duties and responsibilities.**

Prior to each Board meetings and when the need arises, Management provides the Board with complete and adequate information on a timely basis, thus allowing them to deliberate on issues which require consideration.

The Board is provided with financial statements and management reports of the Group on a regular basis. Management also provides updates on the Group's business, prospects and other developments impacting the Group, at scheduled meetings and, whenever circumstances warrant. Such reports enable the Board to be kept abreast of key issues and developments, as well as opportunities and challenges, to the Group and the industry.

The Board has separated and independently accessed to the Group's senior management and Company Secretary at all times. The Directors may also, in appropriate circumstances, seek independent professional advice concerning the Company's affairs at the Company's expense.

The Company Secretary and/or her representative(s) attend all Board and Board Committee meetings and ensure that Board procedures and other applicable rules and regulations are compiled with. The appointment and removal of the Company Secretary is a matter for the Board.

## (B) REMUNERATION MATTERS

**Procedures for Developing Remuneration Polices**

**Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.**

**Level and Mix of Remuneration**

**Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.**

The RC comprises three members, all of whom are Independent and Non-Executive Directors.

The RC members are as follows:

**Independent and Non-Executive Directors:**
Mr Chan Kin Sang (Chairman)
Mr Chng Hee Kok
Mr Tan Tew Han

Under its terms of reference, the RC is responsible for reviewing and recommending a remuneration framework for the Board and key management personnel, and determines specific remuneration packages for each Executive Director. All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses and benefits-in-kind are considered by the RC. The recommendations of the RC are submitted for consideration by the Board. No member of the RC or of the Board participates in the deliberation of his own remuneration package.

The remuneration packages of the Directors and key management personnel are set to attract, retain and motivate them to run the Group successfully. As part of its review, the RC ensures that the Directors and key management personnel are adequately but not excessive remunerated as compared with industry's benchmarks and other comparable industries. Elements of the Group's relative performance and the performance of the individual Directors and key management personnel form part of the remuneration packages so as to align their interests with those of shareholders and risk policies of the Company as well as to promote long-term success of the Group. The Directors and key management personnel are paid a basic salary and are entitled to management bonus/bonus. The management bonus for the Directors and key management personnel varies according to the performance of the Group/Company and the allocation would be based on the individual performance and their contributions towards the Group's performance.

The RC reviews the Company's obligations arising in the event of termination of Executive Directors' and key management personnel's service agreements, to ensure that such agreement contains fair and reasonable termination clauses which are not overly generous. The Company aims to be fair and avoid rewarding poor performance. The Board is of the view that as the Group pays management bonus based on the performance of the Group/Company (and not on possible future results) and the results that have actually delivered by its Executive Directors and key management personnel, "claw back" provisions in the service agreements may not be relevant or appropriate.

FY2019, there was no management bonus paid to the Directors and key management personnel as the Group incurred a loss.

Independent and Non-Executive Directors are paid Directors' fees based on their level of contribution, taking into account factors such as efforts and time spent, and responsibilities on the Board and Board Committees. The RC ensures that Independent and Non-Executive Directors should not be over-compensated to the extent that their independence may be compromised. The Board supported the RC's recommendation for Independent and Non-Executive Directors' fees of S$154,551 (FY2019: S$146,415) for the financial year ending 30 June 2020 ("FY2020") to be paid half-yearly in arrears, and the proposed one-time ex-gratia payment of S$16,268 for FY2020 to the Independent and Non-Executive Directors, namely Mr Chan Kin Sang and Mr Tan Tew Han as a token of appreciation and recognition of their contribution in past years rendered to the Group. These recommendations will be tabled for shareholders' approval at the forthcoming AGM.

Notwithstanding that the Company currently does not have any long-term incentive scheme or share option scheme in place, the RC and the Board would consider incentive scheme for the Company in future.

No external facilitator had been engaged by the Board for advice and remuneration matters for FY2019. The RC may seek professional advice on remuneration matters, if required.

**Disclosure on Remuneration**

**Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.**

The remuneration of each Director has been disclosed in the respective remuneration bands.

Details of the remuneration of the Directors for FY2019 are set out in the following table:

| Remuneration Band and Name of Director | Salary | Pension | Fee | Total |
|---|---|---|---|---|
| **Above S$250,000 but below S$500,000** | | | | |
| Mr Leung Chee Kwong * | 100.00% | – | – | 100.00% |
| **Below S$250,000** | | | | |
| Ms Leung Hi Man * | 96.99% | 3.01% | – | 100.00% |
| Mr Chan Kin Sang | – | – | 100.00% | 100.00% |
| Mr Tan Tew Han | – | – | 100.00% | 100.00% |
| Mr Chng Hee Kok | – | – | 100.00% | 100.00% |
| Mr Er Kwong Wah (Appointed with effect from 9 September 2019) | – | – | – | – |

* *In accordance with service agreements with the Company.*

Details of the remuneration of the top key management personnel of the Group who are not Directors for FY2019 are set out in the following table:

| Remuneration Band and Name of Key Management Personnel | Salary | Bonus * | Pension | Total |
|---|---|---|---|---|
| **Below S$250,000** | | | | |
| Mr Yuen Kwun Ki Anthony | 97.94% | 0.00% | 2.06% | 100.00% |
| Mr Yang Yongqiang | 78.74% | 17.83% | 3.43% | 100.00% |
| Mr Xiao Yichi | 78.74% | 17.83% | 3.43% | 100.00% |
| Mr Huang Zhilin | 72.64% | 22.94% | 4.42% | 100.00% |
| Mr Zhang Hongxi | 72.64% | 22.94% | 4.42% | 100.00% |
| Mr Zhong Zhaoqiang | 72.64% | 22.94% | 4.42% | 100.00% |

* *Under the service agreements of the key management personnel (who are based in PRC), this forms part of their remuneration package and is not tied to the performance of the Group and/or the individual key management personnel.*

The Board, taking into consideration the competitive business environment and the confidentiality & sensitivity of the remuneration matters, decided to deviate from complying with the recommendation for not disclosing the exact details of the remuneration of each individual Director and key management personnel. The Company is of the view that providing full details of the remuneration of each individual Director and key management personnel is not in the best interests of the Company and may adversely affect talent attraction and retention. The Company has, however, disclosed the remuneration of the Directors and key management personnel in bands of S$250,000.

The annual aggregate remuneration paid to top six key management personnel of the Group, who are not Directors or the CEO, for FY2019 is equivalent to S$378,630 (exchange rate: S$1 = RMB5.0805 on 28 June 2019 quoted by State Administration of Foreign Exchange, PRC).

Ms Leung Hi Man, daughter of the Company's Executive Chairman & CEO, is in the employment of the Group whose annual remuneration exceeded S$50,000 and below S$250,000 for FY2019.

There is currently no share option scheme in place for employees of the Group.

There is no termination, retirement and post-employment benefits that may be granted to the Directors, CEO or the key management personnel.

## (C) ACCOUNTABILITY AND AUDIT

### Accountability

**Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.**

The Board's primary role is to protect and enhance long-term value and returns for shareholders. In the discharge of its duties to shareholders, the Board, when presenting annual financial statements and announcements, seek to provide shareholders with a detailed analysis, a balanced and understandable assessment of the Group's performance, financial position and prospects. Financial reports and other price-sensitive information are disseminated to shareholders through announcements via SGXNET. The Board has taken adequate steps to ensure that the Group complies with legislative and regulatory requirements, including without limitation, the listing rules of the SGX-ST.

In line with the Listing Rules of the SGX-ST, the Board provides a negative assurance statement to the shareholders in its interim financial statements. In addition, the Company had, pursuant to the amended Listing Rule 720(1) of the SGX-ST, received undertakings from all its Directors and executive officers of the Group.

For the financial year under review, the CEO and Financial Controller (equivalent to CFO) have provided assurance to the Board on the integrity of the financial statements.

Management provides the Board with appropriately detailed management accounts of the Group's performance on a half-yearly basis, to enable the Board to make a balanced and informed assessment of the performance, position and prospects. As and when circumstances arise, the Board can request Management to provide any necessary explanation and/or information on the management accounts of the Group.

### Risk Management and Internal Controls

**Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interest and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.**

The Board recognises the importance of maintaining a sound system of risk management and internal control processes to safeguard shareholders' investments and the Group's business and assets and determines the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board acknowledges that no cost effective risk management and internal control system will preclude all errors and irregularities. All system of internal controls is designed to mitigate rather than eliminate risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss, occurrence of errors, poor judgement in decision making, fraud or other irregularities. The Board reviews all significant control policies and procedures and highlights all significant matters to Management.

The AC and the Board regularly reviews the adequacy and effectiveness of the Company's internal controls addressing financial, operational, compliance and information technology risks, relying on reports from the External and Internal Auditors. Any significant internal control weaknesses and non-compliances that are highlighted during the audit together with recommendations by the External Auditors and Internal Auditors are reported to the AC. The AC will follow up on the actions taken by Management in response to the recommendations made.

The Group's External Auditors, BDO Limited, Certified Public Accountants, Hong Kong ("BDO HK") and BDO LLP, Public Accountants and Chartered Accountants, Singapore ("BDO LLP") carried out a review on key internal controls relevant to the Company's preparation of its financial statements in the course of the audit.

Based on the internal controls established and maintained by the Group, and the reviews performed by Management and the Board Committees, the work performed by the Internal Auditors and External Auditors and taking into consideration the internal control procedures which were recommended by the Internal Auditors and External Auditors to be further strengthened as well as the action plans which have been put in place by Management in relation thereto, the Board, with the concurrence with the AC, is of the opinion that Group's internal controls in place are adequate and effective in addressing the Group's financial, operational, compliance and information technology controls, and risk management systems to which the Group is exposed in its current business environment for FY2019.

For FY2019, the Board has received assurance from the Executive Chairman and CEO and Financial Controller (equivalent to CFO) that:

- The Company's financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and

- the effectiveness of the Company's risk management and internal control systems.

**Audit Committee**

**Principle 12: The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.**

The AC comprises three members, all of whom are Independent and Non-Executive Directors.

The AC members are as follows:

**Independent and Non-Executive Directors:**
Mr Chng Hee Kok (Chairman)
Mr Chan Kin Sang
Mr Tan Tew Han

All AC members have many years' experience in senior management positions in commercial, financial and industrial sectors. The Board is of the view that the AC members, having accounting and related financial management expertise or experience, are appropriately qualified to discharge their responsibilities. None of the AC members was a former partner or director of the Company's existing auditing firm or auditing corporation within the last 12 months.

Under its term of reference, the AC performs the following functions:

- To review the external auditor's audit plans, evaluation of the system of internal accounting controls, audit findings, management letter and Management's response;
- To review the half-year and annual financial statements before submission to the Board for approval;
- To review any formal announcements relating to the Company's financial performance;
- To discuss problems and concerns, if any, arising from the interim and final audits, in consultation with the external auditor where necessary;
- To meet with the external auditor without the presence of Management, at least annually and to discuss any problems and concerns it may have;
- To review the assistance given by Management to the external auditor;
- To review annually the scope and results of the audit and its cost effectiveness as well as the independence and objectivity of the external auditor;
- To review the adequacy and effectiveness of the Company's internal controls;
- To review the scope and results of the internal audit procedures including the effectiveness of the internal audit functions;
- To review and discuss with the external auditor, any suspected fraud or irregularity, or suspected infringement of any law, rules or regulations, which has or is likely to have a material impact on the Company's operating results or financial position, and Management's response;
- To investigate any matter within its terms of reference, with full access to Management and full discretion to invite any Director or Executive Officer to attend its meetings, and to be provided reasonable resources to enable it to discharge its functions;
- To review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- To report to the Board its findings from time to time on matters arising and requiring the attention of the Committee;
- To review interested person transactions ("IPTs") falling within the scope of the Listing Manual of the SGX-ST, including transactions that fall within the scope of Rule 912;
- To recommend to the Board the appointment, re-appointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor;
- To undertake such other reviews and projects as may be requested by the Board; and
- To undertake such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time.

In performing its functions, the AC:

- meets at least once every financial year with the external auditor and internal auditor, without the presence of Management, and reviews the overall scope of the audit and the assistance given by Management to the external auditor and internal auditor;

- has explicit authority to investigate any matter relating to the Group's accounting, auditing, internal controls and financial practices brought to its attention with full access to records, resources and personnel to enable it to discharge its function;

- generally undertakes such other functions and duties as may be required by statute or the Listing Manual, and by such amendments made thereto from time to time; and

- has full access to and cooperation of Management and full discretion to invite any Director or Executive Officer to attend its meetings.

The AC recommends to the Board the re-appointment of BDO HK and BDO LLP as joint auditors of the Company at the forthcoming AGM. Pursuant to Listing Rule 1207(6)(c) of the SGX-ST, the Company confirms that it has complied with Listing Rules 712 and 715 of SGX-ST in relation to its Auditors.

Audit fee for FY2019 by BDO HK and BDO LLP is HK$1,150,000. BDO HK had also rendered tax representative services to two subsidiaries of the Company and their fees were HK$36,500.

The AC has undertaken a review of all the non-audit services provided by BDO HK during the year under review and is satisfied that such services would not, in the AC's opinion, affect the independence of the external auditors.

All subsidiaries incorporated in Hong Kong are audited by BDO HK for statutory and/or consolidation purpose. Zhongshan New Asia Adhesive Products Co., Ltd., a subsidiary incorporated in the PRC, is audited by Flower Town Accountant Firm Ltd. of Zhongshan City, Certified Public Accountants for statutory purpose and is audited by BDO HK for consolidation purpose.

The Company has in place a whistle-blowing policy to provide a channel for staff as well as other persons to report and raise, in good faith and in confidence, their concerns about possible improprieties. The Company has set up a dedicated email address for such reporting purposes to which access is restricted to the Chairman of the AC and his designate.

During FY2019, the AC reviewed the half-yearly and annual financial statements prior to approving or recommending their release to the Board, as applicable; the annual audit plan of the External Auditors and Internal Auditors and the results of the audits performed by them; interested person transactions (if any); effectiveness and adequacy of the Group's risk management and internal controls systems; audit and non-audit services rendered by the external auditors and the re-appointment of external auditors and their remuneration. The AC also communicated with the External Auditors to keep abreast of changes to accounting standards and issues, if any, which may have a direct impact on financial statements. The AC met with External Auditors and Internal Auditors without the presence of Management in respect of the Group's FY2019 audit.

In the review of financial statements for FY2019, the AC discussed with Management, Financial Controller and the External Auditors the significant accounting policies, judgements and estimates applied by Management in preparing the annual financial statements. The AC focused particularly on:

- Significant adjustments resulting from the audit;

- The appropriateness of the going concern assumption in the preparation of the financial statements; and

- Significant deficiencies in internal controls over financial reporting matters that came to the external auditors' attention during their audit together with their recommendations.

In addition, significant matters that were discussed with Management and the External Auditors have been included as Key Audit Matters ("KAMs") in the joint auditors' report for FY2019 in pages 38 to 39 of the Annual Report.

In assessing each KAM, the AC took into consideration the approach and methodology applied in the recoverability of trade and bills receivables and net realisable value of inventories, as well as the reasonableness of the estimates and key assumptions used. The AC concluded that Management's accounting treatment and estimates in each of the KAMs were appropriate.

Following the review and discussions, the AC then recommended to the Board for approval of the audited annual financial statements.

**Internal Audit**

**Principle 13: The Company should establish an internal audit function that is adequately resourced and independent of the activities it audits.**

Weide Certified Public Accountants Zhongshan, the PRC, who is independent of the Group's business activities, has been appointed as the Company's Internal Auditors to undertake the internal audit function and to report functionally to the AC. The Internal Auditors have unrestricted access to all records, properties, information and receives cooperation from the Board, the AC, Management and staff, as necessary, to effectively discharge its responsibilities.

The Internal Auditors have adopted a risk-based auditing approach in their internal audit review carried out in the financial year. Upon completion of the audit review, the Internal Auditors report the findings and recommendations to Management who would respond on the actions to be taken. A finalised report incorporating Management's response is submitted to the AC for review and discussion at meetings on a half-yearly basis.

The AC is satisfied that the Internal Auditors are staffed with suitably qualified and experienced professionals with the relevant experience and have carried out their function properly.

The AC assesses the adequacy and effectiveness of the internal audit function annually.

The AC approves the appointment, removal, evaluation and compensation of the Internal Auditors.

## (D) SHAREHOLDERS RIGHTS AND RESPONSIBILITIES

**Shareholder Rights**

**Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.**

**Communication with Shareholders**

**Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.**

**Conduct of Shareholder Meetings**

**Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.**

The Board believes in timely communication of information to shareholders and the investing public. It is the Board's policy that all shareholders and the investing public should be equally and timely informed of all major developments that impact the Group and the Company.

Information is communicated to shareholders and the investing public on a timely basis through the following channels:

- Details of all general meetings via SGXNET, notices published in newspapers and circulars/reports;
- Annual reports that are issued to all shareholders. The Board makes every effort to ensure that the Annual Report include all relevant information on the Group, including current developments, strategic plans and disclosures required; and
- Announcements of half-year and full-year results released via SGXNET; announcements relating to major developments of the Group made via SGXNET; press and analysts' briefings as may be appropriate.

The Group does not practise selective disclosure and ensures that price-sensitive information is publicly released on a timely basis.

To encourage communication with investors, the Company's annual reports provide Investor Relations contact information as channels to address inquiries from shareholders and investors.

At general meetings, shareholders are given the opportunity to communicate their views and to direct questions regarding the Group to Management and/or the Directors, including the Chairmen of the AC, the NC and the RC. The external auditor is also present at the AGM to address any relevant queries from the shareholders before voting each of the resolution. All shareholders are entitled to vote in accordance with the established voting rules and procedures. The Company conducted poll voting for all resolutions tabled at the general meetings. The rules, including the voting process, were clearly explained to the shareholders at such general meetings. The detailed of results of the general meeting (including the number of votes cast for and against each resolution at the meeting) will be announced via SGXNET after the conclusion of the meeting. Minutes of general meetings will be made available to shareholders present at the relevant meeting, upon request. The Company ensures that there are separate resolutions at the general meetings on each distinct issue. The Company's Bye-Laws allow shareholders to appoint proxies to attend and vote on their behalf at general meetings. As the authentication of shareholder identity information and other related security issues remain a concern, the Company has decided, for the time being, not to implement voting in absentia by mail, email or fax.

The Company does not have a formal dividend policy. The Board will consider various factors, such as Company's earnings, general financial position, capital expenditure requirements, cash flow, repayment of borrowings, general business environment, development plans and other factors may deem appropriate, to determine whether dividends are paid for the financial year.

The Company has not declared or recommended any dividend for FY2019 as the Group incurred a loss.

## RISK MANAGEMENT POLICIES AND PROCEDURES

As part of standard management procedures, Management monitors various risks which the Group is subject to and such risks extend to risks affecting the Group's business and industry. While not an exhaustive list, the following is a summary of key risks which the Group would like to highlight and which are monitored by Management during the course of the financial year.

### Credit Management of Customers

The Group's financial position and profitability are dependent on the credit worthiness of its customers. Generally, no prior approval from Management is required should the credit periods extended to the customers fall within 30 to 90 days. For an extension of larger credit limits or longer credit periods, approval has to be sought from our Executive Chairman and CEO, Mr Leung Chee Kwong. In determining whether an extension of credit should be granted, Management generally takes into account factors such as the working relationship, payment history, creditworthiness and financial position of the customers. The Group's Finance Department, Credit Risk Management Department and Sales and Marketing Department review outstanding debtor balances on a monthly basis and follow up with customers when payments are due. The Group does not impose interest charges on overdue balances.

### Inventory Management

The Group's warehousing facilities are located at its headquarters at Lianfeng Road, Jiu Zhouji, Xiaolan Town, Zhongshan City, Guangdong Province, the PRC and its Hangzhou branch office at Jiang Jiabang Village, Kangqiao Town, Gongshu District, Hangzhou City, Zhejiang Province, the PRC. The total warehousing area is approximately 13,000 square meters. The warehouses are under surveillance by security personnel and inventories are insured.

Inventories comprise raw materials, work in progress and finished goods. To ensure accurate inventory records and monitoring of ageing of inventory, representatives from the Group's Finance Department, Production Department and Sales and Marketing Department conduct monthly stock counts.

### Research and Development

The Group advocates the use of technology to enhance operations and improve competitiveness. Since the commencement of operations in 1995, the Group has placed great importance on research and development efforts. To this end, the Company set up a Research and Development Centre in 1999. It was recognised as a "Technology Centre of City-level Enterprise" by the Zhongshan Municipal Government in October 2002.

### Intellectual Property Rights

The Group's trademarks are significant to the branding of its products. To protect its trademarks, the Company registered its logo as a trademark in the PRC and Hong Kong. The trademarks "LUXKING" and "力王" have also been successfully registered with the Trademark Bureau of the State Administration of Industry and Commerce of the PRC.

### Government Regulations

The Group's business operations are not subject to any special legislation or regulatory controls other than those generally applicable to companies and businesses operating in the PRC and Hong Kong. It has all the necessary licenses and permits to operate in the PRC and Hong Kong.

## DEALINGS IN SECURITIES

The Company had adopted a policy governing dealing in the securities of the Company for Directors and Executive Officers of the Group. Directors and Executive Officers of the Group, who have access to price-sensitive and confidential information are not permitted to deal in the securities of the Company for the periods commencing one month before the release of half-year and full-year results and ending on the date of the announcement of the results, or when they are in possession of unpublished price-sensitive information. In addition, the Directors and Executive Officers of the Group are discouraged from dealings in the Company's securities on short-term considerations.

## MATERIAL CONTRACTS

Save for the service agreements entered with the Executive Directors, there are no material contracts of the Company and its subsidiaries involving the interest of any Director or controlling shareholders either still subsisting at the end of the financial year or if then not subsisting, entered into since the end of the previous financial year.

## INTERESTED PARTY TRANSACTIONS ("IPT")

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the AC and that the transactions are carried out on normal commercial terms and will not be prejudicial to the interest of the Company and its shareholders. There were no IPTs in FY2019.

## SUSTAINABILITY REPORT SUMMARY

The Group believes that the management of environmental, social and governance (ESG) factors is crucial in ensuring the sustainability and growth of the business in the long run.

The Group intends to publish its standalone FY2019 Sustainability Report in November 2019. The Sustainability Report comprises information relating to the Group's sustainability approach and governance, the material ESG factors that are relevant to our business and stakeholders, the policies and processes in place to monitor these factors as well as the performance against targets set for each factor.

The Sustainability Report is prepared in line with SGX-ST's Listing Rules - Sustainability Reporting Guide and will be publicly accessible on SGXNet as well as the Group's website.

# FINANCIAL CONTENTS

The Directors of the Company (the "Directors") present their report together with the audited financial statements of Luxking Group Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 30 June 2019.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the financial year ended 30 June 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 42.

The Directors did not recommend any dividend in respect of the financial year ended 30 June 2019.

## SHARE CAPITAL AND SHARE OPTIONS

The Company did not issue any shares during the year.

There is currently no share option scheme relating to the unissued shares of the Company.

## RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 44 and 45 respectively.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 13 to the financial statements.

## DIRECTORS

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

Mr Leung Chee Kwong
Ms Leung Hi Man
Mr Chan Kin Sang
Mr Tan Tew Han
Mr Chng Hee Kok
Mr Er Kwong Wah (Appointed with effect from 9 September 2019)

Mr Chan Kin Sang retiring under Bye-Law 86(3) of the Company's Bye-Laws, will not be seeking for re-election as Director.

In accordance with Bye-Law 85(6) of the Company's Bye-Laws, Mr Er Kwong Wah will retire and being eligible, will offer himself for re-election at the forthcoming Annual General Meeting.

## DIRECTORS' SERVICE CONTRACTS

The Company had entered into separate service agreements with Mr Leung Chee Kwong and Ms Leung Hi Man, the Executive Directors for an initial period of three years commencing 19 August 2005 and 1 September 2017 respectively. The service agreements will be subsequently renewable automatically for successive terms of one year each unless terminated by not less than three months' notice in writing served by either party expiring at the end of the initial period or at any time thereafter.

## DIRECTORS' INTEREST IN CONTRACTS

Except for the service agreements detailed above, no contracts of significant to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTEREST IN SHARES AND DEBENTURES

According to the Register of Directors' shareholdings, none of the Directors who held office at the end of the financial year had an interest in shares and debentures of the Company and related corporations, except as follows:

| | **Shareholdings registered in name of Director** | | **Other shareholdings in which the Director is deemed to have interest** | |
|---|---|---|---|---|
| | **1 July 2018** | **30 June 2019 and 21 July 2019** | **1 July 2018** | **30 June 2019 and 21 July 2019** |
| Mr Leung Chee Kwong (Note i) | Nil | Nil | 5,422,500 | 5,422,500 |
| Mr Chng Hee Kok | 7,500 | 7,500 | Nil | Nil |
| Mr Chan Kin Sang (Note ii) | Nil | Nil | 5,000 | 5,000 |

*Notes:*

(1) *Mr Leung Chee Kwong is deemed to be interested in all the shares registered in the name of Fullwealth Trading Limited by virtue of his 100% shareholding in Fullwealth Trading Limited.*

(ii) *Mr Chan Kin Sang's deemed interest in shares are registered in the name of CIMB-GK Securities Pte Ltd.*

Except as disclosed above, no Director who held office at the end of the financial year had an interest in any shares or debentures of the Company or related corporation either at the beginning or the end of the financial year ended 30 June 2019 and on 21 July 2019.

## ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

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

## 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.

## AUDITORS

The joint auditors, BDO Limited, Certified Public Accountants, Hong Kong and BDO LLP, Public Accountants and Chartered Accountants, Singapore have expressed their willingness to accept re-appointment as the Company's auditors at the Company's forthcoming AGM.

For and on behalf of the Board of Directors

Mr Leung Chee Kwong
Chairman

Ms Leung Hi Man
Executive Director

20 September 2019

# STATEMENT BY THE DIRECTORS

For the year ended 30 June 2019

In the opinion of the Directors,

i) the accompanying Consolidated Statement of Profit or Loss and Other Comprehensive Income, Statements of Financial Position, Statements of Changes in Equity, Consolidated Statement of Cash Flows, and notes thereto, as set out on pages 42 to 98, are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 30 June 2019 and the financial performance of the business and cash flows of the Group and changes in equity of the Company and of the Group for the year then ended; and

ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors authorised these financial statements for issue on 20 September 2019.

For and on behalf of the Board of Directors

**Mr Leung Chee Kwong**
Chairman

**Ms Leung Hi Man**
Executive Director

20 September 2019

**To the shareholders of Luxking Group Holdings Limited**
**(incorporated in Bermuda with limited liability)**

## Opinion

We have audited the financial statements of Luxking Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 98, which comprise:

- the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2019;
- the consolidated statement of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statement of cash flows of the Group;
- the statement of changes in equity of the Company for the year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company give a true and fair view of the consolidated financial position of the Group and of the financial position of the Company as at 30 June 2019 and of the consolidated financial performance and consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore and the Hong Kong Institute of Certified Public Accountants ("HKICPA") Code of Ethics for Professional Accountants ("HKICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements, the ACRA Code and the HKICPA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

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

### 1. Impairment assessment of trade and bills receivables

As at 30 June 2019, the carrying amount of trade and bills receivables amounted to RMB117,815,000 which represented 58% of the Group's current assets. There is RMB29,207,000 allowance for doubtful debts made during the financial year.

The Group's operations are located in the People's Republic of China (the "PRC") with the Group's revenue mainly derived from individual customers located in the PRC. Taking into account the challenging market conditions in the PRC and the financial pressures faced by the Group's customers, credit risk poses a significant risk to the Group. In addition, the Group is exposed to a major concentration of credit risk as the Group's top five customers contribute approximately 43% of the trade and bills receivables as at 30 June 2019.

Loss allowances for trade and bills receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of trade and bills receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. We identified assessing the impairment assessment of trade and bills receivables as a key audit matter because the impairment assessment of trade and bills receivables and recognition of loss allowance are inherently subjective and requires significant management judgement, which increases the risk of error or potential management bias.

**Related Disclosures**

Refer to note 5(b), note 18 and note 33(c) to the accompanying financial statements

**Audit Response**

Our audit procedures included the following:

- Testing the trade and bills receivables aging report which is used by management in its recoverability assessment;
- Discussing with management to obtain an understanding of the basis of management's recoverability assessment;
- Checking selected outstanding trade and bills receivables to subsequent settlements with relevant supporting documents;
- Checking, on a sample basis, the historical payment and sales records of significant debtors with overdue trade and bills receivables after subsequent settlements; and
- Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information.

## Key Audit Matters (Continued)

### 2. Net realisable value of inventories

As at 30 June 2019, the carrying amount of inventories amounted to RMB53,855,000 which represents 26% of the current assets of the Group.

Inventories of the Group comprising raw materials of RMB25,649,000, work-in-progress of RMB13,273,000 and finished goods of RMB14,933,000, are carried at lower of cost and net realisable value. Inventories may be written down to net realisable value if they are slow-moving, become obsolete due to no market demand, or if their selling prices have declined.

Taking into account the contraction in sales demands, the challenging market conditions in the PRC and the financial pressures faced by the Group's customers, there is a risk that the Group's inventories may not be stated at lower of cost and net realisable value.

The determination of the net realisable value of inventories is based on current market conditions and historical sales experience. This requires significant management judgement in assessing the market positioning of the Group's products which are dependent on factors such as customer specification requirements, demand levels and price competition in response to the industry cycles. As such, we determined that this is a key audit matter.

**Related Disclosures**

Refer to note 5(a) and note 17 to the accompanying financial statements.

**Audit Response**

Our audit procedures included the following:

- Testing the inventory aging report which is used by management to identify slow moving, excess and obsolete inventories on a sampling basis;
- Discussing with management to obtain an understanding of the basis of the management's inventory obsolescence assessment;
- Assessing the appropriateness of management's estimation of the net realisable value of the inventories by checking, on a sample basis, to actual sales subsequent to the financial year;
- Assessing the reasonableness of management's write-down for aged inventories by comparing against inventory of a similar nature and specification under other aging categories; and
- Evaluating the reasonableness of management's basis where no write-down was made for aged inventories with no recent sales activity or purchase activity.

## Other Information

The directors are responsible for the other information. The other information comprises all the information included in the Company's 2019 annual report, but does not include the financial statements and our joint auditors' report thereon.

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

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

## Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the 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.

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a joint auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

**Auditors' responsibilities for the Audit of the Financial Statements (Continued)**

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

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent joint auditors' report are Aw Vern Chun Philip and Cheung Or Ping.

BDO LLP
Public Accountants and
Chartered Accountants
600 North Bridge Road
#23-01 Parkview Square Singapore 188778
20 September 2019

BDO Limited
Certified Public Accountants
$25^{th}$ Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
20 September 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **Revenue** | 7 | **376,873** | 531,837 |
| Cost of sales | | **(350,014)** | (475,557) |
| **Gross profit** | | **26,859** | 56,280 |
| Other income | 7 | **860** | 1,249 |
| Selling and distribution costs | | **(16,797)** | (15,215) |
| Administrative expenses | | **(29,280)** | (27,690) |
| Impairment loss of trade and bills receivables | | **(29,207)** | (571) |
| Other operating expenses | | **(8,876)** | (228) |
| Finance costs | 8 | **(6,426)** | (6,860) |
| **(Loss)/ profit before income tax** | 9 | **(62,867)** | 6,965 |
| Income tax expense | 10 | **(1,957)** | (3,488) |
| **(Loss)/ profit for the year** | | **(64,824)** | 3,477 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of financial statements of foreign operations, net of tax amounting to RMB NIL (2018: RMB NIL) | | **1,273** | (1,024) |
| **Total comprehensive income for the year** | | **(63,551)** | 2,453 |
| **(Loss)/ profit for the year attributable to:** | | | |
| Owners of the Company | | **(64,824)** | 3,477 |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Company | | **(63,551)** | 2,453 |
| **(Loss)/ earnings per share for (loss)/ profit attributable to the owners of the Company during the year** | | | |
| - Basic and diluted (RMB) | 12 | **(5.1244)** | 0.2749 |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | **2019** | 2018 | **2019** | 2018 |
| | | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 13 | **70,243** | 81,971 | **–** | – |
| Investment property | 14 | **435** | 428 | **–** | – |
| Land use rights | 15 | **7,388** | 3,399 | **–** | – |
| Deposits for acquisition of land use rights | | **4,100** | – | **–** | – |
| Interests in subsidiaries | 16 | **–** | – | **105,448** | 105,120 |
| | | **82,166** | 85,798 | **105,448** | 105,120 |
| **Current assets** | | | | | |
| Inventories | 17 | **53,855** | 59,198 | **–** | – |
| Trade and bills receivables | 18 | **117,815** | 180,148 | **–** | – |
| Prepayments, deposits and other receivables | 19 | **12,378** | 12,299 | **12** | 4 |
| Restricted bank deposits | 20 | **1,109** | 1,042 | **–** | – |
| Cash and bank balances | 20 | **19,248** | 18,638 | **–** | – |
| | | **204,405** | 271,325 | **12** | 4 |
| **TOTAL ASSETS** | | **286,571** | 357,123 | **105,460** | 105,124 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity attributable to the owners of the Company** | | | | | |
| Share capital | 21 | **133,557** | 133,557 | **133,557** | 133,557 |
| Reserves | 22 | **(24,880)** | 39,046 | **(29,503)** | (29,898) |
| **Total equity** | | **108,677** | 172,603 | **104,054** | 103,659 |
| **Current liabilities** | | | | | |
| Trade payables | 23 | **34,073** | 34,896 | **–** | – |
| Accrued expenses and other payables | 24 | **14,221** | 14,657 | **1,406** | 1,465 |
| Bank borrowings, secured | 25 | **111,998** | 106,428 | **–** | – |
| Other borrowings | 26 | **12,525** | – | **–** | – |
| Income tax payables | | **977** | 1,039 | **–** | – |
| | | **173,794** | 157,020 | **1,406** | 1,465 |
| **Non-current liabilities** | | | | | |
| Other borrowings | 26 | **–** | 27,500 | **–** | – |
| Deferred income | 27 | **4,100** | – | **–** | – |
| | | **4,100** | 27,500 | **–** | – |
| **Total liabilities** | | **177,894** | 184,520 | **1,406** | 1,465 |
| **TOTAL EQUITY AND LIABILITIES** | | **286,571** | 357,123 | **105,460** | 105,124 |

# STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2019

**GROUP**

| | Share capital RMB'000 | Share premium* RMB'000 (note 22(a)) | Other reserve* RMB'000 (note 22(b)) | Exchange reserve* RMB'000 (note 22(c)) | Retained profits/ (Accumulated losses)* RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|
| At 1 July 2017 | 133,557 | 33,961 | 10,910 | (15,807) | 7,529 | 170,150 |
| Profit for the year | – | – | – | – | 3,477 | 3,477 |
| Other comprehensive income, net of income tax | | | | | | |
| - Exchange loss on translation of financial statements of foreign operations | – | – | – | (1,024) | – | (1,024) |
| Total comprehensive income for the year | – | – | – | (1,024) | 3,477 | 2,453 |
| Appropriation to other reserve | – | – | 689 | – | (689) | – |
| At 30 June 2018 | 133,557 | 33,961 | 11,599 | (16,831) | 10,317 | 172,603 |
| At 1 July 2018 as originally presented | 133,557 | 33,961 | 11,599 | (16,831) | 10,317 | 172,603 |
| Initial application of IFRS 9 | – | – | – | – | (375) | (375) |
| Restated balance at 1 July 2018 | 133,557 | 33,961 | 11,599 | (16,831) | 9,942 | 172,228 |
| Loss for the year | – | – | – | – | (64,824) | (64,824) |
| Other comprehensive income, net of income tax | | | | | | |
| - Exchange gain on translation of financial statements of foreign operations | – | – | – | 1,273 | – | 1,273 |
| Total comprehensive income for the year | – | – | – | 1,273 | (64,824) | (63,551) |
| **At 30 June 2019** | **133,557** | **33,961** | **11,599** | **(15,558)** | **(54,882)** | **108,677** |

* These reserve accounts comprise the consolidated reserves of a deficit of approximately RMB24,880,000 (2018: surplus of RMB39,046,000) in the consolidated statement of financial position.

**COMPANY**

| | Share capital RMB'000 | Share premium* RMB'000 (note 22(a)) | Exchange reserve* RMB'000 (note 22(c)) | Accumulated losses* RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|
| At 1 July 2017 | 133,557 | 33,961 | (31,576) | (25,318) | 110,624 |
| Loss for the year | – | – | – | (3,794) | (3,794) |
| Other comprehensive income, net of income tax | | | | | |
| - Exchange loss on translation of the Company's financial statements to RMB | – | – | (3,171) | – | (3,171) |
| Total comprehensive income for the year | – | – | (3,171) | (3,794) | (6,965) |
| At 30 June 2018 and 1 July 2018 | 133,557 | 33,961 | (34,747) | (29,112) | 103,659 |
| Loss for the year | – | – | – | (4,012) | (4,012) |
| Other comprehensive income, net of income tax | | | | | |
| - Exchange gain on translation of the Company's financial statements to RMB | – | – | 4,407 | – | 4,407 |
| Total comprehensive income for the year | – | – | 4,407 | (4,012) | 395 |
| **At 30 June 2019** | **133,557** | **33,961** | **(30,340)** | **(33,124)** | **104,054** |

* These reserve accounts comprise the Company's reserves of a deficit of approximately RMB29,503,000 (2018: RMB29,898,000) in the Company's statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

| | Note | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before income tax | | **(62,867)** | 6,965 |
| Adjustments for: | | | |
| Fair value gain on investment property | | **(7)** | (8) |
| Interest income | | **(62)** | (115) |
| Interest expenses | | **6,426** | 6,860 |
| Amortisation of land use rights | | **111** | 111 |
| Depreciation of property, plant and equipment | | **14,651** | 16,156 |
| Bad debts written-off | | **–** | 199 |
| Impairment of trade and bills receivables | | **29,207** | 571 |
| Inventories write-down, net | | **1,070** | 540 |
| Property, plant and equipment written-off | | **4** | 6 |
| Operating (loss)/ profit before working capital changes | | **(11,467)** | 31,285 |
| Decrease in inventories | | **4,290** | 3,649 |
| Decrease/ (Increase) in trade and bills receivables | | **33,286** | (7,845) |
| Decrease/ (Increase) in prepayments, deposits and other receivables | | **807** | (2,698) |
| (Decrease)/ Increase in trade and bills payables | | **(831)** | 7,966 |
| Decrease in accrued expenses and other payables | | **(318)** | (1,496) |
| Cash generated from operations | | **25,767** | 30,861 |
| Interest received | | **62** | 115 |
| Income taxes paid | | **(2,026)** | (3,396) |
| *Net cash generated from operating activities* | | **23,803** | 27,580 |
| **Cash flows from investing activities** | | | |
| Increase in deposit for acquisition of land use rights | | **(4,100)** | – |
| (Increase)/Decrease in restricted bank deposits | | **(67)** | 21 |
| Purchases of property, plant and equipment | 31a | **(2,779)** | (3,038) |
| Purchase of land use right | | **(4,100)** | – |
| *Net cash used in investing activities* | | **(11,046)** | (3,017) |
| **Cash flows from financing activities** | 31b | | |
| Interest on bank borrowings and other borrowings | | **(6,611)** | (7,072) |
| Increase in deferred income | | **4,100** | – |
| Proceeds from bank borrowings | | **158,718** | 143,448 |
| Proceeds from other borrowings | | **3,000** | – |
| Repayments of bank borrowings | | **(153,499)** | (143,737) |
| Repayments of other borrowings | | **(17,975)** | (18,000) |
| *Net cash used in financing activities* | | **(12,267)** | (25,361) |
| **Net increase/ (decrease) in cash and cash equivalents** | | **490** | (798) |
| **Cash and cash equivalents at beginning of year** | | **18,638** | 19,667 |
| **Effect of foreign exchange rate changes, net** | | **120** | (231) |
| **Cash and cash equivalents at end of year** | | **19,248** | 18,638 |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | | **19,248** | 18,638 |

## 1. GENERAL INFORMATION

Luxking Group Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda. The principal place of business of the Company is located at Unit 6, 12/F, Tower A, New Mandarin Plaza, 14 Science Museum Road, Kowloon, Hong Kong. The Company's shares are listed on the Main Board of the Singapore Exchange Securities Trading Limited (the "SGX-ST").

The principal activity of the Company is investment holding. Principal activities of the Company's subsidiaries are set out in note 16 to the financial statements.

The operations of the Company and its subsidiaries (the "Group") are principally conducted in the People's Republic of China, excluding Hong Kong and Macau (the "PRC"), and Hong Kong. The consolidated financial statements have been presented in Renminbi ("RMB"), being the presentation currency of the Group. The functional currency of the Company is Hong Kong dollar ("HK$"). In order to be consistent with the consolidated financial statements, the presentation currency of the Company is also RMB. Amounts are rounded to the nearest thousand, unless otherwise stated.

The consolidated financial statements of the Group, the statement of financial position and statement of changes in equity of the Company for the year ended 30 June 2019 were approved for issue by the Board of Directors on 20 September 2019.

## 2. BASIS OF PREPARATION

The financial statements on pages 42 to 98 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which collective terms includes all applicable individual International Financial Reporting Standards and Interpretations approved by the International Accounting Standard Board (the "IASB"), and all applicable individual International Accounting Standards ("IASs") and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB. The financial statements also include the applicable disclosure requirements of the Listing Manual of the SGX-ST (the "Listing Manual").

The significant accounting policies that have been used in the preparation of these financial statements are summarised in note 4. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended IFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared under historical cost convention except for investment property which are stated at fair values. The measurement bases are fully described in the accounting policies in note 4.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

## 3. ADOPTION OF NEW OR AMENDED IFRSs

(a) Adoption of new or amended IFRSs

During the year, the Group has adopted all the new and amended IFRSs which are first effective for the reporting year and relevant to the Group as follows:

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers |
| Amendments to IFRS 15 | Revenue from Contracts with Customers (Clarifications to IFRS 15) |
| Amendments to IAS 40 | Transfers of Investment Property |
| IFRIC–Int 22 | Foreign Currency Transactions and Advance Consideration |

Except as explained below, the adoption of these new and amended IFRSs did not result in material changes to the Group's accounting policies.

*IFRS 9 Financial Instruments*

(i) Classification and measurement of financial instruments

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

The following tables summarised the impact, net of tax, of transition to IFRS 9 on the opening balance of retained profits as of 1 July 2018 as follows:

| | **RMB'000** |
|---|---|
| Retained profits as at 30 June 2018 | 10,317 |
| Increase in expected credit losses ("ECLs") on trade receivables | (375) |
| Restated retained profits as at 1 July 2018 | 9,942 |

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

## 3. ADOPTION OF NEW OR AMENDED IFRSs (Continued)

(a) Adoption of new or amended IFRSs (Continued)

*IFRS 9 Financial Instruments (Continued)*

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

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

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

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

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

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

| Financial assets | Original classification under IAS 39 | New classification under IFRS 9 | Carrying amount as at 1 July 2018 under IAS 39 | Carrying amount as at 1 July 2018 under IFRS 9 |
|---|---|---|---|---|
| | | | RMB'000 | RMB'000 |
| Trade receivables | Loans and receivables | Amortised cost | 180,148 | 179,773 |
| Prepayments, deposits and other receivables | Loans and receivables | Amortised cost | 12,299 | 12,299 |
| Restricted bank deposits | Loans and receivables | Amortised cost | 1,042 | 1,042 |
| Cash and bank balances | Loans and receivables | Amortised cost | 18,638 | 18,638 |

## 3. ADOPTION OF NEW OR AMENDED IFRSs (Continued)

(a) Adoption of new or amended IFRSs (Continued)

*IFRS 9 Financial Instruments (Continued)*

(ii) Impairment of financial assets

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

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

**Measurement of ECLs**

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

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

**Presentation of ECLs**

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

## 3. ADOPTION OF NEW OR AMENDED IFRSs (Continued)

(a) Adoption of new or amended IFRSs (Continued)

*IFRS 9 Financial Instruments (Continued)*

(ii) Impairment of financial assets (Continued)

**Impact of the ECL model**

As mentioned above, the Group applies the IFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance as at 1 July 2018 was determined as follows for trade receivables as follows:

| 1 July 2018 | Current | Less than 30 days past due | More than 30 days past due | More than 90 days past due | Individual assessment* | Total |
|---|---|---|---|---|---|---|
| Expected credit loss rate | **0.13%** | **0.57%** | **0.88%** | **4.31%** | **100%** | |
| Gross carrying amount (RMB'000) | **156,413** | **13,311** | **10,372** | **52** | **571** | **180,719** |
| Loss allowance (RMB'000) | **206** | **76** | **91** | **2** | **571** | **946** |

The increase in loss allowance for trade receivables upon the transition to IFRS 9 as of 1 July 2018 were RMB375,000. The loss allowances further increased to RMB29,736,000 for trade and bills receivables during the year ended 30 June 2019.

* The amount represents credit impaired balances from several customers who are not likely to repay this outstanding balances aging more than 90 days, mainly due to economic circumstances or who have defaulted in payment terms.

(iii) Hedge accounting

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

(iv) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 30 June 2018, but are recognised in the statement of financial position on 1 July 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained profits as at 1 July 2018. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The determination of the business model within which a financial asset is held have been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9.

## 3. ADOPTION OF NEW OR AMENDED IFRSs (Continued)

(a) Adoption of new or amended IFRSs (Continued)

*IFRS 15 Revenue from Contracts with Customers ("IFRS 15")*

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

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

The adoption of IFRS 15 does not have a material impact on the amounts reported to the consolidated financial statements of the Group based on the existing business model of the Group. However, upon the adoption of IFRS 15, amount previously presented as "deposits received" as at 30 June 2018 has been reclassified as "contract liabilities" on 1 July 2018 (note 24). These contract liabilities mainly relate to advance considerations received from customers and arose from sales of goods. The Group may take certain deposits from customers on acceptance of the order, with the remainder of the consideration payable upon the delivery of the finished goods. If the customer cancels the order, then the Group immediately refund the deposits less costs incurred, if any, to customers.

(b) New or amended IFRSs that have been issued but are not yet effective

At the date of this report, the following new or amended IFRSs have been published but are not yet effective, and have not been early adopted by the Group.

| | |
|---|---|
| IFRS 16 | Leases[1] |
| IFRIC-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to IFRS 3 | Business Combinations[2] |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to IAS 1 | Presentation of Financial Statements[2] |
| Amendments to IAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors[2] |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Annual Improvements to IFRSs 2015-2017 Cycle | Amendments to IFRS 3, Business Combinations[1] |
| Annual Improvements to IFRSs 2015-2017 Cycle | Amendments to IFRS 11, Joint Arrangements[1] |
| Annual Improvements to IFRSs 2015-2017 Cycle | Amendments to IAS 12, Income Taxes[1] |
| Annual Improvements to IFRSs 2015-2017 Cycle | Amendments to IAS 23, Borrowing Costs[1] |
| IFRS 17 | Insurance Contracts[3] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred / removed. Early application of the amendments of the amendments continue to be permitted.

## 3. ADOPTION OF NEW OR AMENDED IFRSs (Continued)

(b) New or amended IFRSs that have been issued but are not yet effective (Continued)

The directors of the Company anticipate that these pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new or amended IFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new or amended IFRSs have been issued but are not expected to have a material impact on the Group's financial statements.

*IFRS 16, Leases*

IFRS 16 will be effective for annual period beginning on or after 1 January 2019. IFRS 16 introduces a comprehensive model for the identification of lease arrangements for the identification of lease arrangements and accounting treatments for both lessors and leases. IFRS 16 will supersede the current lease guidance including IAS 17, Leases and the related interpretations when it becomes effective.

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

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments. In contracts to leasee accounting, IFRS 16 substantially carries forward the lessor accounting requirement in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The Group plans to adopt the new standard in the financial year beginning on or after 1 July 2019. As at 30 June 2019, the Group has non-cancellable operating lease commitments of RMB3,435,000 (2018: RMB5,485,000). IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in note 29. The Group assessed that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the Group is currently assessing its potential impact. As a lessee, the Group can either apply the standard using a retrospective approach or modified retrospective approach with optional practical expedients. The Group had not yet determined which transition approach to apply, as a result, the Group had not yet quantified the impact on its reported assets and liabilities of adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group entered into.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 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 effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using 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. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

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 interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which 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, 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, if any), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

### 4.2 Subsidiaries

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

In the Company's statement of financial position, interests in subsidiaries together with advances from the Company which are neither planned nor likely to be settled in the foreseeable future are carried at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre- or post-acquisition profits are recognised in the Company's profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.3 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

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 and are reported as part of the fair value gain or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in the other comprehensive income and accumulated separately in the exchange reserve in equity.

When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

### 4.4 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the cost of the buildings could be measured separately from the cost of the leasehold land at the inception of the lease, and other items of plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is provided to write off the cost of property, plant and equipment less their estimated residual values over their estimated useful lives, using straight-line method, as follows:

| | |
|---|---|
| Leasehold land | Over the lease terms |
| Leasehold buildings | 10 to 20 years or over the lease terms |
| Equipment and machinery | 3 to 10 years |
| Motor vehicles | 4 to 7 years |
| Construction in progress | Nil |

The assets' estimated residual values, depreciation method and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.4 Property, plant and equipment (Continued)

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 profit or loss during the financial period in which they are incurred.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

### 4.5 Land use rights

Upfront payments made to acquire land held under an operating lease are stated at costs less accumulated amortisation and any impairment losses. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 4.11. Amortisation is calculated on straight-line method over the term of the lease/right of use.

### 4.6 Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it was held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amount recognised in the reporting date reflect the prevailing market conditions at the reporting date.

Gain or loss arising from either change in the fair value or the sale of an investment property is included in the profit or loss for the period in which they arise.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.7 Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to the development phase are recognised as intangible assets provided they meet the following recognition requirements:

(a) demonstration of technical feasibility of the prospective product for internal use or sale;

(b) there is intention to complete the intangible asset and use or sell it;

(c) the Group's ability to use or sell the intangible asset is demonstrated;

(d) the intangible asset will generate probable economic benefits through internal use or sale;

(e) sufficient technical, financial and other resources are available for completion; and

(f) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated product developments are recognised as intangible assets. These are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

### 4.8 Financial instruments

**Accounting policies applied from 1 July 2018**

**(i) Financial assets**

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("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.

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 three measurement categories into which the Group classifies its debt instruments:

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.8 Financial instruments (Continued)

**Accounting policies applied from 1 July 2018 (Continued)**

**(i) Financial assets (Continued)**

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.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("FVTPL"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, 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 fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

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

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.8 Financial instruments (Continued)

**Accounting policies applied from 1 July 2018 (Continued)**

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

The Group has elected to measure loss allowances for trade and bills receivables and contract assets using IFRS 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-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

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

**(iii) Financial liabilities**

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

Financial liabilities at amortised cost including trade and other payables, borrowings, certain preference shares and the debt element of convertible loan note issued by the Group 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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.8 Financial instruments (Continued)

**Accounting policies applied from 1 July 2018 (Continued)**

**(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) 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 fair value through profit or loss 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 4.8; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of IFRS 15.

**(vi) Derecognition**

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

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

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.8 Financial instruments (Continued)

**Accounting policies applied until 30 June 2018**

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

**(i) Financial assets**

The Group's financial assets are classified into loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

De-recognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

<u>Impairment of financial assets</u>

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.8 Financial instruments (Continued)

**Accounting policies applied until 30 June 2018 (Continued)**

**(i) Financial assets (Continued)**

Impairment of financial assets (Continued)

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of loss is recognised in profit or loss of the period in which the impairment occurs.

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

In respect of financial assets other than trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written-off against trade receivables and charged to profit or loss directly and any amounts held in the allowance account in respect of that receivable are reversed in both the allowance account and profit or loss. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written-off directly are recognised in profit or loss.

**(ii) Financial liabilities**

The Group's financial liabilities include trade payables, accrued expenses, other payables, bank borrowings and other borrowings.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 4.17).

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.8 Financial instruments (Continued)

**Accounting policies applied until 30 June 2018 (Continued)**

**(ii) Financial liabilities (Continued)**

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Bank borrowings and other borrowings

These are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the bank borrowings and other borrowings using effective interest method.

Bank borrowings and other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Trade payables, accrued expenses and other payables

These are recognised initially at fair value and subsequently measured at amortised cost, using effective interest method.

**(iii) Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer (or guarantor) 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 terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised at their fair values plus transaction costs in the Group's statement of financial position within other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition.

The amount of the guarantee initially recognised is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using weighted average basis, and in the case of work-in-progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling and distribution costs.

### 4.10 Cash and cash equivalents

Cash and cash equivalents include cash at bank and cash in hand, demand deposits with banks (excluding pledged bank deposits) and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. For purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash and bank balances.

### 4.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

<u>Classification of assets leased to the Group</u>

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

<u>Operating lease charges as the lessee</u>

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental is charged to profit or loss in the accounting period in which they are incurred.

<u>Assets of sale and leaseback arrangement under finance leases as the lessee</u>

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. When the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. No adjustment is necessary for the related asset. The Group received the proceeds for such arrangement and the corresponding liabilities, net of finance lease charges, are recorded as finance lease liabilities.

Subsequent accounting for assets held under finance leases corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance lease charges.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.12 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, 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. These 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.

### 4.13 Share capital and share premium

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Share premium includes any premiums received on the issuance of shares over the par value. Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

### 4.14 Revenue recognition

**Accounting policies applied from 1 July 2018**

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

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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.14 Revenue recognition (Continued)

**Accounting policies applied from 1 July 2018 (Continued)**

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.

Sales of goods are recognised at a point in time when the goods are transferred and the customer has received the goods, since only by the time the Group has a present right to payment for the goods delivered. In determining the transaction price, the Group measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

There is no significant financial components for the contracts and the consideration is not variable.

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

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.

**Accounting policies applied until 30 June 2018**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

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

### 4.15 Impairment of non-financial assets

Property, plant and equipment and land use rights of the Group and the Company's investments in subsidiaries are subject to impairment testing. These assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.15 Impairment of non-financial assets (Continued)

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit ("CGU")). As a result, some assets are tested individually for impairment and some are tested at CGU level.

Impairment losses recognised for cash-generating units are charged pro-rata to the assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 4.16 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through a defined contribution plan.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries.

Pursuant to the relevant regulations in the People's Republic of China ("PRC"), the Group has participated in a local municipal government retirement benefit scheme (the "Scheme"), whereby the Group is required to contribute a certain percentage of basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees in the PRC. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. The Group's contributions to the Scheme are expensed as incurred.

### 4.17 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.18 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction (other than a business combination) that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

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 liabilities simultaneously.

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

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.18 Accounting for income taxes (Continued)

(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.

### 4.19 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 lines.

The measurement policies of the Group uses for reporting segment results under IFRS 8 are the same as those used in its financial statements prepared under IFRSs, except that bank interest income, fair value change on investment property, finance costs, income tax expense and corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

Segment assets exclude corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include current and deferred tax liabilities, bank borrowings and other borrowings.

No asymmetrical allocations have been applied to reportable segments.

### 4.20 Related parties

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

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

(ii) has significant influence over the Group; or

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 4.20 Related parties (Continued)

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

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

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

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

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

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

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

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

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

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

### 4.21 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within equity, until they have been approved by the shareholders in a general meeting. When these dividends are approved and declared, they are recognised as a liability. Interim dividends are simultaneously proposed and declared and consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### 4.22 Government grants

Grants from the government are recognised initially at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment and land use rights are included in non-current liabilities as deferred income and are recognised in profit or loss on straight line method over the expected lives of the related assets.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable 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. Management reassessed the estimates at each reporting date. The carrying amount of the Group's inventories as at 30 June 2019 was RMB 53,855,000 (2018: RMB59,198,000).

(b) Provision for expected credit losses of trade and bills receivables

The Group uses a provision of matrix to calculate ECLs for trade and bills receivables. The provision rates are based on days past due for groupings of various debtors that have similar loss patterns. The provision matrix is based on management's estimate of the lifetime ECL to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade and bills receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

The provision of ECLs is sensitive to changes in circumstances and of forecast general economic conditions. The information about the ECLs and the Group's trade and bills receivables are disclosed in notes 18 and 33(c) respectively.

(c) Impairment of property, plant and equipment

Determining whether the property, plant and equipment are impaired and the amount of impairment losses require an estimation of the value-in-use or fair value less costs of disposal of the assets or CGU to which the assets has been allocated. The value-in-use calculation requires management to estimate future cash flows expected to arise from the assets or CGUs and a suitable discount rate in order to calculate the present value of those cash flows. The fair value less costs of disposal calculation requires management to take reference with the transaction prices of the similar assets in the market. The net carrying amount of the Group's property, plant and equipment as at 30 June 2019 was RMB70,243,000 (2018: RMB81,971,000).

## 6. SEGMENT INFORMATION

The Group has identified the following reportable segments:

Manufacture of general purpose adhesive tapes ("General Tapes") – manufacture and distribution of adhesive tapes such as stationery tapes, masking tapes and double-sided tapes for industrial, commercial and customer uses.

Manufacture of industrial specialty tapes ("Industrial Tapes") – manufacture and distribution of adhesive tapes designed for more sophisticated industrial application such as manufacturing and/or assembly processes, especially used for mobile and electronic appliance.

Manufacture of biaxially oriented polypropylene films ("BOPP films") – manufacture and distribution of BOPP films for packaging in industries, such as food, pharmaceutical, medical and electrical industries.

Trading of tapes and BOPP films – distribution of General Tapes, Industrial Tapes and BOPP films in Hong Kong and overseas markets.

Each of these operating segments is managed separately as each of these product lines requires different resources as well as marketing approaches. The executive directors regularly review revenue, gross profit margin and operating results of each operating segment.

During the financial years ended 30 June 2019 and 2018, all inter-segment sales were transacted with reference to the costs incurred by respective segments.

## 6. SEGMENT INFORMATION (Continued)

Information regarding the Group's reportable segments as provided to the Group's executive directors is set out below:

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Manufacture of General Tapes RMB'000 | Manufacture of Industrial Tapes RMB'000 | Manufacture of BOPP films RMB'000 | Trading of tapes and BOPP films RMB'000 | Eliminations RMB'000 | Group RMB'000 |
| Revenue from external customers | 41,306 | 96,142 | 154,976 | 84,449 | – | 376,873 |
| Other income | 76 | 86 | 127 | – | – | 289 |
| Inter-segment sales | 50,629 | 30,074 | – | – | (80,703) | – |
| **Reportable segment revenue** | 92,011 | 126,302 | 155,103 | 84,449 | (80,703) | 377,162 |
| **Reportable segment profit/(loss)** | (17,428) | 3,427 | (42,098) | 3,097 | – | (53,002) |
| Depreciation and amortisation | (4,176) | (4,858) | (5,620) | – | – | (14,654) |
| Impairment of trade and bills receivables | (3,890) | (407) | (24,885) | (25) | – | (29,207) |
| Property, plant and equipment written-off | (4) | – | – | – | – | (4) |
| Inventories write-down | (899) | (171) | – | – | – | (1,070) |
| Reportable segment assets | 39,829 | 64,778 | 143,364 | 13,678 | – | 261,649 |
| Corporate assets: | | | | | | |
| Restricted bank deposits | | | | | | 1,109 |
| Cash and bank balances | | | | | | 19,248 |
| Other financial assets | | | | | | 625 |
| Property, plant and equipment | | | | | | 3,505 |
| Investment property | | | | | | 435 |
| **Consolidated total assets** | | | | | | 286,571 |
| Additions to non-current segment assets | 2,835 | 3,298 | 4,846 | – | – | 10,979 |
| Reportable segment liabilities | 13,513 | 15,136 | 22,217 | 88 | | 50,954 |
| Corporate liabilities: | | | | | | |
| Bank borrowings | | | | | | 111,998 |
| Other borrowings | | | | | | 12,525 |
| Other financial liabilities | | | | | | 1,440 |
| Income tax payables | | | | | | 977 |
| **Consolidated total liabilities** | | | | | | 177,894 |

## 6. SEGMENT INFORMATION (Continued)

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Manufacture of General Tapes RMB'000 | Manufacture of Industrial Tapes RMB'000 | Manufacture of BOPP films RMB'000 | Trading of tapes and BOPP films RMB'000 | Eliminations RMB'000 | Group RMB'000 |
| Revenue from external customers | 44,994 | 87,525 | 317,425 | 81,893 | – | 531,837 |
| Other income | 69 | 68 | 225 | – | – | 362 |
| Inter-segment sales | 48,871 | 28,860 | 619 | – | (78,350) | – |
| **Reportable segment revenue** | 93,934 | 116,453 | 318,269 | 81,893 | (78,350) | 532,199 |
| **Reportable segment profit/(loss)** | (11,031) | 11,693 | 13,701 | 3,167 | – | 17,530 |
| Depreciation and amortisation | (3,807) | (3,781) | (8,562) | – | – | (16,150) |
| Bad debts written off | – | – | (199) | – | – | (199) |
| Impairment of trade receivables | (37) | – | (534) | – | – | (571) |
| Property, plant and equipment written-off | (3) | (3) | – | – | – | (6) |
| Inventories (write-down)/ write-back | 26 | (565) | (1) | – | – | (540) |
| Reportable segment assets | 53,752 | 58,402 | 209,538 | 11,848 | – | 333,540 |
| Corporate assets: | | | | | | |
| Restricted bank deposits | | | | | | 1,042 |
| Cash and bank balances | | | | | | 18,638 |
| Property, plant and equipment | | | | | | 3,475 |
| Investment property | | | | | | 428 |
| **Consolidated total assets** | | | | | | 357,123 |
| Additions to non-current segment assets | 575 | 571 | 1,876 | – | – | 3,022 |
| Reportable segment liabilities | 9,383 | 8,922 | 29,510 | 246 | – | 48,061 |
| Corporate liabilities: | | | | | | |
| Bank borrowings | | | | | | 106,428 |
| Other borrowing | | | | | | 27,500 |
| Other financial liabilities | | | | | | 1,492 |
| Income tax payables | | | | | | 1,039 |
| **Consolidated total liabilities** | | | | | | 184,520 |

## 6. SEGMENT INFORMATION (Continued)

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

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Reportable segment (loss)/profit | **(53,002)** | 17,530 |
| Fair value gain on investment property | **7** | 8 |
| Interest income | **62** | 115 |
| Unallocated corporate income | **85** | 101 |
| Unallocated corporate expenses | **(3,593)** | (3,929) |
| Finance costs | **(6,426)** | (6,860) |
| (Loss)/profit before income tax | **(62,867)** | 6,965 |

Unallocated corporate expenses mainly included directors' remuneration, staff costs and other expenses not directly attributable to the business activities of any operating segments.

The Group's revenue from external customers and non-current assets are divided into the following geographical areas:

| | **Revenue from external customers** | | **Non-current assets** | |
|---|---|---|---|---|
| | **2019**<br>**RMB'000** | 2018<br>RMB'000 | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
| The PRC (domicile) | **292,424** | 449,944 | **78,656** | 82,329 |
| Hong Kong | **877** | 736 | **3,510** | 3,469 |
| Other countries | **83,572** | 81,157 | **–** | – |
| | **376,873** | 531,837 | **82,166** | 85,798 |

Geographical location of customers is based on the location at which the goods are delivered whilst that of non-current assets is based on the physical location of the asset.

Revenue from the major customers with whom transactions have exceeded 10% of the Group's revenue is as follows:

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Customer A (Manufacture of BOPP films) | **58,877** | 86,573 |

## 7. REVENUE AND OTHER INCOME

Revenue from the Group's principal activities and other income of the Group recognised during the year are as follows:

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Revenue** | | |
| Sale of goods | **376,873** | 531,837 |
| **Other income** | | |
| Fair value gain on investment property | **7** | 8 |
| Interest income | **62** | 115 |
| Net gain on sale of raw materials | **289** | 362 |
| Net foreign exchange gain | **–** | 663 |
| Write back of impairment of trade receivables | **417** | – |
| Others | **85** | 101 |
| | **860** | 1,249 |

The Group recognised its revenue at point in time.

## 8. FINANCE COSTS

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interest charges on: | | |
| - Bank borrowings, wholly repayable within one year | **4,827** | 4,257 |
| - Bank borrowings, which contain a repayment on demand clause, wholly repayable within five years | **158** | 119 |
| - Finance lease | **194** | – |
| - Other borrowings wholly repayable within five years | **1,247** | 2,484 |
| | **6,426** | 6,860 |

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

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| (Loss)/Profit before income tax is arrived at after charging/(crediting): | | |
| Auditor's remuneration | | |
| - Audit services | **998** | 916 |
| - Non-audit services | **32** | 18 |
| Cost of inventories recognised as an expense | **313,169** | 435,159 |
| Amortisation of land use rights | **111** | 111 |
| Bad debts written-off | **–** | 199 |
| Depreciation of property, plant and equipment | **14,651** | 16,156 |
| Net foreign exchange loss/ (gain) | **1,893** | (663) |
| Operating lease rentals in respect of lands and buildings | **3,276** | 2,280 |
| Property, plant and equipment written-off | **4** | 6 |
| Research and development costs | **1,293** | 1,923 |
| Directors' remuneration: | | |
| - Fee | **733** | 707 |
| - Other emoluments | **2,390** | 2,126 |
| - Retirement scheme contributions | **16** | 12 |
| | **3,139** | 2,845 |
| Retirement scheme contributions | **2,835** | 2,788 |
| Other staff costs | **29,070** | 28,097 |
| Total staff costs | **35,044** | 33,730 |
| Cost of inventories recognised as an expense includes the following expenses which are also included in the respective total amounts separately disclosed above for each of these types of expenses: | | |
| - Depreciation of property, plant and equipment | **12,185** | 13,317 |
| - Operating lease rentals in respect of land and buildings | **2,692** | 1,834 |
| - Inventories write-down | **1,070** | 540 |
| - Staff costs | **14,993** | 15,899 |
| - Research and development costs | **800** | 1,358 |

## 10. INCOME TAX EXPENSE

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| The PRC: | | |
| Current tax | **1,898** | 3,304 |
| Underprovision in respect of prior years | **–** | 147 |
| | **1,898** | 3,451 |
| Hong Kong | | |
| Current tax | **59** | 54 |
| Overprovision in respect of prior years | **–** | (17) |
| | **59** | 37 |
| Total income tax expense | **1,957** | 3,488 |

Zhongshan New Asia Adhesive Products Co., Ltd. ("Zhongshan New Asia"), a wholly-owned subsidiary of the Company, is subject to the PRC Enterprise Income Tax rate of 25% (2018: 25%).

Luxking International Chemicals Limited and China King International Trading Limited, wholly-owned subsidiaries of the Company, are subject to Hong Kong profits tax.

A two-tiered profits tax rates regime applies to years of assessment commencing on or after 1 April 2018. Under the regime, the first HK$2 million of assessable profits of qualifying corporation will be taxed at 8.25%, and assessable profits above HK$2 million will be taxed at 16.5%. Only one company under the group of companies can enjoy the tax benefit. Luxking International Chemicals Limited and China King International Trading Limited are subject to Income Tax rate of 16.5% and 8.25% respectively (2018: both companies subjected to 16.5%) on the estimated assessable profits for the year.

Income tax has not been provided by the Company and other subsidiaries as the Company and other subsidiaries did not derive any assessable profits during the year (2018: Nil).

Reconciliation between income tax expense and accounting (loss)/profit at applicable tax rates:

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| (Loss)/ Profit before income tax | **(62,867)** | 6,965 |
| Tax on (loss)/ profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned | **(15,301)** | 2,028 |
| Tax effect of non-taxable revenue | **(191)** | (6) |
| Tax effect of non-deductible expenses | **17,478** | 1,365 |
| Tax effect of temporary differences not recognised | **1** | 2 |
| Underprovision in respect of prior years | **–** | 130 |
| Utilisation of tax losses previously not recognised | **–** | (31) |
| Income tax on concessionary rate | **(30)** | – |
| Income tax expense | **1,957** | 3,488 |

No deferred tax liability has been provided for the Group and the Company as the Group and the Company did not have any significant temporary differences which gave rise to a deferred tax liability at 30 June 2019 (2018: Nil).

## 11. DIVIDENDS

The directors do not recommend the payment of a dividend for the years ended 30 June 2019 and 2018.

## 12. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately RMB64,824,000 (2018: profit of RMB3,477,000) divided by 12,650,000 (2018: 12,650,000) ordinary shares in issue during the year.

Diluted (loss)/earnings per share for the financial years ended 30 June 2019 and 2018 is the same as basic (loss)/earnings per share, as the Group has no dilutive potential shares during the current and prior year.

## 13. PROPERTY, PLANT AND EQUIPMENT - GROUP

| | Leasehold land RMB'000 | Leasehold buildings RMB'000 | Equipment and machinery RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 July 2017 | | | | | | |
| Cost | 3,985 | 59,527 | 272,119 | 3,164 | – | 338,795 |
| Accumulated depreciation and impairment losses | (709) | (43,517) | (201,887) | (3,041) | – | (249,154) |
| Net carrying amount | 3,276 | 16,010 | 70,232 | 123 | – | 89,641 |
| Year ended 30 June 2018 | | | | | | |
| Opening net carrying amount | 3,276 | 16,010 | 70,232 | 123 | – | 89,641 |
| Exchange realignment | (94) | (11) | – | (1) | – | (106) |
| Additions | – | 3,105 | 5,381 | 112 | – | 8,598 |
| Write-off | – | (2) | (4) | – | – | (6) |
| Depreciation charged for the year | (87) | (3,368) | (12,632) | (69) | – | (16,156) |
| Closing net carrying amount | 3,095 | 15,734 | 62,977 | 165 | – | 81,971 |
| At 30 June 2018 and 1 July 2018 | | | | | | |
| Cost | 3,872 | 55,334 | 251,296 | 3,261 | – | 313,763 |
| Accumulated depreciation and impairment losses | (777) | (39,600) | (188,319) | (3,096) | – | (231,792) |
| Net carrying amount | 3,095 | 15,734 | 62,977 | 165 | – | 81,971 |
| **Year ended 30 June 2019** | | | | | | |
| Opening net carrying amount | 3,095 | 15,734 | 62,977 | 165 | – | 81,971 |
| Exchange realignment | 132 | 16 | – | – | – | 148 |
| Additions | – | 283 | 249 | – | 2,247 | 2,779 |
| Write-off | – | – | – | (4) | – | (4) |
| Depreciation charged for the year | (91) | (3,036) | (11,464) | (60) | – | (14,651) |
| **Closing net carrying amount** | **3,136** | **12,997** | **51,762** | **101** | **2,247** | **70,243** |
| **At 30 June 2019** | | | | | | |
| Cost | 4,039 | 55,637 | 251,554 | 3,146 | 2,247 | 316,623 |
| Accumulated depreciation and impairment losses | (903) | (42,640) | (199,792) | (3,045) | – | (246,380) |
| **Net carrying amount** | **3,136** | **12,997** | **51,762** | **101** | **2,247** | **70,243** |

## 13. PROPERTY, PLANT AND EQUIPMENT - GROUP (Continued)

The Group's leasehold land and buildings of RMB12,633,000 (2018: RMB15,375,000) and RMB3,500,000 (2018: RMB3,454,000) are situated in the PRC and Hong Kong respectively and are held under remaining lease terms ranging from 38 to 59 years (2018: 39 to 60 years).

As at 30 June 2019, entire leasehold land and certain leasehold buildings of the Group with net carrying amount of RMB3,136,000 (2018: RMB3,095,000) and RMB7,394,000 (2018: RMB8,779,000) respectively were pledged to secure the Group's bank borrowings (note 25).

Net carrying amount of property, plant and equipment as at 30 June 2019 includes the net carrying amount of RMB5,812,000 (2018: Nil) held under finance leases (note 26).

## 14. INVESTMENT PROPERTY - GROUP

Changes to the carrying amount presented in the statement of financial position can be summarised as follows:

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Carrying amount at beginning of year | **428** | 420 |
| Change in fair value of investment property | **7** | 8 |
| Carrying amount at end of year | **435** | 428 |

All of the Group's property interests held for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment property. The investment property comprised a leasehold land located in the PRC as at 30 June 2019 and 2018.

No income or direct operating expenses were recognised during both years ended 30 June 2019 and 2018 as the investment property was unlet.

As at 30 June 2019 and 2018 the property ownership certificate of the investment property has not yet been obtained. In the opinion of the independent PRC legal advisers of the Group, the investment property is owned by the Group to earn rental income and/or for capital appreciation without any legal impediment.

The fair value of investment property is a level 3 recurring fair value measurement. Level 3 inputs are unobservable inputs for the asset or liability. The fair value of the Group's investment property at 30 June 2019 and 2018 was revalued by a firm of independent qualified professional valuers, who had the recent experience in the location and category of property being valued, which was based on market comparison approach. Fair values were estimated based on recent market transactions for similar properties in the same location and condition.

| | **2019** | 2018 |
|---|---|---|
| **Significant unobservable input** | | |
| Price per square meter | **RMB1,983 – RMB2,821** | RMB1,968 – RMB2,880 |

## 14. INVESTMENT PROPERTY - GROUP (Continued)

Management considers that the fair value of investment property is sensitive to unobservable adjustments to the price per square meter. Any changes to the unobservable inputs, to the extent that they increase or decrease the price per square meter shall result in a corresponding increase or decrease in the fair value of the property.

The fair value as described above is determined based on the above property's highest and best use and this does not differ from their actual use.

There were no changes to the valuation techniques during the year.

## 15. LAND USE RIGHTS - GROUP

| | RMB'000 |
|---|---|
| At 1 July 2017 | |
| Cost | 5,666 |
| Accumulated amortisation | (2,156) |
| Net carrying amount | 3,510 |
| Year ended 30 June 2018 | |
| Opening net carrying amount | 3,510 |
| Amortisation charged for the year | (111) |
| Closing net carrying amount | 3,399 |
| At 30 June 2018 and 1 July 2018 | |
| Cost | 5,666 |
| Accumulated amortisation | (2,267) |
| Net carrying amount | 3,399 |
| **Year ended 30 June 2019** | |
| Opening net carrying amount | 3,399 |
| Addition | 4,100 |
| Amortisation charged for the year | (111) |
| **Closing net carrying amount** | **7,388** |
| **At 30 June 2019** | |
| Cost | 9,766 |
| Accumulated amortisation | (2,378) |
| **Net carrying amount** | **7,388** |

As at 30 June 2019, the Group's land use rights comprise leasehold interests in land located in the PRC and with lease terms expiring in 2048 and 2069 respectively. The land use rights have a remaining tenure of 29 - 50 (2018: 30) years.

As at 30 June 2019 and 2018, land use rights with carrying amount of RMB3,288,000 (2018: RMB3,399,000) were pledged to secure the Group's bank borrowings (note 25).

Amortisation of land use rights is included as administrative expense in profit or loss.

## 16. INTERESTS IN SUBSIDIARIES - COMPANY

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| Unlisted investments, at cost | **1** | 1 |
| Due from a subsidiary | **105,447** | 105,119 |
| | **105,448** | 105,120 |

Particulars of the subsidiaries at 30 June 2019 and 2018 are as follows:

| **Name** | **Place of incorporation/ principal place of business** | **Nominal value of paid-up share/registered capital** | **Effective percentage of equity interest attributable to the Company** 2019 and 2018 | **Principal activities** |
|---|---|---|---|---|
| **Directly held:** | | | | |
| Excel Glory Limited | British Virgin Islands | US$100 | 100 | Investment holding |
| **Indirectly held:** | | | | |
| Zhongshan New Asia Adhesive Products Co., Ltd. ("ZHNA")[1] | The PRC | US$11.6 million | 100 | Production of adhesive tapes and BOPP films |
| Luxking International Chemicals Limited | Hong Kong | HK$1 | 100 | Trading of polypropylene resin |
| China King International Trading Limited | Hong Kong | HK$1 | 100 | Trading of adhesive tapes and BOPP films |
| Tian Holdings Limited | Hong Kong | HK$1 | 100 | Investment holding |
| Luxking Investment Limited | Hong Kong | HK$1 | 100 | Investment holding |
| 湖北力王新材料有限公司[2] | The PRC | RMB3 million | 100 | Inactive |

(1) ZHNA is a wholly foreign-owned enterprise with operation period to 20 February 2045.

(2) 湖北力王新材料有限公司 is a wholly foreign-owned enterprise with unlimited operation period.

The financial statements of the above subsidiaries have been audited/reviewed by BDO Limited for statutory purpose and/or the purpose of the Group's consolidation.

The amount due from a subsidiary was unsecured, interest-free, repayable on demand and were to be settled by cash. Management assessed that the settlement of the amount due from a subsidiary is neither planned nor likely to occur in the foreseeable future and the directors considered that the amount forms part of the net investment in the subsidiary accordingly.

## 17. INVENTORIES - GROUP

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Raw materials | **30,278** | 31,129 |
| Work-in-progress | **16,242** | 17,467 |
| Finished goods | **16,020** | 18,217 |
| | **62,540** | 66,813 |
| Less: Write-down for inventory obsolescence (Net) | **(8,685)** | (7,615) |
| | **53,855** | 59,198 |

For the year ended 30 June 2019, the Group recognised inventory write-down of RMB3,653,000 (2018: RMB2,789,000) in profit or loss. The Group has also recognised a reversal of RMB2,583,000 (2018: RMB2,249,000), being part of an inventory write-down made in previous financial years, as the inventories were sold above the carrying amounts in 2019.

## 18. TRADE AND BILLS RECEIVABLES - GROUP

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade receivables | **147,041** | 180,719 |
| Bills receivables | **510** | – |
| Less: Impairment loss | **(29,736)** | (571) |
| | **117,815** | 180,148 |

Trade and bills receivables generally have credit terms of 7 to 150 (2018: 7 to 150) days and no interest is charged.

The directors of the Company consider that the fair values of trade and bills receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

Impairment loss in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the outstandings are written-off as bad debts against trade and bills receivables directly.

## 18. TRADE AND BILLS RECEIVABLES - GROUP (Continued)

Movement in impairment loss of trade and bills receivables is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At beginning of year | **571** | – |
| Upon adoption of IFRS 9 | **375** | – |
| At beginning of year, restated | **946** | – |
| Impairment loss for the year | **29,207** | 571 |
| Write-back for the year | **(417)** | – |
| At end of year | **29,736** | 571 |

As mentioned in note 4.8, the Group applied the simplified approach to provide the expected credit losses prescribed by IFRS 9. A provision of RMB29,736,000 (2018: RMB571,000) was made against the gross amount of trade and bills receivables during the year. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in note 33(c).

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES - GROUP AND COMPANY

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Prepayments | **482** | 492 | **12** | 4 |
| Advance to suppliers | **881** | 782 | **–** | – |
| VAT receivables | **10,085** | 9,996 | **–** | – |
| Other receivables and deposits | **930** | 1,029 | **–** | – |
| Total | **12,378** | 12,299 | **12** | 4 |

## 20. RESTRICTED BANK DEPOSITS AND CASH AND BANK BALANCES - GROUP

As at 30 June 2019 and 2018, restricted bank deposits of approximately RMB1,109,000 (2018: RMB1,042,000) represented guaranteed deposits placed in the banks in Hong Kong (2018: Hong Kong ) in relation to the Group's bank borrowings (note 25).

Restricted bank deposits and bank balances earn interest at floating rates based on daily bank deposit rates of less than 1% per annum (2018: less than 1% per annum). The restricted bank deposits pledged for bank borrowings will last for the period from the date of drawdown of secured bank borrowings to the date when bank borrowings are fully settled.

As at 30 June 2019, the Group had cash and bank balances of approximately RMB7,245,000 (2018: RMB9,415,000) placed with the banks in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

## 21. SHARE CAPITAL - GROUP AND COMPANY

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **HK$'000** | **RMB'000** | HK$'000 | RMB'000 |
| **Authorised:** | | | | |
| 50,000,000 ordinary shares of HK$10.00 each | **500,000** | **530,000** | 500,000 | 530,000 |
| **Issued and fully paid:** | | | | |
| 12,650,000 ordinary shares of HK$10.00 each | **126,500** | **133,557** | 126,500 | 133,557 |

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share at shareholders' meetings of the Company without restriction.

## 22. RESERVES - GROUP AND COMPANY

### (a) Share premium

This represented the premium arising from the issue of shares of the Company. Under the Bye-Laws of the Company, the share premium account may be distributed in the form of fully paid bonus shares.

### (b) Other reserve

The Group's other reserve represent appropriation of profits retained by the Group's PRC subsidiary. In accordance with the relevant laws and regulations of the PRC, Zhongshan New Asia is required to appropriate an amount not less than 10% of its profit after income tax to other reserve each year until the other reserve balance reaches 50% of its registered capital. Subject to approval from the relevant PRC authorities, this other reserve may be used to offset any accumulated losses or for capitalisation as paid-up capital. Other reserve is not available for dividend distribution to shareholders.

### (c) Exchange reserve

This comprise all foreign exchange differences arising from the translation of the financial statements of the Company and subsidiaries whose functional currency are different from that of the Group's presentation currency which is RMB and is non-distributable.

## 23. TRADE PAYABLES - GROUP

Trade payables are non-interest bearing and are normally settled on 30 (2018: 30) days and 90 (2018: 90) days credit terms respectively.

All amounts are short-term and hence the carrying values of trade and bill payables are considered to be a reasonable approximation of fair values.

## 24. ACCRUED EXPENSES AND OTHER PAYABLES - GROUP AND COMPANY

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Accrued expenses | **13,256** | 12,384 | **1,406** | 1,465 |
| Interest payable | **164** | 349 | **–** | – |
| Contract liabilities (note) | **614** | – | **–** | – |
| Deposits received | **–** | 653 | **–** | – |
| Other payables | **187** | 1,271 | **–** | – |
| | **14,221** | 14,657 | **1,406** | 1,465 |

The carrying amounts of accrued expenses and other payables are short-term and hence their carrying values are considered to be a reasonable approximation of fair values.

Note: Movements in contract liabilities:

| | **RMB'000** |
|---|---|
| At 1 July 2018, upon adoption of IFRS 15 | 653 |
| Amount recognised as revenue during the year for contract liabilities recognised at the beginning of the year | (653) |
| Amount received in advance from customers during the year | 37,421 |
| Amount recognised as revenue during the year for contract liabilities arising during the year | (36,807) |
| At 30 June 2019 | 614 |

The Group has applied the practical expedient to its sales of goods and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of goods that had an original expected duration of one year or less.

## 25. BANK BORROWINGS, SECURED - GROUP

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Current portion** | | |
| Bank borrowings due for repayment within one year | **111,176** | 103,349 |
| Bank borrowings due for repayment after one year which contain a repayment on demand clause | **822** | 3,079 |
| | **111,998** | 106,428 |

Bank borrowings of RMB822,000 (2018: RMB3,079,000) are classified as current liabilities as the related borrowings agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these bank borrowings is expected to be settled within one year.

## 25. BANK BORROWINGS, SECURED - GROUP (Continued)

Assuming that the banks do not request the clause for repayment on demand and based on the repayment dates as schedules in the loan agreements, the Group's bank borrowings are due for repayment, as at each of the reporting dates, as follows:

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within one year | **111,176** | 103,349 |
| In the second year | **822** | 2,296 |
| In the third to fifth year | **–** | 783 |
| Wholly repayable within five years | **111,998** | 106,428 |

As at 30 June 2019 and 2018, the Group's bank borrowings are secured by corporate guarantees which are executed by the Company, a subsidiary of the Company and Leung Chee Kwong, a director of the Company, the pledge of certain of the Group's property, plant and equipment (note 13), certain of the Group's land use rights (note 15), the Group's restricted bank deposits (note 20) and an independent third party's land use rights.

As at 30 June 2019, these bank borrowings bear fixed interest rate ranging from 3.0% to 5.9% (2018: 3.1% to 5.9%) per annum and floating interest rates ranging from 2.8% to 3.7% (2018: 3.1%) per annum.

The Group's bank borrowings are denominated in the following currencies:

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| RMB | **83,670** | 72,170 |
| HK$ | **3,219** | 6,988 |
| United States dollar ("US$") | **25,109** | 27,270 |
| | **111,998** | 106,428 |

## 26. OTHER BORROWINGS - GROUP

| | | **2019** | 2018 |
|---|---|---|---|
| | Note | **RMB'000** | RMB'000 |
| **Non-current:** | | | |
| Other loans, unsecured | (a) | **–** | 27,500 |
| **Current:** | | | |
| Other loans, unsecured | (a) | **11,400** | – |
| Finance lease liabilities | (b) | **1,125** | – |
| | | **12,525** | 27,500 |

## 26. OTHER BORROWINGS - GROUP (Continued)

(a) It is unsecured and bear floating interest rate at the PRC banks' standard rate plus 1% per annum. As at 30 June 2019, effective interest rate of the loans was 6.9% (2018: 6.9%) per annum. The loan lender is an independent third party. As at 30 June 2018, the lender had given a written consent that it would not call for loan repayment until 2020, accordingly, the amount was classified as non-current liabilities. As at 30 June 2019, based on the mutual agreement between the Group and the lender, the loan was repayable on 31 December 2019, accordingly, it is classified as current liabilities. The fair value of the loan approximate to its carrying amount as it is subject to floating rates.

(b) The Group entered into a sale and leaseback arrangement with an independent third party for certain equipment (note 13). The finance lease runs for a period of 1 year. Finance lease liabilities are effectively secured by the underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default.

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Total minimum lease payments due within one year | **1,276** | – |
| Less: Future finance charges on finance leases | **(151)** | – |
| Present value of finance lease liabilities, due within one year | **1,125** | – |

## 27. DEFERRED INCOME - GROUP

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At beginning of the year | **–** | – |
| Government grants received | **4,100** | – |
| At end of the year | **4,100** | – |

Deferred income represents government grants received by the Group in relation to its acquisition of land use rights in the PRC. Such government grants are treated as deferred income and are recognised in profit or loss in accordance with the Group's accounting policies shown in note 4.22.

## 28. FINANCIAL GUARANTEE CONTRACTS AND CONTINGENT LIABILITIES - COMPANY

As at 30 June 2019, the Company executed guarantees amounting to approximately RMB7,841,000 (2018: RMB8,451,000) with respect to certain bank borrowings utilised by a subsidiary of the Company. Under the guarantees, the Company would be liable to pay the bank if the bank is unable to recover the bank borrowings. At the reporting date, no provision for the Company's obligation under the guarantee contracts has been made (2018: Nil) as the directors have assessed that the likelihood of the subsidiary defaulting on repayments of its loan is remote. There has been no default or non-repayment since the utilisation of the banking facilities.

## 29. COMMITMENTS

### Operating leases commitments

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases in respect of office premises and other operating facilities are as follows:

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within one year | **2,465** | 2,149 |
| In the second to fifth years | **970** | 3,336 |
| | **3,435** | 5,485 |

The Group leases a number of properties under operating leases. The leases run for an initial period of one to three years (2018: one to three years), with an option to renew certain leases and negotiate the terms at the expiry date or at dates as mutually agreed between the Group and the respective landlords/lessors. None of the leases include contingent rentals.

The Company does not have any operating lease commitments as at 30 June 2019 (2018: Nil).

### Capital commitments

| | **Group** | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Contracted but not provided for in respect of property, plant and equipment | **620** | 135 |

## 30. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the financial statements, the Group had the following related party transactions:

Included in staff costs are key management personnel compensations and comprise the following categories:

| | **2019** | 2018 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Directors' fees | **733** | 707 |
| Short-term employee benefits | **4,144** | 4,063 |
| Post-employment benefits | **78** | 74 |
| | **4,955** | 4,844 |

There was no amount under which a director waived or agreed to waive as remuneration during the year.

## 31. NOTES SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transaction

For the year ended 30 June 2018, the Group's purchase of property, plant and equipment were partly settled by deposits paid in prior year of RMB5,560,000 for acquisition of property, plant and equipment.

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

| | Bank borrowings RMB'000 (note 25) | Other borrowings RMB'000 (note 26) | Deferred income RMB'000 (note 27) | Interest payable RMB'000 (note 24) |
|---|---|---|---|---|
| At 1 July 2017 | 106,878 | 45,500 | – | 561 |
| **For the year ended 30 June 2018** | | | | |
| Changes from cash flows: | | | | |
| Proceeds from bank borrowings | 143,448 | – | – | – |
| Repayment of bank borrowings | (143,737) | – | – | – |
| Repayment of other borrowings | – | (18,000) | – | – |
| Interest on bank and other borrowings | – | – | – | (7,072) |
| Total changes from financing cash flows | (289) | (18,000) | – | (7,072) |
| Other changes: | | | | |
| Exchange difference | (161) | – | – | – |
| Interest expenses | – | – | – | 6,860 |
| At 30 June 2018 and 1 July 2018 | 106,428 | 27,500 | – | 349 |
| **For the year ended 30 June 2019** | | | | |
| Changes from cash flows: | | | | |
| Increase in deferred income | – | – | 4,100 | – |
| Proceeds from bank borrowings | 158,718 | – | – | – |
| Repayment of bank borrowings | (153,499) | – | – | – |
| Proceeds from other borrowings | – | 3,000 | – | – |
| Repayment of other borrowings | – | (17,975) | – | – |
| Interest on bank and other borrowings | – | – | – | (6,611) |
| Total changes from financing cash flows | 5,219 | (14,975) | 4,100 | (6,611) |
| Other changes: | | | | |
| Exchange difference | 351 | – | – | – |
| Interest expenses | – | – | – | 6,426 |
| At 30 June 2019 | 111,998 | 12,525 | 4,100 | 164 |

## 32. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amounts of the Group's and the Company's financial assets and liabilities:

| | Group | | Company | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| <u>Financial assets</u> | | | | |
| Financial assets measured at amortised costs (2018: Loans and receivables) | | | | |
| - Trade and bills receivables | **117,815** | 180,148 | **–** | – |
| - Other receivables and deposits | **930** | 1,029 | **–** | – |
| - Restricted bank deposits | **1,109** | 1,042 | **–** | – |
| - Cash and bank balances | **19,248** | 18,638 | **–** | – |
| | **139,102** | 200,857 | **–** | – |
| <u>Financial liabilities</u> | | | | |
| Financial liabilities measured at amortised cost | | | | |
| - Trade payables | **34,073** | 34,896 | **–** | – |
| - Accrued expenses and other payables | **13,400** | 13,725 | **1,406** | 1,465 |
| - Bank borrowings, secured | **111,998** | 106,428 | **–** | – |
| - Other borrowings | **12,525** | 27,500 | **–** | – |
| | **171,996** | 182,549 | **1,406** | 1,465 |

## 33. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However, the directors of the Company meet periodically to analyse and formulate measures to manage 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 conservative strategies regarding its risk management. The Group has not used any derivatives or other instrument for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

### (a) Interest rate risk

The Group's exposure to interest rate risk mainly arises on bank deposits (note 20), bank borrowings (note 25) and other borrowings (note 26). The Group has not used any derivative contracts to hedge its exposure to interest rate risk.

## 33. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (a) Interest rate risk (Continued)

Interest rate sensitivity analysis

As at 30 June 2019, if a general increase of 100 (2018: 100) basis points in interest rates is estimated, with all other variable held constant, loss after income tax for the year and accumulated losses of the Group would increase by approximately RMB75,000 (2018: profit after income tax for the year and retained profits of the Group would decrease by approximately RMB245,000). The assumed changes have no impact on the Group's other components of equity.

A general decrease of 100 (2018: 100) basis points in interest rates would have had the equal but opposite effect on the results for the year and accumulated losses/retained profits to the amounts shown above, on the basis that all other variables remain constant.

The sensitivity analysis above is determined assuming that the change in interest rates had occurred at the beginning of the year and had been applied to the abovementioned financial instruments at that date and throughout the year constantly. The 100 (2018: 100) 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 had been performed on the same basis for the year ended 30 June 2018.

As the Company has no interest-bearing assets and liabilities, the Company's income and operating cash flows are independent of changes in market interest rates.

### (b) Foreign currency risk

The Group's transactions are mainly denominated in RMB, US$ and HK$. Certain trade and bills receivables, deposits, bank deposits, trade and bill payables, accrued expenses and bank borrowings of the Group are denominated in US$ and HK$ which are not the functional currencies of the Group entities to which these balances relate, and the Group is therefore exposed to foreign currency risk. To mitigate the impact of exchange rate fluctuations, the management continuously assesses and monitors foreign exchange exposure.

The Group's foreign currency denominated financial assets and liabilities, translated into RMB at the closing rates, are as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **US$** | **HK$** | US$ | HK$ |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| Financial assets | **24,581** | **2,088** | 20,252 | 1,475 |
| Financial liabilities | **(24,345)** | **(7,111)** | (28,250) | (8,473) |
| | **236** | **(5,023)** | (7,998) | (6,998) |

## 33. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Foreign currency risk (Continued)

Currency exchange rate sensitivity analysis

The following table illustrates the sensitivity of the net results for the year and accumulated losses in regards to the Group's financial assets and financial liabilities at the reporting date and the reasonably possible changes in the foreign exchange rates in the next 12 months to which the Group has significant exposure at the reporting date, based on the assumption that other variables are held constant. Changes in foreign exchange rates have no impact on the Group's other components of equity.

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Appreciation of foreign currency against RMB** | **Effect on profit after tax** | **Effect on retained profits** | Appreciation of foreign currency against RMB | Effect on profit after tax | Effect on accumulated losses |
| | | **RMB'000** | **RMB'000** | | RMB'000 | RMB'000 |
| US$ | **1.0%** | **15** | **15** | 1.0% | (50) | (50) |
| HK$ | **1.0%** | **(44)** | **(44)** | 1.0% | (61) | (61) |

A general depreciation of 1% (2018: 1.0%), and 1% (2018: 1.0%) in US$ and HK$ against RMB respectively would have had the equal but opposite effect on the results for the year and retained profits to the amounts shown above, on the basis that all other variables remain constant.

The sensitivity analysis above is determined assuming that the change in currency exchange rates had occurred at the beginning of the year and had been applied to the abovementioned financial instruments at that date and throughout the year constantly. 1% (2018: 1.0%), and 1% (2018: 1.0%) increase or decrease in RMB against US$ and HK$ respectively represents management's assessment of a reasonably possible change in currency exchange rates over the period until the next annual reporting date. The analysis had been performed on the same basis for the year ended 30 June 2018.

As the Company does not have exposure to foreign currency risk, the Company's income and operating cash flows are substantially independent of changes in foreign currency rates.

### (c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and financial assets. The Group's credit risk is primarily attributable to trade and other receivables, restricted bank deposits and cash and bank balances.

No other financial assets carry a significant exposure to credit risk. None of the financial assets of the Group and the Company are secured by collateral or other credit enhancements.

## 33. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (c) Credit risk (Continued)

The carrying amounts of financial assets recorded in the financial statements grossed up for any allowance for losses, represent the Group's and the Company's maximum exposure to credit risk except where the Company provided corporate guarantees amounting to RMB7,841,000 (2018: RMB8,451,000) for subsidiaries' banking facilities for the year ended 30 June 2019 and 2018.

The management has a credit policy and the exposures to credit risks are monitored on an ongoing basis. The Group trades mainly with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. Major concentration of credit risk arises from the Group's exposure to top 5 (2018: 5) major trade debtors who contributed approximately 43% (2018: 57%) of the trade and bills receivables balance of the Group.

All the Group's restricted bank deposits and cash and bank balances are deposited with major financial institutions located in the PRC and Hong Kong, including an aggregated balance of approximately RMB15,984,000 (2018: RMB16,514,000) representing 79% (2018: 84%) of the reporting date balances maintained with 3 banks (2018: 3).

The Group measures the loss allowance for trade and bills receivables at an amount equal to lifetime ECL. The ECL on trade and bills receivables is estimated using a provision matrix with reference to past default experience of the debtor, current market condition in relation to each debtor's exposure. The ECL also incorporated forward looking information with reference to general macroeconomic conditions that may affect the ability of the debtors to settle receivables.

As at 30 June 2019, the Group recognised lifetime ECL for its trade and bills receivables based on individually significant customer or the ageing of customers collectively that are not individually significant as follows:

| | Expected credit loss rate | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
|---|---|---|---|
| Current | 0.15% | 88,332 | 132 |
| Less than 1 month past due | 0.77% | 10,210 | 79 |
| 1 to 3 months past due | 1.37% | 8,496 | 116 |
| More than 3 months but less than 12 months past due | 11.28% | 12,443 | 1,404 |
| More than 12 months past due | 28.27% | 90 | 25 |
| Individual assessment | 100% | 27,980 | 27,980 |
| | | 147,551 | 29,736 |

## 33. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (c) Credit risk (Continued)

Prior to 1 July 2018, an impairment loss was recognised only when there was objective evidence of impairment (note 4.8). As 30 June 2018, trade receivables of RMB571,000 was determined to be impaired. Ageing analysis of trade receivables past due but not impaired was as follows:

| | 2018<br>RMB'000 |
|---|---|
| Neither past due nor impaired | 156,413 |
| Past due but not impaired | |
| - Less than 1 month past due | 13,311 |
| - 1 to 3 months past due | 10,372 |
| - More than 3 months but less than 12 months past due | 52 |
| | 180,148 |

Trade receivables that were neither past due nor impaired related to customers for whom there were no recent history of default.

Trade receivables that were past due but not impaired related to a large number of diversified customers that has a good track record of credit or long established business relationship with the Group. Based on past credit experience, management believes that no impairment loss are necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

### (d) Financial guarantee

The principal risk to which the Company is exposed to is credit risk in connection with guarantee contracts it has issued. The credit risk represents the loss that would be recognised upon a default by the parties to which the guarantees were given on behalf of. To mitigate these risks, management continually monitors the risks and has established processes including performing credit evaluations of the parties it is providing the guarantee on behalf of. The maximum exposure to credit risk in respect of these financial guarantees at the reporting date is disclosed in note 33(c). There are no terms and conditions attached to the guarantee contracts that would have a material effect on the amount, timing and uncertainty of the Company's future cash flows.

## 33. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through the ability to close-out market positions. In the opinion of the directors of the Company, the Group does not have any significant liquidity risk exposure.

The following table summarises the remaining contractual maturities at the reporting date of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the scheduled repayments dates for bank borrowings and the earliest date the Group may be required to pay for other financial liabilities.

**Group**

| | Carrying amount RMB'000 | Contractual cash flows RMB'000 | Less than 6 months RMB'000 | 6 to 12 months RMB'000 | 1 year or above RMB'000 |
|---|---|---|---|---|---|
| **At 30 June 2019** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade payables | **34,073** | **34,073** | **34,073** | **–** | **–** |
| Accrued expenses and other payables | **13,400** | **13,400** | **13,400** | **–** | **–** |
| Bank borrowings, secured | **111,998** | **114,188** | **78,797** | **34,563** | **828** |
| Other borrowings | **12,525** | **14,234** | **7,840** | **6,394** | **–** |
| | **171,996** | **175,895** | **134,110** | **40,957** | **828** |
| **At 30 June 2018** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade payables | 34,896 | 34,896 | 34,896 | – | – |
| Accrued expenses and other payables | 13,725 | 13,725 | 13,725 | – | – |
| Bank borrowings, secured | 106,428 | 108,478 | 76,740 | 28,586 | 3,152 |
| Other borrowings | 27,500 | 32,265 | 6,950 | 6,950 | 18,365 |
| | 182,549 | 189,364 | 132,311 | 35,536 | 21,517 |

## 33. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (e) Liquidity risk (Continued)

The following table summarises the maturity analysis of bank borrowings including those with repayment on demand clause which can be exercised at the bank's sole discretion. The analysis shows the cash outflow based on the earliest period in which the entity is required to pay, that is if the banks were to invoke the unconditional rights to call the loans with immediate effect. The directors of the Company do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors of the Company also believe that such term loans will be repaid in accordance with the scheduled repayment dates as set out in the loan agreements.

**Group**

| | Carrying amount RMB'000 | Contractual cash flows RMB'000 | On demand or less than 6 months RMB'000 |
|---|---|---|---|
| **Bank borrowings:** | | | |
| **30 June 2019** | **111,998** | **111,998** | **111,998** |
| 30 June 2018 | 106,428 | 106,678 | 106,678 |

| Company | Carrying amount RMB'000 | Contractual cash flows RMB'000 | On demand or less than 6 months RMB'000 |
|---|---|---|---|
| **At 30 June 2019** | | | |
| Accrued expenses | **1,406** | **1,406** | **1,406** |
| Financial guarantees issued | | | |
| Maximum amount guaranteed | **7,841** | **7,841** | **7,841** |
| **At 30 June 2018** | | | |
| Accrued expenses | 1,465 | 1,465 | 1,465 |
| Financial guarantees issued | | | |
| Maximum amount guaranteed | 8,451 | 8,451 | 8,451 |

### (f) Fair values

The fair values of the Group's and the Company's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of the Group's non-current financial liabilities is disclosed in note 26.

## 34. CAPITAL MANAGEMENT

The Group's capital objectives include:

(a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;

(b) To support the Group's stability and growth; and

(c) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group achieves these objectives by actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder 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 currently does not adopt any formal dividend policy.

Management regards total equity as capital. The amount of capital at 30 June 2019 amounted to approximately RMB108,677,000 (2018: RMB172,603,000) which the management considers as optimal. The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debts.

Capital-to-overall financing ratio at reporting date was as follows:

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| **Capital:** | | |
| Total equity | **108,677** | 172,603 |
| **Overall financing:** | | |
| Total equity | **108,677** | 172,603 |
| Bank borrowings | **111,998** | 106,428 |
| Other borrowings | **12,525** | 27,500 |
| | **233,200** | 306,531 |
| **Capital-to-overall financing ratio** | **46.6%** | 56.3% |

As disclosed in note 22(b), a subsidiary of the Group are required by the relevant laws and regulations in the PRC to contribute to and maintain a non-distributable statutory reserve fund which utilisation is subject to the approval of the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above mentioned subsidiary for the financial years ended 30 June 2019 and 2018.

The Group's overall strategy remains unchanged from 2018.

As at 12 September 2019

| | | |
|---|---|---|
| AUTHORISED SHARE CAPTIAL | : | HK$500,000,000 |
| ISSUED AND FULLY-PAID SHARE CAPITAL | : | HK$126,500,000 |
| CLASS OF SHARES | : | ORDINARY SHARES OF HK$10.00 EACH |
| VOTING RIGHTS | : | ONE VOTE PER ORDINARY SHARE |
| TREASURY SHARES AND SUBSIDIARY HOLDINGS | : | NIL |

## DISTRIBUTION OF SHAREHOLDERS

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | % | NO. OF SHARES | % |
|---|---|---|---|---|
| 1 - 99 | 98 | 15.86 | 4,810 | 0.04 |
| 100 - 1,000 | 230 | 37.22 | 88,700 | 0.70 |
| 1,001 - 10,000 | 242 | 39.16 | 748,300 | 5.92 |
| 10,001 - 1,000,000 | 46 | 7.44 | 4,077,690 | 32.23 |
| 1,000,001 & ABOVE | 2 | 0.32 | 7,730,500 | 61.11 |
| TOTAL | 618 | 100.00 | 12,650,000 | 100.00 |

## TOP TWENTY SHAREHOLDERS AS AT 12 SEPTEMBER 2019

| | | NO. OF SHARES | % |
|---|---|---|---|
| 1 | FULLWEALTH TRADING LIMITED | 5,422,500 | 42.87 |
| 2 | CHOI KATHIE PIK YIN | 2,308,000 | 18.25 |
| 3 | POWERUP ASSETS MANAGEMENT LIMITED | 950,000 | 7.51 |
| 4 | DBS VICKERS SECURITIES (S) PTE LTD | 601,950 | 4.76 |
| 5 | LI LONGSI | 529,500 | 4.18 |
| 6 | CITIBANK NOMINEES SINGAPORE PTE LTD | 403,250 | 3.19 |
| 7 | RAMESH S/O PRITAMDAS CHANDIRAMANI | 335,000 | 2.65 |
| 8 | OCBC SECURITIES PRIVATE LTD | 246,500 | 1.95 |
| 9 | PHILLIP SECURITIES PTE LTD | 121,000 | 0.96 |
| 10 | MAYBANK KIM ENG SECURITIES PTE. LTD | 97,050 | 0.77 |
| 11 | CGS-CIMB SECURITIES (SINGAPORE) PTE LTD | 69,240 | 0.55 |
| 12 | ZENG JIANHUA | 52,250 | 0.41 |
| 13 | TSAO SAN | 47,350 | 0.37 |
| 14 | SEACARE FOUNDATION PTE LTD | 46,500 | 0.37 |
| 15 | LEE WEE KOK | 30,000 | 0.24 |
| 16 | LIM TIONG KHENG STEVEN | 30,000 | 0.24 |
| 17 | TEO THONG SOON | 29,000 | 0.23 |
| 18 | YEAK ZONG EN SETH (YE ZONG'EN) | 23,700 | 0.19 |
| 19 | LEOW CHING CHUAN | 22,950 | 0.18 |
| 20 | WONG KAI YEEN | 22,500 | 0.18 |
| | TOTAL: | 11,388,240 | 90.05 |

# SHAREHOLDERS' INFORMATION

As at 12 September 2019

## SUBSTANTIAL SHAREHOLDERS
**(as recorded in the Register of Substantial Shareholders)**

| | DIRECT INTEREST | % | DEEMED INTEREST | % |
|---|---|---|---|---|
| FULLWEALTH TRADING LIMITED | 5,422,500 | 42.87 | – | – |
| CHOI KATHIE PIK YAN | 2,308,000 | 18.25 | – | – |
| POWERUP ASSETS MANAGEMENT LIMITED | 950,000 | 7.51 | – | – |
| LEUNG CHEE KWONG [(1)] | – | – | 5,422,500 | 42.87 |
| HEBE FINANCE LIMITED [(2)] | – | – | 950,000 | 7.51 |
| WANG LIN JIA [(2)] | – | – | 950,000 | 7.51 |

Notes:

(1) Deemed interest in the 5,422,500 shares registered in the name of Fullwealth Trading Limited.
(2) Deemed interest in the 950,000 shares registered in the name of Powerup Assets Management Limited.

## PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS:

Approximately 31.2% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rules 723 of the Listing Manual of SGX-ST.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Luxking Group Holdings Limited (the "Company") will be held at Hotel Re! @ Pearl's Hill, Re! Union, 175A Chin Swee Road, Level 2, Singapore 169879 on 21 October 2019 at 9:00 a.m. for the following purposes:

## AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Financial Statements of the Company for the financial year ended 30 June 2019 together with the Independent Joint Auditor's Report thereon. **(Resolution 1)**

2. To note the retirement of Chan Kin Sang as a Director of the Company pursuant to Bye-Law 86(3) of the Company's Bye-Laws.

3. To re-elect Er Kwong Wah as a Director of the Company, retiring pursuant to Bye-Law 85(6) of the Company's Bye-Laws. **(Resolution 2)**

4. To approve the payment of Directors' fees of S$154,551 for the year ending 30 June 2020, to be paid half-yearly in arrears (FY2019: S$146,415). **(Resolution 3)**

5. To approve a one-time ex-gratia payment of S$16,268 to the Independent Directors of the Company for the financial year ending 30 June 2020. **(Resolution 4)**
*[See Explanatory Note (i)]*

6. To re-appoint Messrs BDO Limited, Certified Public Accountants, Hong Kong and BDO LLP, Public Accountants and Chartered Accountants, Singapore as the Company's Auditors to act jointly and severally to authorise the Directors to fix their remuneration. **(Resolution 5)**

7. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

## AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolution as Ordinary Resolution, with or without any modifications:

8. Authority to allot and issue shares up to 50 per centum (50%) of the issued shares

   That pursuant to Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be given to the Directors of the Company to issue shares ("Shares") whether by way of rights, bonus or otherwise, and/or make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares at any time and upon such terms and conditions and for such purposes to such persons as the Directors of the Company may in their absolute discretion deem fit and (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force, provided that:

   (a) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution) to be issued pursuant to this Resolution shall not exceed 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (b) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed 20% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (b) below);

(b) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (a) above, the total number of issued shares (excluding treasury shares and subsidiary holdings) shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities;

(ii) new shares arising from exercise of share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and

(iii) any subsequent bonus issue, consolidation or subdivision of shares;

(c) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Bye-Laws of the Company; and

(d) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.
*[See Explanatory Note (ii)]* **(Resolution 6)**

By Order of the Board

Cheng Lisa
Company Secretary
Singapore, 4 October 2019

**Explanatory Notes to Resolutions to be passed –**

(i) The proposed one-time ex-gratia payment of S$16,268 for financial year ending 30 June 2020 to the Independent Directors of the Company, namely Mr Chan Kin Sang and Mr Tan Tew Han is a token of appreciation and recognition of their contribution in the past years rendered to the Company and/or its subsidiaries as Independent Directors.

(ii) The Ordinary Resolution 6 proposed in item 8 above, if passed, will empower the Directors of the Company, effective until the conclusion of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to 20% may be issued other than on a pro rata basis to shareholders.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holdings) will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time this Ordinary Resolution is passed, after adjusting for new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution is passed, and any subsequent bonus issue, consolidation or subdivision of shares.

**Notes:**

1. A depositor holding Shares through The Central Depository (Pte) Limited ("Depositor") who is an individual and who wishes to attend the Annual General Meeting (the "Meeting") in person need not take any further action and can attend and vote at the Meeting as The Central Depository (Pte) Limited's proxy without lodgement of any proxy form.

2. A Depositor who is an individual but is unable to attend the Meeting personally and wishes to appoint a nominee(s) as The Central Depository (Pte) Limited's proxy to attend and vote on his/her behalf, must complete, sign and return the Depositor Proxy Form and deposit the duly completed Depositor Proxy Form at the office of Singapore Share Transfer Agent, B.A.C.S. Private Limited, 8 Robinson Road #03-00, ASO Building, Singapore 048544, at least forty-eight (48) hours before the time appointed for holding the Meeting. Similarly, a Depositor who is a corporate and who wishes to attend the Meeting must submit the Depositor Proxy Form for the appointment of nominee(s) to attend and vote at the Meeting on its behalf.

3. If a member with shares registered in his name in the Register of Members is unable to attend the Meeting and wishes to appoint a proxy/proxies to attend and vote at the Meeting in his stead, then he should complete and sign the relevant Member Proxy Form and deposit the duly completed Member Proxy Form at the office of Singapore Share Transfer Agent, B.A.C.S. Private Limited, 8 Robinson Road #03-00, ASO Building, Singapore 048544, at least forty-eight (48) hours before the time of the Meeting.

4. If a person who has Shares entered against his name in the Depository Register and Shares registered in his name in the Register of Members is unable to attend the Annual General Meeting and wishes to be represented at the meeting, he should use the Depositor Proxy Form and the Member Proxy Form for, respectively, the Shares entered against his name in the Depository Register and Shares registered in his name in the Register of Members.

5. If the appointor is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

6. A proxy need not be a member.

**Personal data privacy:**

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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LUXKING

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