Nutryfarm International Limited
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

NUTRYFARM INTERNATIONAL LIMITED SCULPTING GROWTH ANNUAL REPORT 2019

SCULPTING GROWTH

Annual Report 2019

营养屋®
NUTRYFARM®

NUTRYFARM INTERNATIONAL LIMITED

Business Philosophy

"Nutrition for health" — We believe that through the use of advanced technologies in the areas of research and development, rigorous recipe screening and efficacy trials, we will be able to provide the finest quality nutrition and health food products to improve human lives.

CONTENTS

Corporate Profile

NutryFarm International Limited ("NutryFarm" or "the Company", and together with its subsidiaries, "the Group"), through its wholly-owned subsidiary Nutryfarm Biomedicine International Limited ("NFB"), produces high quality nutrition and health food products formulated mainly from natural traditional medicinal herbs from across the Americas and regions in China, Europe and New Zealand for consumers in the People's Republic of China ("PRC").

Based at its 34,165.33 square metres state-of-the-art facilities in the Sichuan province, the Group is involved in the research and development, manufacturing and sales and marketing of more than 40 of its self-manufactured brands catering to the diverse nutritional needs of every customer segment in its vast PRC market.

Vision

To be a leading manufacturer and distributor of nutrition and health food products.

Mission

To develop a sound business model and to continually seek and develop opportunities in high-growth markets.

Our Core Values

Good Management

We seek to continuously innovate to enhance our business, pursue our goals diligently to overcome obstacles and achieve our plans and overcome obstacles, as well as ensure effective remote management efficiency.

Proactivity

We constantly work towards being the best we can be. We do this by continuously improving our efficiency, innovating our products and refining our efforts to win bigger market share.

Ownership

We take great pride in our ability to meet what is required of us as a leading company. This includes the quality of our nutrition and health food products, our overall company growth and our obligation to the advancement and training of our employees.

Mutual Respect

We believe in conducting business in a respectful manner with all our stakeholders to gain and keep their confidence and trust in us.

Honesty and Integrity

We operate in an open and honest manner with our stakeholders, in the spirit of creating long-term business relationships.

SHAPING UP AND STAYING LEAN

For most women, body aspirations go beyond aesthetics. They aim for a physical wellbeing that moves them towards their life goals – fit, fine-looking, fulfilled, and flourishing. Nutryfam's herbal supplements for women target their wellness needs by aiding and sustaining their body to be clean, lean, and radiant with natural, potent ingredients that detoxify and reinvigorate their body cells

About NutryFarm

"NFC aims to provide the finest quality nutrition and health food products and the gentlest care to its customers to improve their quality of life."

Established in 2005 by award-winning scientist Dr. Chen Yao Ming, NFB, through its wholly-owned subsidiary NutryFarm (Chengdu) Biomedicine Ltd. ("NFC"), focuses on research and development, manufacture and sale of nutrition and health food products. With a staff strength of close to 36 highly-qualified researchers, nutritionists, sales and marketing professionals, NFC aims to provide the finest quality nutrition and health food products and the gentlest care to its customers to improve their quality of life.

Under the strong leadership of Dr. Chen, who is the Chief Scientist at NFC, NFC has built a sound business model with a stable track record since 2007. It also has a strong research and development team that is constantly innovating and improving its products to produce a series of diverse and competitively-priced nutrition and health food products for the PRC market.

In addition, NFC has also jointly set up a special laboratory with the Chinese Academy of Sciences and National Physical Examination Centre to study the physical health status and dietary habits of consumers in the PRC, which has helped boost its product offerings.

Key Products

Manufactured in strict accordance to the requirements of the Good Manufacturing Practice guidelines prescribed by the PRC government, NFC counts collagen, Vitamin C, Vitamin E, fish oil, liquid calcium and royal jelly as some of its most popular products. These core products are mainly aimed at protecting and improving the functions of the joints, heart, brain and blood as well as controlling diabetes.

A vast majority of its products are made from traditional medicinal herbs and plants, and NFC has to-date launched more than 40 nutritional products catered to the diverse nutritional needs of the population in the PRC.

Corporate Information

BOARD OF DIRECTORS

Paul Gao Xiang Nong
Executive Director and Chief Executive Officer

Xu Hai Min
Non-Executive Director

Ng Poh Khoon Jimmy
Independent Director

Neo Chee Beng
Independent Director

MANAGEMENT TEAM

Paul Gao Xiang Nong
Executive Director and Chief Executive Officer

Andy Xu Peng
Chief Financial Officer

AUDIT COMMITTEE

Ng Poh Khoon Jimmy (Chairman)
Neo Chee Beng
Xu Hai Min

NOMINATING COMMITTEE

Ng Poh Khoon Jimmy (Chairman)
Neo Chee Beng
Xu Hai Min

REMUNERATION COMMITTEE

Neo Chee Beng (Chairman)
Ng Poh Khoon Jimmy
Xu Hai Min

COMPANY SECRETARY

Andy Xu Peng

DEPUTY COMPANY SECRETARY

Adrian Chan Pengee

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL SHARE REGISTRAR

Appleby Management (Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

SHARE TRANSFER OFFICE

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

AUDITOR

Baker Tilly TFW LLP
Chartered Accountants of Singapore
600 North Bridge Road
#05-01 Parkview Square
Singapore 188778

Partner-in-charge : Mr. Lim Kok Heng
(Appointment effective from financial year ended 31 March 2019)

CEO's Message

Dear Shareholders

2018 was a challenging year with growing global macroeconomic uncertainties and mounting trade tensions between China and the United States. Under such pressures and faltering domestic demands, Asia's largest economy, China, expanded 6.6% in 2018, its slowest pace in 28 years.[1]

According to Focus Economics, although China's economy grew better than expected in the first quarter of this year at 6.4%, weak data for April suggests that growth will decelerate in the second quarter of this year. The economy is projected to continue to slowdown in 2019, with projected growth at 6.3%, due to weak global demand, domestic economic imbalances and financial deleveraging. Escalating trade tensions with the United States will add further downward pressure on growth.[2]

Financial Performance

Against this challenging backdrop, which was further exacerbated by the new advertising law to regulate advertisements relating to nutrition products; more stringent inspection of marketing materials and promotional activities for nutrition products by the Chinese authorities at the start of this year; and a more rigorous process in getting approval or renewal of licenses for nutrition business during the year, led to a sharp decline in sales activities of NFC's nutrition products.

As a result, the Group reported a 34% slide in sales to HK$44.0 million for the financial year ended 31 March 2019 ("FY2019") compared to HK$66.9 million of the preceding year ("FY2018"). Correspondingly, gross profit declined to HK$17.9 million in FY2019 with gross profit margin dipping 14.8 percentage point to 40.7% in FY2019 from 55.5% in FY2018. Net attributable loss expanded to HK$93.2 million in FY2019 compared to a loss of HK$8.3 million in FY2018.

NFC Updates

Marketing and distribution channels
To minimise the impact of a more regulated advertising environment for nutrition products, the Group is consolidating our efforts to strengthen our local marketing strategies to further expand our market share in cities where NFC has substantial market presence, such as the Sichuan province.

The Group is increasingly leveraging local media such as newspapers, magazines and local television programmes to promote and extol the benefits of our nutrition products. We have also stepped up our promotions on the internet via various online portals.

With our core distribution channel, membership sales, still accounting for more than 60% of NFC's revenue, the Group is also working closely with our customers to offer promotional prices, as well as increase marketing and promotional support. Additionally, the Group is also focusing on our e-commerce model to garner more new customers.

Products
NFC's core health supplements remained primarily for joints, heart, blood circulation, brain, controlling diabetes and weight loss, which are mostly manufactured by NFC. NFC has also launched some nature foods such as polyprotein powder, nutrition powder, oatmeal and coconut power, which the Group believes will further enhance sales going forward.

With changing consumer trends and increasing demands for more imported products, the Group plans to import

[1] 20 January 2019, CNBC - China's economy grew 6.6% in 2018, the lowest pace in 28 years

[2] 21 May 2019, Focus Economics - https://www.focus-economics.com/countries/china

more health food products such as flax seed oil, protein powder, complex nutrition powder, blueberry juice/wine and cranberry cereal, to further expand our product offerings.

To maximise the utilisation of our production facilities, NFC has also started to manufacture products for Original Equipment Manufacturer and Original Design Manufacturer in FY2019.

Looking Ahead

According to a Ken Research report, the market of nutritional supplement in China is predicted to reach US$40 billion by 2023 growing at a CAGR of 14%.[3] It is stated that China may soon overhaul the United States as the most momentous nutritional supplement market in the world.

There are several factors contributing to the rise of the health foods segment in China. The ageing population, increasing levels of education and an internet savvy Chinese middle class, are significantly increasing the consumption of health food products.

Although these factors have created greater demand for health food products, competition is very intense in this market with several key players dominating market share. Over the years, NFC has built a steady base of customers and a range of high quality health food products using only natural and traditional herbal ingredients. We will continue to improve on our product range and increase promotional activities in our key markets to gain greater market share.

Acknowledgements

On behalf of the Board of Directors, I would like to take this opportunity to thank Mrs. Li Chunling, who has stepped down as Executive Director with effect from 21 February 2019, for her contribution during her tenure with the Group.

I would also like to extend my deepest appreciation to my fellow board members, management team and employees, for your contribution and dedication over the years. We have weathered many challenges over the years and have been able to work together to overcome various obstacles. Let's continue to work hard and show our commitment to deliver greater value to all our stakeholders.

Lastly, I would like to thank our business partners, customers and shareholders for standing by us through the years. Please continue to have faith in the Group.

Paul Gao Xiang Nong
Chief Executive Officer

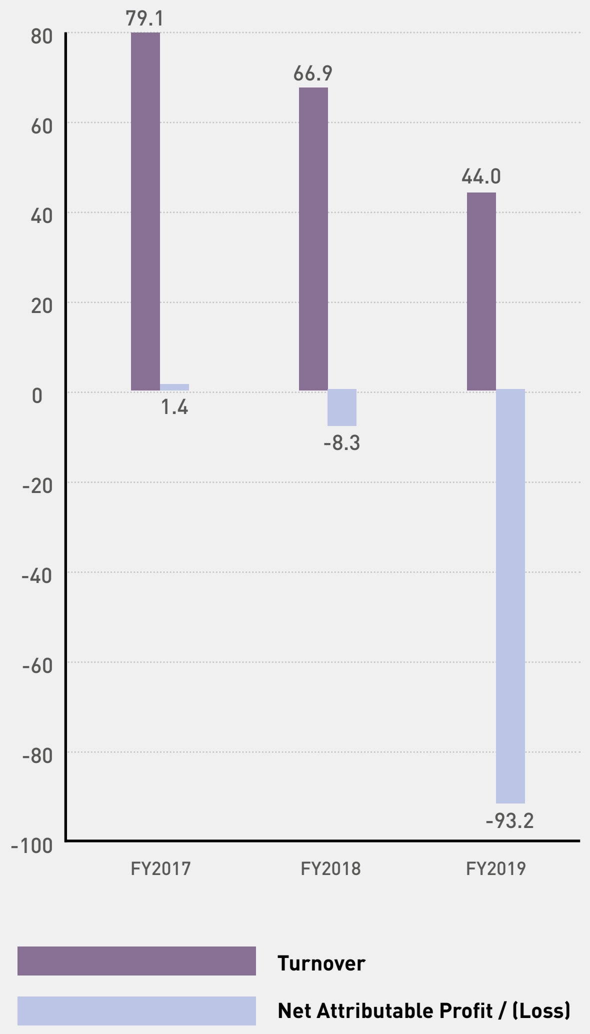
[3] 2 January 2019, Ken Research - Changing dynamics of the nutritional supplement in China market outlook

MANAGING AND BALANCING

The world at its pace shows no sign of slowing down. Our bodies, to be able to keep up, must be equipped to be resilient in a stressful environment. At the heart of enabling a healthy and balanced lifestyle is coronary wellness. Combining the wealth of science and nature, Nutryfarm offers nutrition that helps the heart function well and protect itself from weakening and risk of failure.

Financial Review

Revenue and Net Profit/ (Loss) (HK$'million)



Income Review

In FY2019, the Group recorded revenue of HK$44.0 million compared to HK$66.9 million in FY2018, with majority of revenue generated by NFC. The slide in revenue was largely due to the advertising restrictions imposed by the PRC authorities on nutrition products, as well as the more stringent inspections by the PRC authorities on marketing strategies for nutrition products since the start of 2019.

The Group registered gross profit of HK$17.9 million in FY2019 compared to HK$37.1 million in FY2018, with gross profit margin of 40.7% in FY2019 compared to 55.5% in FY2018.

Other income increased to HK$4.4 million in FY2019 compared to HK$1.8 million of the preceding year. This was mainly due to a HK$2.4 million gain from the modification of the terms of loans from third parties, a HK$0.5 million foreign exchange gain and a HK$0.8 million government subsidy recognised by NFC.

On the cost front, distribution expenses declined to HK$7.7 million in FY2019 from HK$12.1 million in FY2018, mainly due to a HK$2.2 million cut in staff costs and a HK$1.9 million decrease in marketing, advertisement and travel expenses.

On the other hand, administrative expenses increased to HK$88.9 million in FY2019 from HK$25.3 million in FY2018. This was largely attributable to (i) a HK$22.1 million impairment of property, plant and equipment due to the decline in revenue and gross profit margin by NFC; (ii) a HK$0.9 million impairment of intangible assets and HK$42.8 million impairment of goodwill, both in relation to the consolidation of NFC due to the significant decline in revenue generated as well as the drop in gross profit margin; and (iii) HK$5.0 million impairment of advances to supplier due to the long ageing of uncollected and unrecovered items. Net impairment losses on financial assets increase to HK$9.3 million in FY2019 from HK$6.4 million in FY2018. Net impairment losses of HK$9.3 million in FY2019 relates to HK$4.0 million impairment of trade receivables and HK$5.2 million impairment on advances to third parties due to the long aging of uncollected and unrecovered items.

Finance costs for the year increased to HK$7.7 million in FY2019 compared to HK$3.0 million in FY2018 as a result of interest paid for the short-term loan obtained by NFC and long-term third party loan obtained by the Group which has a maturity period of two to four years with an annual interest rates of 4.98% to 9.45%.

As a result, the Group posted a net attributable loss of HK$93.2 million in FY2019 compared to a net loss of HK$8.3 million in FY2018.

Balance Sheet Review

As at 31 March 2019, the Group registered net assets of HK$57.0 million compared to HK$159.1 million as at 31 March 2018. Total assets for the year was HK$212.3

million compared to HK$264.6 million in FY2018, while total liabilities was HK$155.3 million in FY2019, up from HK$105.5 million in FY2018.

The Group's non-current assets decreased to HK$41.4 million in FY2019 from HK$93.6 million in FY2018. Non-current other receivables rose to HK$25.0 million in FY2019 from HK$1.5 million in FY2018, mainly due to HK$23.6 million deposits paid for acquisition of property, plant and equipment to expand the Group's internet business.

The increase was partially offset by the HK$27.0 million decline in property, plant and equipment to HK$10.8 million in FY2019, which included a HK$3.4 million depreciation and a HK$22.1 million impairment of NFC's property, plant and equipment resulting from the drop in NFC's revenue and gross margin in FY2019. The Group also recorded no intangible assets in FY2019 compared to HK$46.3 million in FY2018. This was due to the HK$0.9 million impairment of patent and HK$42.8 million impairment of goodwill from the consolidation of NFC due to the drop in NFC's revenue and gross margin in FY2019.

The Group's current assets dipped to HK$170.8 million in FY2019 from HK$171.0 million in FY2018. Trade receivables declined to HK$9.5 million in FY2019 compared to HK$24.6 million in FY2018 mainly due to the HK$4.0 million impairment loss. Other receivables increased to HK$100.7 million in FY2019 from HK$96.9 million in FY2018, mainly due to increase in advances for proposed acquisition by HK$30.4 million. This increase was offset with the decrease in advances to supplier by HK$16.0 million and the decrease in advances to third parties and a related party by HK$10.3 million. Inventories remained stable at HK$12.9 million in FY2019 compared to HK$13.3 million in FY2018.

Trade and other payables and contract liabilities declined HK$4.1 million to HK$20.4 million in FY2019 from HK$24.5 million in FY2018, mainly due to the settlement made to NFC's suppliers during the financial year. Short-term loans, secured by land use right and office areas held by NFC, remained at HK$15.1 million in FY2019 compared to HK$15.9 million in FY2018.

The Group recorded long-term payables of HK$119.8 million, which comprised a third-party loan obtained from investors with an annual interest rates of 4.98% to 9.45% and maturity periods of two to four years, as well as accrued interests.

Based on 96,422,103 ordinary shares in issue as at 31 March 2019, the Group's net asset value per share was HK$0.59, compared to HK$1.65 as at 31 March 2018.

Cash Flow Review

HK$'million	FY2019	FY2018
Net cash generated from/(used in) operating activities	13.6	(9.2)
Net cash (used in) investing activities	(55.7)	(59.2)
Net cash generated from financing activities	53.2	79.3
Net increase in cash and cash equivalents	11.1	11.0
Cash and cash equivalents as at 31 March	47.4	36.2

The Group generated net cash of HK$13.6 million from operating activities in FY2019 compared to a net cash outflow of HK$9.2 million in FY2018, due to collections from NFC's customers during the year.

Net cash used in investing activities was HK$55.7 million in FY2019, which included a HK$32.0 million advances paid for proposed acquisition and HK$23.6 million of deposits paid for acquisition of property, plant and equipment.

In FY2019, NFC obtained HK$57.0 million in third party loans resulting in net cash generated from financing activities of HK$53.2 million.

As at 31 March 2019, the Group strengthened its cash balance position to HK$47.4 million compared to HK$36.2 million as at 31 March 2018.

GENERATING OPPORTUNITY FOR GROWTH

We are redefining aging by optimizing nature's healing power and advanced technological research and production. Nutryfarm believes that men and women should keep an ageless vigor that empowers them to live long and strong through healthy bones, joints, and biological processes. With our innovative pursuit of long-lasting health, opportunities are boundless.

Board of Directors

Mr. Paul Gao Xiang Nong
Executive Director and Chief Executive Officer

Mr. Paul Gao Xiang Nong was appointed as Executive Director on 9 January 2006 and re-elected on 27 July 2018. He is also the Chief Executive Officer of the Group.

Mr. Gao has been with the Group since August 2003, when he joined as Chief Financial Officer. He went on to become its Chief Executive Officer. In these capacities Mr. Gao guided the company in it's highly profitably sale of certain lines of businesses, and then led the company as it ventured into new strategic areas of operations as mandated by the Board. He has more than 20 years of international experience having worked in the USA, Hong Kong and China. Mr. Gao was a Certified Public Accountant with the State Board of Accountancy, Colorado, USA.

Mr. Ng Poh Khoon Jimmy
Independent Director

Mr. Ng Poh Khoon Jimmy was appointed as Independent Director on 1 April 2008 and re-elected on 28 July 2016. He is currently the Project Director with Guangdong Chengde Financial Advisory Co., Ltd and a member of Financial Advisory committee with the Entrepreneur Capital Management Association of Guangdong Province.

Mr Ng has over 20 years of experience in auditing, financial management, sales and business development, investor relations, fundraising and merger and acquisition activities. He is also currently the Independent Director and the Chairman of the Audit Committee of Star Pharmaceutical Limited and China Star Food Group Limited, a company listed on the mainboard and catalist board of SGX-ST, respectively. Mr. Ng is a Chartered Accountant and a member of the Institute of Singapore Chartered Accountants and Singapore Institute of Directors. He is also a fellow member of the Association of Chartered Certified Accountants, UK.

Mr. Xu Hai Min
Non-Executive Director

Mr. Xu Hai Min was appointed as Non-Executive Director on 9 April 2014.

He is the Chief Financial Officer of Beijing Sinoix Communication Co., Ltd. since 2000. From 1996 to 2000, he served as Deputy General Manager at China United Assets Appraisal Group. Prior to that, he was with state-run research institutions and was engaged in quantitative economics research from 1987 to 1995. He was awarded the prestigious National Science Progress Award and a number of provincial and ministerial level scientific and technological progress awards for his research works.

Mr. Neo Chee Beng
Independent Director

Mr. Neo Chee Beng was appointed as Independent Director on 1 October 2009 and re-elected on 28 July 2017. He is currently the Chief Investment Officer of Beijing Ruyi Media Group, a leading movie and TV series production company. Prior to that, Mr. Neo was Director of Operations with Persistent Asset Management Pte Ltd, an asset management company.

Mr. Neo was also an Independent Business Consultant appointed to a number of companies listed on the Singapore Exchange and NASDAQ. From 1996 to early 2005, he was with Vertex Management II Pte Ltd, a venture capital firm and was head of its Beijing office. A number of his investments were successfully listed on NASDAQ, New York Stock Exchange and Hong Kong Stock Exchange. Mr. Neo was previously the Finance Manager of the Cycle & Carriage Group and has years of working experience with international audit firms.

Mr. Neo is a Fellow of the Association of Chartered Certified Accountants, United Kingdom and a member of Singapore Institute of Directors.

Management Team

Mr. Paul Gao Xiang Nong
Executive Director and Chief Executive Officer

Mr. Paul Gao Xiangnong was appointed as the Chief Executive Officer of the Group on 9 January 2006. In this capacity, he is responsible for spearheading the execution of the Group's strategic direction and charting the roadmap for its growth.

Mr. Andy Xu Peng
Chief Financial Officer

Mr. Andy Xu Peng was appointed as Chief Financial Officer on 1 February 2009. He is responsible for the finance, accounting and corporate secretarial functions of the Group.

Mr. Xu was previously the Chief Financial Officer of the Group's associate company, PAL (Beijing) Information and Technology Co., Ltd, where he oversaw the human resource and finance departments within the company. He was also with Dell (China) Co., Limited as Finance Manager. He has over five years of audit and financial consulting as well as finance and accounting management experience with Deloitte and Ernst & Young in the PRC.

Mr. Xu holds a Master Degree of Science in Business and Administration (Finance) from San Diego State University, USA. He also holds a Bachelor Degree of Economics from University of International Business and Economics, PRC.

Mr. Xu is a Certified Public Accountant with the State Board of Accountancy, Guam, USA and a Chartered Public Accountant in British Columbia, Canada.

Dr. Chen Yao Ming
Director of Nutryfarm (Chengdu) Biomedicine Ltd. (NFC)

Dr. Chen Yao Ming joined the Group in 2012 when NutryFarm first acquired a stake in NFC. He is the Director of NFC, a wholly-owned subsidiary of the Group. Dr. Chen was formerly the Science Director of Chembiotech Biology Technology Co., Ltd. and the General Manager of Pharmesis International Limited.

Dr. Chen has more than 25 years of experience in the research and development, and manufacture of nutrition and health food products and supplements. He has published more than 20 research papers focusing on nutrition and health-related food products, as well as won the Felix Schoeller Chemistry Award in 1997.

Dr. Chen holds a doctor's degree in Nomenclature of Organic Compounds from the Osnabrück University, Germany, a Bachelor of Science in Chemistry from the Lanzhou University, China, and a Bachelor of Science in Pharmacology from the West China Medical Center of Sichuan University, China.

CONTENTS

Corporate Governance Report

NutryFarm International Limited (the "Company") is committed to achieving a high standard of corporate governance which conforms to the principles set out in the Code of Corporate Governance 2012 (the "Code"). The Board is pleased to report on the compliance of the Company with the Code (except as otherwise stated).

Principle 1: Board's Conduct of its Affairs

Apart from its statutory duties and responsibilities, the Board is responsible for overseeing the management and affairs of the Company and its subsidiaries ("Group") and approving the Group's corporate and strategic directions. The Board is also responsible for implementing policies in relation to financial matters, which include risk management, internal controls, and compliance.

The Directors are expected to objectively discharge their duties and responsibilities at all times as fiduciaries in the best interests of the Group at all times, and to make decisions independently and objectively.

In accordance with the Code, the Board has, without abdicating its responsibility, delegated specific authority to three (3) Board Committees namely, the Audit Committee ("AC"), the Nominating Committee ("NC") and the Remuneration Committee ("RC"), to assist the Board in discharging its responsibilities and to enhance the Group's corporate governance framework. Each Board Committee is chaired by an Independent Director and has its own terms of references to address its respective areas of focus. Each committee has approved the relevant written terms of reference clearly setting out the authorities and duties thereof. The Board Committees have explicit authority to investigate any matter within their terms of reference, have full access to and co-operation by the Management, have resources to enable them to discharge their functions properly and full discretion to invite any Director or executive to attend their meetings. The Board reviews each Board Committee's terms of references from time to time, to ensure that these are updated and remain relevant in line with, inter alia, best practices and the evolving needs of the Group. The composition and description of each Board Committee is set out in this Report.

The Board meets at least once a year to review and deliberate on the key activities and business strategies of the Group, including reviewing and approving internal guidelines on materiality of transactions, acquisitions, financial performance and to endorse the release of the quarterly and annual financial results. Additional meetings may be held to address significant transactions or issues, where necessary. The Company's Bye-laws permit a Board meeting to be conducted by way of teleconference and video-conference. The record of the Directors' attendance at Board and the respective committee meetings during the financial year ended 31 March 2019 ("FY2019") is set out below. Minutes of the Board Committee meetings are circulated to the Board to keep all Directors updated on the activities of each Board Committee.

	Directors' Attendance at Board and Other Committee Meetings			
	No. of meetings & attendance (for the period from 01/04/18 to 31/03/19)			
	Board	**AC**	**NC**	**RC**
Number of meetings held	4	4	1	1
Name of Director				
Paul Gao Xiang Nong	3	3	0	0
Ng Poh Khoon Jimmy	4	4	1	1
Neo Chee Beng	4	4	1	1
Xu Hai Min	4	4	1	1
Li Chunling[1]	4	-	-	-

Note 1: Ms. Li Chunling has resigned on 21 February 2019

The principal functions of the Board of Directors of the Company ("Board" or "Directors") include:

(a) providing entrepreneurial leadership, set strategic objectives, and ensure that the necessary financial and human resources are in place for the company to meet its objectives;
(b) establishing a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders' interests and the company's assets;
(c) reviewing management performance;

Corporate Governance Report

(d) identifying the key stakeholder groups and recognising that their perceptions affect the company's reputation;
(e) setting the company's values and standards (including ethical standards), and ensuring that obligations to shareholders and other stakeholders are understood and met;
(f) considering sustainability issues, e.g. environmental and social factors, as part of its strategic formulation;
(g) approving policies, strategies, structure and direction of the Group;
(h) approving annual budgets, key operational issues, major funding proposals, and investment and divestment proposals;
(i) overseeing the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
(j) approving the nominations of Board Directors, committee members and key personnel, recommended by the NC; and
(k) providing oversight for the proper conduct of the Company's business and assuming responsibility for corporate governance.

The Board gives clear instructions to Management on the levels of authorization required and the Management team seeks Board approval on material transactions such as material acquisitions and disposals, joint ventures and other transactions that would materially impact the Company.

Prior to their respective appointments to the Board, each of the Directors is given comprehensive and tailored induction on joining the Board, including his duties as a Director and how to discharge those duties, and an orientation on the Group's business strategies, operations and governance practices. A formal letter is also issued to each Director upon appointment, setting out the Directors' roles, duties and obligations. Each Director is also informed of the terms of reference of each Board Committee to help him/her understand the roles, duties and obligations of each Board Committee. The formal letter issued to newly-appointed Directors is updated from time to time, in line with best practices in respect of corporate governance standards. Newly appointed Directors who have no prior experience as directors of a listed company will be given legal and accounting training, and training on the industry the Company operates in.

The Directors will receive, from time to time, further relevant training arranged and funded by the Company particularly on applicable new laws, regulations and changing commercial risks which are relevant to the business and operations of the Group. The Directors will also be updated on the business of the Group through regular presentations and meetings.

Principle 2: Board Composition and Balance

The Company believes that there should be a strong and independent element in the Board to exercise objective judgment on corporate affairs independently, in particular from Management and 10% shareholders. The Directors appointed are qualified professionals who possess a diverse range of expertise to provide a balanced view within the Board.

Following the resignation of Ms. Li Chunling on 21 February 2019, the Board is made up of four Directors, of whom two are independent Non-Executive Directors. Although slightly less than half of the Board comprised independent Directors up to the point of Ms. Li Chunling's resignation, and exactly half the Board has comprised independent Directors since then, the Company is confident that the two independent Directors have been and are able to more than adequately perform their roles as independent Directors and safeguard the interests of minority shareholders. Although the Company does not have a Chairman appointed to the Board, the CEO, Mr. Paul Gao Xiang Nong, has been taking on the duties associated with the role of the Chairman. Notwithstanding the foregoing, the Board is of the view that the current composition of the Board sufficiently meets the Company's needs. The Company considers the composition of the Board appropriate and suitable for the Company's current requirements for effective decision making, taking into account, inter alia, the scope and nature of the operations of the Company.

The involvement of the Non-Executive Directors in setting and developing strategies and goals for Management, and reviewing and assessing Management's performance enables Management to benefit from the external and objective perspective of issues that are tabled before the Board.

To facilitate a more effective check on the Executive Directors and Management, the Non-Executive Directors meet at least once annually without the presence of Management to discuss matters that they wish to raise privately. The Non-Executive Directors also constructively challenge the decisions of the Executive Directors and Management and help develop proposals on strategy and review the performance of Management in meeting agreed goals and objectives and monitor the reporting of performance.

The independence of each Independent Director is reviewed annually by the NC based on the definition of independence as set out in the Code. The Independent Directors have abstained from voting on any resolutions and making any recommendations and/or participated in any deliberations of the Board in respect of the evaluation of his or her independence. The NC provides its views on the independence of each Director to the Board. Mr. Ng Poh Khoon Jimmy has served the Board for approximately eleven years, while Mr. Neo Chee Beng has served the Board for approximately nine years.

Corporate Governance Report

In subjecting the independence of Mr. Ng Poh Khoon Jimmy and Mr. Neo Chee Beng to particularly rigorous review and taking into account the need for progressive refreshing of the Board, the NC placed emphasis on whether each of them has demonstrated strong independence in character and judgement in discharging his responsibility as a Director of the Company and whether he is free from any interest, business or other relationship which could reasonably be perceived to interfere with the exercise of his independent judgement with a view to the best interests of the Company. The NC's particularly rigorous review includes critical examination of any conflicts of interest, review of each director's involvement in affairs of the Company, including board and committee meetings, discussions, views and comments expressed and decisions taken on matters and proposals put before the Board.

In assessing the independence of Mr. Ng Poh Khoon Jimmy, the NC and the Board took into account that Mr. Ng Poh Khoon Jimmy is a Chartered Accountant and a member of the Institute of Singapore Chartered Accountants and Singapore Institute of Directors. He is also a fellow member of the Association of Chartered Certified Accountants, UK. Mr. Ng Poh Khoon Jimmy is currently an independent director of another listed company on SGX-ST. He has over 20 years of experience in financial auditing, especially in the area of merger and acquisition. The Company believes that Mr. Ng Poh Khoon Jimmy's appointments, qualifications, skills and experience in the relevant fields are complementary and crucial to his contribution to the Company. Mr. Ng Poh Khoon Jimmy attended every AC and Board meeting held by the Company, and participated actively in the meetings by providing valuable advice, recommendations and creative ideas. He has also demonstrated professionalism. In the course of discussions in the rigorous review exercise, the Board noted that Mr. Ng Poh Khoon Jimmy has consistently constructively challenged the management's or executive directors' decisions on important issues to ensure that the Company's and shareholders' interests are protected. During his years serving the Company, there have been no issues or circumstances which are likely to affect, or could appear to affect, his independence. Therefore, the NC and the Board are satisfied that Mr. Ng Poh Khoon Jimmy is qualified and independent in character and judgment as an independent director of the Company notwithstanding his length of service. For the avoidance of doubt, Mr. Ng Poh Khoon Jimmy was not involved in the discussion and assessment of his own independence.

In assessing the independence of Mr. Neo Chee Beng, the NC and the Board took into account that Mr. Neo Chee Beng is a Fellow of the Association of Chartered Certified Accountants, United Kingdom and a member of Singapore Institute of Directors. He has been providing professional services to companies listed on the Stock Exchange of Hong Kong and Nasdaq Stock Market for about 9 years. He also manages investment portfolios in the Stock Exchange of Hong Kong, Singapore Exchange Limited, Nasdaq Stock Market and New York Stock Exchange. The Board believes that Mr. Neo Chee Beng's appointments, qualifications, skills and experience in the relevant fields are complementary and crucial to his contribution to the Company. He has contributed extensively to the Company, having attended meetings on time, helped analyse potential opportunities available to the Company, introduced professionals to perform relevant services for the Company, and provided advice based on his experience. When there are any material issues, he has requested for details and inquired about the potential risks involved. Through the rigorous review exercise, the Board finds Mr. Neo Chee Beng exercises objectivity and independence at all time in discharging his duties as director. During his years serving the Company, there has been no issues or circumstances which are likely to affect, or could appear to affect, his independence. Therefore, the NC and the Board are satisfied that Mr. Neo Chee Beng is qualified and independent in character and judgment as an independent director of the Company notwithstanding his length of service. For the avoidance of doubt, Mr. Neo Chee Beng was not involved in the discussion and assessment of his own independence.

After due consideration and careful assessment, the NC and the Board noted that each of Mr. Ng Poh Khoon Jimmy's and Mr. Neo Chee Beng's independence as a Director is not affected as each of them continues to exercise independent judgement and demonstrate objectivity in his deliberations in the interest of the shareholders and the Company. The Board is of the view that it is not in the best interests of the Company or shareholders to require all directors who have served for more than nine years to retire. The Board is also of the view that the in-depth understanding of the Group's business and operations gained by these directors will contribute to continuity and stability. The Board is of the view that the long term contributions of these directors would benefit the Company in the long term and enhance the Company's long-term prospects.

Taking into account the views of the NC, the Board is satisfied as to the independence of Mr. Ng Poh Khoon Jimmy and Mr. Neo Chee Beng, both of whom do not have any material relationship with the Company, its related corporations, its shareholders who have an interest of not less than 10% of the Company's voting shares or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of their independent business judgment with a view to the best interests of the Company.

The Board has examined its size and is of the view that it is an appropriate size for effective decision making, taking into account the scope and nature of the operations of the Company, the requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and board committees.

Corporate Governance Report

The Board has also considered that its Directors as a group provide an appropriate balance and diversity of gender, industry skills, knowledge of the Company and experience, and possess core competencies such as in accounting, finance, industry knowledge, strategic planning experience, customer-based experience or knowledge and business strategies, which contributes to effective and robust decision-making that enhances shareholder value. The NC also places importance on diversity of age, gender, ethnicity and tenure on the Board so as to form a quality Board that can contribute to more robust decision-making and thereby increase corporate governance and maximize shareholder value. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made based on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

Principle 3: Chairman and Chief Executive Officer

The role of the Chairman is to provide guidance on the corporate direction of the Group and, inter alia:

(a) lead the Board to ensure its effectiveness on all aspects of its role;
(b) set the agenda and ensures that adequate time is available for discussion of all agenda items, in particular strategic issues;
(c) promote a culture of openness and debate at the Board;
(d) ensure that the Directors receive complete, adequate and timely information;
(e) organize the Board meetings and facilitate discussion in such meetings;
(f) ensure effective communication with shareholders;
(g) encourage constructive relations within the Board and between the Board and Management;
(h) facilitate the effective contribution of Non-Executive Directors in particular; and
(i) promote high standards of corporate governance.

The role of the CEO is to set the business strategies and directions for the Group and manage the business operations of the Group with the Executive Directors and other management staff.

The Company recognises that under the Code, the Chairman and CEO should in principle be separate persons. However, the Board, having in mind the needs of the Company and the current business climate, is satisfied that this leadership structure is still an effective one. The Board believes that Mr. Paul Gao Xiang Nong is able to take on both roles effectively, taking into account his abilities in developing the business of the Group, and the leadership and direction which he brings to the Group. Furthermore, given that the members of the Board are well-qualified, competent and experienced, and that half of the Board comprises independent Directors (since the resignation of Ms. Li Chunling), the Board takes the view that there is an appropriate balance of power and authority, and that accountability and independent decision making are not compromised.

The Company has strengthened the balance of power and authority among the members of the Board by appointing Mr. Ng Poh Khoon Jimmy as the lead independent Director of the Company. The lead independent Director is appointed by the Board to serve in a lead capacity to coordinate the activities of the Non-Executive Directors in circumstances where it would be inappropriate for the Chairman to serve in such capacity. He also assists the Chairman and the Board to assure effective corporate governance in managing the affairs of the Board and the Company. As the lead independent Director, Mr. Ng Poh Khoon Jimmy is available to address the concerns of shareholders and will lead the independent Directors in meeting periodically without the presence of the other Directors and provide feedback to the Chairman after such meetings. Led by Mr. Ng Poh Khoon Jimmy, the independent Directors meet at least annually without the presence of the other Directors to appraise the performance of the Chairman, after which the lead independent Director provides feedback to the Chairman.

Corporate Governance Report

Principle 4: Board Membership

The composition of the Board and Board Committees is as follows:

Directors	Board Membership	Date of First Appointment	Date of Last Re-Appointment	AC	RC	NC
Paul Gao Xiang Nong	Executive Director, Chief Executive Officer	09 January 2006	27 July 2018	-	-	-
Ng Poh Khoon Jimmy	Independent Director	01 April 2008	28 July 2016	Chairman	Member	Chairman
Neo Chee Beng	Independent Director	01 October 2009	28 July 2017	Member	Chairman	Member
Xu Hai Min	Non-Executive Director	09 April 2014	29 July 2014	Member	Member	Member
Li Chunling[1]	Executive Director	10 March 2017	28 July 2017	-	-	-

Note 1: Ms. Li Chunling has resigned on 21 February 2019

The NC comprises Mr. Neo Chee Beng and Mr. Xu Hai Min, and is chaired by Mr. Ng Poh Khoon Jimmy.

The NC held one meeting during FY2019.

The Board has approved the written terms of reference of the NC. The NC performs, inter alia, the following functions:

(a) making recommendations to the Board on relevant matters relating to:
(i) the review of succession plans for directors, in particular the appointment and/or replacement of the Chairman, the CEO and key management personnel;
(ii) the process and criteria for evaluation of the performance of the Board, its board committees and directors, including the proposal of objective performance criteria in respect of the evaluation of the performance of the Board;
(iii) the review of training and professional development programmes for the Board and its directors;
(iv) the appointment and re-appointment of directors (including alternate directors, if any);
(v) the objective performance criteria and process for the evaluation of the effective of the Board as a whole, and of each board committee separately, as well as the contribution by the Chairman and each individual director to the Board; and
(vi) the establishment of guidelines on what a reasonable and maximum number of directorships and principal commitments for each director (or type of director) should be; and
(b) determining annually, and as and when circumstances require, if a director is independent, having regard to the laws, regulations, codes, rules and/or other applicable provisions in respect of the Company.

The Board recognises the importance of good succession planning. The NC is tasked to review the Board membership progressively and identify the potential successors to key positions. Succession and leadership development plans for the senior management will be implemented to ensure smooth transition. The review, if any, will be presented to the Board for its approval.

The search and nomination process for new Directors, if any, will be through search agencies, contacts and recommendations to reach out to the largest pool of candidates as possible for the right candidate.

When considering a new Board member, the NC will review the curriculum vitae of the potential candidate and consider his/her experience and likely contribution to the Board. Interviews will then be subsequently conducted before the NC makes its recommendation to the Board. The Board will make the final determination for the appointment.

Pursuant to bye-law 104 of the Company's Bye-laws, other than the Managing Director, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest one-third but not greater than one-third) shall retire from office by rotation. In addition, under bye-law 107(B), any Director appointed by the Board shall hold office only until the next AGM and shall then be eligible for re-election at the meeting.

Corporate Governance Report

Accordingly, Mr. Ng Poh Khoon Jimmy will be retiring and standing for re-election at the upcoming AGM. The NC considered the overall contribution and performance of Mr. Ng Poh Khoon Jimmy and recommended to the Board that it was in support of Mr. Ng Poh Khoon Jimmy's standing for re-election at the forthcoming AGM. Mr. Ng Poh Khoon Jimmy abstained from making any recommendation in respect of his own re-election.

Notwithstanding that some of the Directors have multiple board representations, the NC is satisfied that each Director is able to and has been adequately carrying out his or her duties as a director of the Company. The NC monitors and determines on an on-going basis whether Directors who have multiple board representations and other principal commitments, give sufficient time and attention to the affairs of the Company and adequately carry out their duties as a Director. The NC takes into account both the results of the assessment of the effectiveness of the individual Directors and their actual conduct during Board and Board Committee meetings and ad-hoc discussions when making this determination. The Board also believes that each Director has to personally determine the demands of his or her competing directorships and obligations and assess how much time is available to serve on the Board effectively. Accordingly, the Board has not made a determination of the maximum number of board representations a director may hold.

Key information regarding the Directors' academic and professional qualifications, shareholding in the Company and its related corporations, directorships or chairmanships both present and those held over the preceding three years in other listed companies and other appointments is set out on pages 14 and 15 of the Annual Report.

There have been no alternate directors appointed.

Principle 5: Board Performance

The Board has implemented a process to be carried out by the NC to assess the performance and effectiveness of the Board as a whole, its Board Committees, the contribution of the Chairman and each individual director to the effectiveness of the Board.

In conducting the individual evaluation of Directors, the NC assesses on an individual basis whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for meetings of the Board and board committees, and any other duties). The criteria taken into consideration include, inter alia, the level of preparation of each Director, commitment to the role, performance, level of independence in views, effectiveness and value of contribution to the development of strategy for the Group and risk management, and the Director's knowledge and experience. The Chairman will act on the results of the performance evaluation, and, in consultation with the NC, propose, where appropriate, new members to be appointed to the Board or seek the resignation of directors. Through such performance evaluations, the NC and Board also identify areas for the Board and Board Committees to improve their effectiveness.

Each member of the NC shall abstain from voting on any resolutions and making any recommendations and/or participating in any deliberations of the NC in respect of the assessment of his or her performance or re-nomination as a Director.

The performance of each Board Committee is evaluated based on its roles and functions set out in its terms of reference, and its ability to perform these functions effectively.

The assessment of the Board's performance as a whole adopted both quantitative and qualitative criteria, such as return on equity, the success of the strategic and long-term objectives set by the Board and the effectiveness of the Board in monitoring Management's performance against the goals that had been set by the Board. The performance criteria for the Board was decided upon and proposed by the NC, and approved by the Board.

The NC has assessed the Board's performance to-date and is of the view that the performance of the Board as a whole was satisfactory. No external facilitator was used in the assessment of the performance of the Board, Board Committees, Chairman or individual Directors in FY2019.

Principle 6: Access to Information and Company Secretaries

To assist the Board in fulfilling its responsibilities, the Board will be provided with board papers and related materials, background or explanatory information relating to matters to be brought before the Board, and copies of disclosure documents, budgets, forecasts and monthly internal financial statements prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities. In respect of budgets, any material variance between the projections and actual results is also disclosed and explained.

Corporate Governance Report

The Board is provided with adequate and timely information prior to each Board meeting. Board papers are prepared for each Board meeting and are usually circulated at least three working days prior to each meeting. Directors are entitled to request from Management, and are provided with, such complete and adequate additional information in a timely manner as needed to make informed decisions. The Chief Financial Officer (the "CFO"), key management personnel of the Group and external professionals may also be invited to attend the meetings to provide further insight on specific matters or respond to queries from the Directors.

If any of the Directors require independent professional advice in the furtherance of their duties, the cost of such professional advice will be borne by the Company. The Company encourages each Director to seek independence professional advice where necessary so as to best facilitate the effective discharge of their duties.

The Board has separate and independent access to the Management and the company secretaries at all times.

The company secretaries administer, attend and prepare minutes of Board meetings, assist the Chairman in ensuring that:-

(a) Board procedures are followed and reviewed so that the Board functions effectively;
(b) the Company's Bye-laws and relevant rules and regulations, including requirements of the Companies Act and the SGX-ST, are complied with;
(c) under the direction of the Chairman, ensuring good information flows within the Board and its Board Committees and between the Management and the Non-Executive Directors;
(d) facilitating the orientation of incoming Directors and assist with professional development as required; and
(e) advising the Board on all governance matters.

The appointment and removal of the company secretary is a matter for the Board as a whole to decide.

Principle 7: Procedures for Developing Remuneration Policies
Remuneration Committee

The RC comprises Mr. Ng Poh Khoon Jimmy, Mr. Xu Hai Min and is chaired by Mr. Neo Chee Beng.

The RC held one meeting during the financial year under review.

The Board has approved the written terms of reference of the RC. The functions of the RC include, inter alia, the following:

(a) reviewing and make recommendations to the Board on a framework of remuneration for the Board and key management personnel; and
(b) reviewing and make recommendations to the Board on the specific remuneration packages for each director as well as for the key management personnel, considering all aspects of remuneration, including but not limited to director's fees, salaries, allowances, bonuses, options, share-based incentives and awards, benefits in kind, termination payments and termination terms, to ensure they are fair and aim to avoid rewarding poor performance.

The RC will review the Company's obligations arising in the event of termination of the Executive Directors and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous. The RC aims to be fair and avoids rewarding poor performance.

In discharging its functions, the RC may obtain independent external legal and other professional advice as it deems necessary. The expenses for such advice shall be borne by the Company. The Company did not appoint any remuneration consultants for FY2019.

Principle 8: Level and Mix of Remuneration

In setting remuneration packages, the RC aligns the level and structure of remuneration with the long-term interest and risk policies of the Company and considers what is appropriate to attract, retain and motivate (i) the Directors to provide good stewardship of the Company, and (ii) the key management personnel to successfully manage the Company.

The Company sets remuneration packages which are competitive and sufficient to attract, retain and motivate Directors and senior management with adequate experience and expertise to manage the business and operations of the Group. The RC also takes into account the risk policies of the Company, and ensures that remuneration is symmetric with risk outcomes and is sensitive to the time horizon of risks.

Corporate Governance Report

The Company will continually evaluate the remuneration structure of Executive Directors and key management personnel and consider linking rewards to corporate and individual performance, to promote the long-term success of the Company. The remuneration policy will take into account the risk policies of the Company, be symmetric with risk outcomes and be sensitive to the time horizon of risks. The Company has introduced the LottVision Share Option Scheme and the LottVision Incentive Share Scheme administered by the RC. Executive directors and key management personnel are encouraged to hold their shares beyond the vesting period, subject to the need to finance any cost of acquiring the shares and associated tax liability.

The remuneration of Non-Executive Directors is measured against their level of contribution, taking into account factors such as effort and time spent, and the responsibilities undertaken. The RC ensures that Non-Executive Directors are not overcompensated to the extent that their independence may be compromised. Non-Executive Directors are also entitled to be offered shares under the LottVision Incentive Share Scheme.

The Company is entitled to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company.

Principle 9: Disclosure on Remuneration

The remuneration paid to the Directors and Executive Officers for services rendered during the FY2019 was as follows:

Remuneration bands	Salary (%)	Performance bonus (%)	Directors' fees (%)	Others (%)	Total (%)
Directors					
Below S$250,000					
Paul Gao Xiang Nong	100	-	-	-	100
Ng Poh Khoon Jimmy	-	-	100	-	100
Neo Chee Beng	-	-	100	-	100
Xu Hai Min	-	-	-	-	-
Li Chunling(1)	100	-	-	-	100

Note 1: Ms. Li Chunling has resigned on 21 February 2019.

No termination, retrenchment and post-employment benefits were granted to the Directors and key management personnel during FY2019.

The RC and the Board are of the view that the remuneration of the Directors is adequate but not excessive in order to attract, retain and motivate them to run the Company successfully and also believes that the remuneration package of the Directors and key management is a competitive advantage of the Group and as such has chosen to make disclosure in relation thereto in bands of S$250,000.

Mr. Xu Hai Min does not receive any compensation for services rendered as Director during FY2019.

The remuneration of the Independent Directors was in the form of a fixed fee subject to shareholders' approval at the AGM.

Executive Directors have service agreements with the Company. Their compensation consists of a salary, bonus and performance awards that are dependent on the performance of the Group and their individual performance, based on performance conditions which are consistent with the Company's business goals and which focus on creating value for shareholders. Such performance conditions can include targets relating to the cash flow and net profits of the Group over specified periods.

The Company does not have any employees who are immediate family members of a Director or the Chief Executive Officer.

For FY2019, the top key management personnel (who are not also Directors or CEOs) (in terms of remuneration paid) of the Company are Andy Xu Peng and Chen Yao Ming. Key Management personnel are remunerated on a similar basis to Executive Directors, and receive salary, bonus and performance awards that are dependent on the performance of the Group and their individual performance, based on performance conditions which are consistent with the Company's business goals and which focus on creating value for shareholders. Such performance conditions can include targets relating to the cash flow and net profits of the Group over specified periods.

Corporate Governance Report

A breakdown, showing the level and mix of the top key management personnel who are not Directors or CEO in remuneration bands of S$250,000 for FY2019, is as follows:-

Remuneration bands	Salary (%)	Performance bonus (%)	Benefits in kind (%)	Stock options, share based incentives and awards, and other long-term incentives (%)	Total (%)
Below S$250,000					
Andy Xu Peng	100	-	-	-	100
Chen Yao Ming	-	-	-	-	-

The Company has established the LottVision Share Option Scheme and the LottVision Incentive Share Scheme and further details of these (including the description of performance conditions to which entitlement to short-term and long-term incentive schemes are subject, an explanation on why such performance conditions were chosen, and a statement of whether such performance conditions are met) are set out on Pages 30 of the Annual Report.

Principle 10: Accountability and Audit

The Board provides the shareholders with a detailed and balanced explanation and analysis of the Company's performance, position and prospects on a quarterly basis. This responsibility extends to interim and other price-sensitive public reports, and reports to regulators (if required).

The Board also takes adequate steps to ensure compliance with legislative and regulatory requirements, including requirements under the listing rules of the securities exchange, by establishing written policies where appropriate. The Board ensures that it is regularly updated on relevant changes to laws and regulations so that it can monitor and supervise compliance by the Group with such laws and regulations and requirements of regulatory and governmental authorities.

Management provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects and such explanation and information on a quarterly basis to enable the Board to make a balanced and informed assessment of the company's performance, position and prospects. Where the Board requires any additional information, the Board will request for such information from Management. Such information may include additional financial information such as monthly management accounts, and will be available for the Board's review on its request.

Principle 11: Risk Management & Internal Controls

Risk management is an integral aspect of the Company and the Group. The Board has the overall responsibility for risk management and exercises oversight of the key risk areas in the Group's business, setting the overall strategic direction in the identification and assessment of risks and ensuring that decisions and strategies adopted are in line with the risk management tolerances of the Group. In order to create, enhance, protect value for its shareholders, the Company proactively manages risks and embeds the risk management process into all planning and decision-making processes as well as its day-to-day operations at the Company and Group levels. Led by the Board, Management regularly reviews the Company's business and operational activities to identify areas of significant business risk as well as appropriate measures to control and mitigate these risks. Management also reviews all significant control policies and procedures and highlights all significant matters to the Directors and the AC. In conducting its affairs, the Company understands the importance of preparation and all major investments undergo a due diligence and risk management review process.

The Company has instituted a system of internal controls for the Group. While no system can provide absolute assurance against material loss or financial misstatement, the Group's internal financial controls are designed to provide reasonable assurance that assets are safeguarded, that proper accounting records are maintained, and that financial information used within the business and for publication is reliable. In designing these controls, Management has had regard to the risks to which the business is exposed, the likelihood of such risks occurring and the costs of protecting against them. The Company seeks to improve internal control and risk management on an on-going basis to ensure that they remain sound and relevant.

The Board has in place a set of internal controls which sets out approval limits for expenditure, investments and divestments and

Corporate Governance Report

cheque signatory arrangements. Approval sub-limits are also provided at management and committee levels to facilitate operational efficiency. The Board also determines the Company's levels of risk tolerance and risk policies, and oversees Management in the design, implementation and monitoring of risk management and internal control systems.

During the year under review, the Board had conducted an annual review of the adequacy and effectiveness of the Company's material internal controls, including financial, operational, compliance and information technology controls and these are reported to the AC. Any material non-compliance and recommendation for improvement are reported to the AC. The AC, on behalf of the Board, also reviewed the adequacy and effectiveness of the Group's system of internal controls in light of key business and financial risks affecting its businesses through discussion with Management and the auditor. The members of the Board are vigilant in looking out for potential risks that the Group may face, and will take the necessary steps to work with Management to ensure that such potential risks are dealt with in a timely manner.

The Board believes that the risk management and internal control systems, including financial, operational, compliance and information technology controls, established by the Company is adequate and effective to provide reasonable assurance that the Company would not be adversely affected by any event that could be reasonably foreseen. However, the Board also notes that no risk management and internal control systems, including financial, operational, compliance and information technology controls, could provide an absolute assurance in this regard, or absolute assurance against poor judgment in decision making, human error, losses, fraud or other irregularities. Based on:

(a) the risk management and internal control systems, including financial; operational, compliance and information technology controls, established and maintained by the Group;
(b) reviews performed by Management, various Board Committees and the Board; and
(c) assurance from the CEO and CFO that;
(i) the financial records of the Group have been properly maintained;
(ii) the financial statements for FY2019 give a true and fair view of the Group's operations and finances; and
(iii) the Group's risk management and internal control systems are effective in addressing the material risks in the Group in its current business environment,

the AC and the Board are of the opinion that the Group's risk management and internal control systems, including financial, operational, compliance and information technology controls, were adequate and effective as at 31 March 2019.

In connection with the above, the Board has received written assurance from the CEO and CFO that the financial records have been properly maintained, the financial statements give a true and fair view of the Company's operations and finances, and the Company's risk management and internal control systems are effective.

The AC and the Board have also reviewed the Company's overall risk management framework and policies and considered them to be adequate, taking into account the scope and nature of the operations of the Company and the risk profile of the Company. In this regard, the AC and the Board are of the opinion that there is no necessity for the establishment of a separate board risk committee.

Principle 12: Audit Committee

The AC comprises Mr. Xu Hai Min, Mr. Neo Chee Beng and is chaired by Mr. Ng Poh Khoon Jimmy. None of the AC members were former partners or directors of the Company's existing auditing firm, and none of them have any financial interest in that firm.

The Board ensures that the members of the AC are appropriately qualified to discharge their responsibilities. In particular, Mr. Ng Poh Khoon Jimmy (the AC Chairman) and Mr. Neo Chee Beng have a wealth of experience in accounting.

The Board has approved the written terms of reference of the AC. The AC performs, inter alia, the following functions:

(a) reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any announcements relating to the Company's financial performance;
(b) reviewing at least annually the adequacy and effectiveness of the Company's internal controls and risk management systems;
(c) making recommendations to the Board on:
(i) the proposals to the shareholders on the appointment and removal of external auditors; and
(ii) the remuneration and terms of engagement of the external auditors;
(d) reviewing the adequacy, effectiveness, independence, scope and results of the external audit and the Company's internal audit function (as applicable); and
(e) reporting to the Board on how it has discharged its responsibilities and whether it was able to discharge its duties independently.

Corporate Governance Report

The AC also reviews the scope and results of the external audit, and the independence and objectivity of external auditor.

The AC meets periodically and also holds informal meetings and discussions with Management from time to time. The AC has full discretion to invite any Director or Executive Officer to attend its meetings, and has reasonable resources to discharge its functions properly.

During FY2019, the AC met four times to discuss and review the audit plan, the audit report and evaluate the system of internal controls. In such meetings, the AC also reviewed the quarterly financial statements prior to recommending their release on SGXNET to the Board, interested person transactions, and the re-appointment of the external auditor and its remuneration.

The AC's primary role is to investigate any matter within its terms of reference, and it has explicit authority to investigate any matter within its terms of reference. It has full access to, and the co-operation of, Management and has been given full access to and is provided with the co-operation of the Company's management. In addition, the AC has independent access to the external auditor. The AC meets with the external auditor without the presence of Management at least annually.

The members of the AC also meet with, or correspond over email, Management, the CFO and external auditor to discuss and keep abreast of changes to accounting standards and issues which have a direct impact on financial statements as and when it is required. Where necessary, the members of the AC would also attend training conducted by professionals or external consultants in respect of such changes.

The aggregate amount of fees paid to the external auditor of the Company in FY2019 was HK$400,000 and the aggregate amount of fees paid for other non-audit service was HK$93,000.

The Group has complied with Rules 712 and 715 of the Listing Manual issued by Singapore Exchange Securities Trading Limited ("SGX-ST") in relation to its auditor.

The Company has put in place a "whistle-blowing" policy which enables employees who have major concerns over any wrongdoing within the Group relating to unlawful conduct, financial malpractice or dangers to the public or the environment to come forward and express these concerns without fear of any punitive action. The AC has reviewed and ensured that arrangements are in place for concerns to be raised and independently investigated, and for appropriate follow-up action to be taken.

Principle 13: Internal Audit

The Group had yet to establish an internal audit function as of the end of FY2019. However, the Group is currently in negotiations with some audit firms to engage them as the internal auditors. The Board recognises the importance of the internal audit function and anticipates that it would be able to finalise such engagement and set in place an effective internal audit system not later than 31 December 2019.

Noting the importance of having an independent, effective and adequately-resourced internal audit function, the Audit Committee has highlighted the same to the Board and Management and instructed that an independent, effective and adequately-resourced internal audit function be set up or engaged as soon as possible.

Principle 14: Shareholder Rights

All shareholders are treated fairly and equitably, and the Company facilitates the exercise of ownership rights by all shareholders, by striving to keep shareholders informed, in a timely manner, of changes in the Group or its business which would be likely to materially affect the price or value of the Company's shares.

At general meetings, all shareholders are entitled to attend, participate effectively in and vote at general meetings of shareholders. Where shareholders are unable to attend in person, they are able to appoint a proxy to attend and vote on their behalf. Shareholders are informed of general meetings through the annual reports or circulars sent to them, and/or through notices in the newspapers and via SGXNET. The rules governing such meetings and voting procedures are set out in the notice of general meetings. At the general meetings, the voting procedures are explained to shareholders at the start of each meeting, before the resolutions are read out and put to vote.

Corporate Governance Report

Principle 15: Communication with Shareholders

Although the Company does not have a formal investor relations policy, the Company recognises that effective communication can highlight transparency and enhance accountability to its shareholders and investors. For the purpose of establishing communication and maintaining relationships with shareholders and investors, the Company has engaged a public relations company, through which the investors and shareholders can communicate their feedbacks or ideas to the Company, to provide an accessible means of communication for the shareholders and investors to reach out to the Company. The Company maintains a high standard of disclosure by providing information to its shareholders and investors on a timely basis via SGXNET announcements and press releases. Such information is also available on the Company's website. In disclosing information to its shareholders and investors, the Company aims to be as descriptive, detailed and forthcoming as possible, so as to, inter alia, provide sufficient information to all shareholders and investors to keep them abreast of latest developments in relation to the Company and to facilitate the exercise of ownership rights by all shareholders and investors. The Company ensures that it does not practice selective disclosure of material information. If inadvertent disclosure is made to a select group of shareholders and/or investors, the Company will make the same disclosure publicly to all others as promptly and possible. The Company ensures that price-sensitive information is publicly released, and announced on an immediate basis where required under the Listing Manual of the SGX-ST. Such information includes information relating to changes in the company or its business which would be likely to materially affect the price or value of the Company's shares. Where an immediate announcement is not possible, the announcement is made as soon as possible to ensure that shareholders, investors and the public have fair access to the information. At shareholders' meetings, the Board also seeks for the views, comments and input of the Company's shareholders and investors, to better understand and address their specific concerns.

While the Company does not have a dedicated investor relations team, the Management, including the CEO and CFO, actively undertakes efforts to engage with investors (both present and prospective). Such investor relations engagement efforts may include meetings with investors.

The Company does not have a dividend policy currently in place. In deciding whether to declare any dividends in a given financial year, the Company takes into account, inter alia, maximizing shareholder value in the long term, the profits of the Company in a given year, future development and investment plans of the Company, projected capital expenditure, the market outlook for each of the Company's areas of business, and the Company's expected performance in the coming financial years. For FY2019, the Company will not be declaring dividends to shareholders. Due to the ongoing challenges in the economic and business environment, the Board is of the view that there is a need to preserve liquidity in the Company to prepare for unforeseen circumstances.

Principle 16: Conduct of Shareholder Meetings

The Company encourages shareholders to participate and vote at general meetings. Shareholders are informed of the rules, including voting procedures, that govern the general meetings. At AGMs, all shareholders are given the opportunity to voice their views and to direct queries regarding the Group to Directors, including the chairperson of each of the Board Committees. The Directors, chairmen of the Board Committees and external auditor are normally present at the AGMs, and are available to address the Shareholders' questions.

All shareholders of the Company will receive the Annual Report and the notice of the AGM. The notice is also advertised in a local newspaper and made available on the SGXNET.

The Company's Bye-Laws allow the Shareholders to appoint proxies to attend and vote in their stead at general meetings. Pursuant to Bye-Law 84 of the Company's Bye-Laws, the Shareholders holding two (2) or more shares may appoint not more than two (2) proxies to attend and vote at the same general meeting. When a Shareholder appoints more than one (1) proxy, he or she shall specify the proportion of his or her shareholding to be represented by each proxy.

The Company has not amended its Bye-Laws to provide for absentia voting methods. Voting in absentia and by electronic mail may only be possible following careful study to ensure that integrity of the information and authentication of the Shareholders' identities through the web are maintained.

The Company ensures that there are separate resolutions at general meetings on each distinct issue, and puts each resolution to vote by poll, with an announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages. The Company will not be using electronic polling this year, but is aware of the benefits of electronic polling and will consider implementing it at an appropriate time.

All minutes of general meetings that include substantial and relevant comments or queries from the Shareholders, and responses from the Board and the Management, are made available to the Shareholders upon their request.

Corporate Governance Report

Material Contracts
(Listing Manual Rule 1207(8))

Save for the service agreement between the Executive Directors and the Company, there are no material contracts entered into by the Company or its subsidiaries and in which the Chief Executive Officer, or any Director or controlling shareholders were interested subsisting at the end of FY2019.

Risk Management
(Listing Manual Rule 1207(4)(b)(iv))

The Company does not have a Risk Management Committee. However, Management regularly reviews the Company's business and operational activities to identify areas of significant business risk as well as appropriate measures to control and mitigate these risks. Management also reviews all significant control policies and procedures and highlights all significant matters to the Directors and the AC.

The Group has identified the various financial risks, details of which are found on pages 87 to 97 of the Annual Report.

Employee Share Option Scheme ("ESOS")
(Listing Manual Rule 852(1))

The ESOS, being the LottVision Share Option Scheme, is administered by a committee comprising Mr. Xu Hai Min, Mr. Ng Poh Khoon Jimmy and Mr. Neo Chee Beng.

As at the end of FY2019, there were no outstanding share options.

Dealings in Securities
(Listing Manual Rule 1207(19))

The Group has adopted the SGX-ST's Best Practices Guide with respect to dealings in securities by the Directors and its executive officers. Officers of the Company should not deal in the securities of the Company on short-term considerations. Directors, Management and officers of the Group who have access to price-sensitive, financial or confidential information are not permitted to deal in the Company's shares during the periods commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year, or one month before the financial year-end, as the case may be, and ending on the date of announcement of the relevant results, or when they are in possession of unpublished price-sensitive information on the Group.

To provide further guidance to employees on dealings in the Company's shares, the Company has adopted a code of conduct on transactions in the Company's shares. The code of conduct is modeled after the Best Practices Guide with some modifications.

Interested Person Transactions
(Listing Manual Rule 907)

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 interests of the Company and its minority shareholders.

The Company did not seek a mandate from its shareholders for interested person transactions in FY2019.

CORPORATE SOCIAL RESPONSIBILITY

The Company is aware of the effects of its operations and the role it plays in preserving the environment. The Company intends to encourage a more environmentally responsible culture, including implementing policies for paper recycling, reducing the unnecessary use of paper and reducing electricity consumption.

Corporate Governance Report

USE OF PROCEEDS

A status report on the use of proceeds raised from the additional issue of securities conducted in FY2018 (as announced on 30 March 2017, 29 June 2017, 7 August 2017, 23 November 2017, 5 December 2017, 27 December 2017 and 30 December 2017) is as follows:

Rights Issue proceeds	**HK$'000**
Amount raised	18,874
Less: Rights Issue expenses	(1,355)
Net Rights Issue proceeds as at 31 March 2018	**17,519**

The net Rights Issue proceeds of HK$17,519,000 are remained in the Group's account as at 31 March 2018.

	HK$'000
Net Rights Issue proceeds as at 1 April 2018	17,519
Less: Proceeds used for working capital	(4,379)
Less: Proceeds used for acquisition of property, plant and equipment	(13,140)
Net Rights Issue proceeds as at 31 March 2019	-

The net Rights Issue proceeds has been fully utillised as at 31 March 2019.

Directors' Report

We submit herewith this annual report together with the audited financial statements for the financial year ended 31 March 2019.

DIRECTORS

The Directors in office as at the date of this report are:

Paul Gao Xiang Nong
Ng Poh Khoon Jimmy
Neo Chee Beng
Xu Hai Min

The Directors of the Company, including the Non-Executive Directors, are subject to retirement and re-election at the forthcoming Annual General Meeting in accordance with the Company's Bye-laws.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings kept by the Company, particulars of interests of the Directors who held office at the end of the financial year (including those held by their spouses and infant children) in shares, debentures, warrants and share options in the Company and in related corporations are as follows:

	Holdings registered in the name of Director or nominee	
Ordinary shares of HK$0.10 each fully paid	**At 1 April 2018**	**At 31 March 2019**
The Company		
Paul Gao Xiang Nong	3,470,182	3,470,182

The Director's interest in the ordinary shares of the Company as at 21 April 2019 were the same as those at 31 March 2019.

Except as disclosed in this report, no other Directors who held office at the end of the financial year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the financial year, or at the date of appointment if later, or at the end of the financial year.

Except as disclosed above and under the "Incentive Shares" section of this report, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Except for salaries, bonuses and fees and those benefits that are disclosed in this report and in notes 7 and 8 to the financial statements, since the end of the last financial year, no Director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which he is a member or with a company in which he has substantial financial interest.

SHARE OPTIONS

No option to take up unissued shares of the Company or its subsidiary corporations was granted during the financial year.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or its subsidiary corporations whether granted before or during the financial year.

There were no unissued shares of the Company or its subsidiary corporations under option at the end of the financial year.

Directors' Report

INCENTIVE SHARES

The LottVision Incentive Share Scheme (the "Incentive Share Scheme") was approved by the shareholders on 29 July 2009.

The Incentive Share Scheme is administered by a Committee currently comprising the following Directors:

Neo Chee Beng
Xu Hai Min
Ng Poh Khoon Jimmy

The principal terms of the Incentive Share Scheme are as follows:

(a) Eligibility
Under the rules of the Incentive Share Scheme, Executive and Non-Executive Directors and employees of the Group, who are not controlling shareholders of the Company and their associates, are eligible to participate in the Incentive Share Scheme.

(b) Size and duration
The aggregate number of shares which may be issued under the Incentive Share Scheme, when added to the number of shares issued and/or issuable in respect of all awards granted thereunder and other shares issued and/or issuable under other share-based incentive scheme of the Company, shall not exceed fifteen per cent (15%) of the issued share capital of the Company on the day preceding in the relevant date of award.

The Incentive Share Scheme shall continue in force at the discretion of the Committee, subject to a maximum period of 10 years commencing on the date on which the Incentive Share Scheme is adopted by the Company in general meeting, provided always that the Incentive Share Scheme may continue beyond the above stipulated period with the approval of shareholders in general meeting and of any relevant authorities which may then be required.

(c) Entitlement to awards
Awards represent the right of a participant to receive fully-paid shares free of charge upon the participant satisfying the performance conditions (if any). The Committee administering the Incentive Share Scheme selects performance conditions which are consistent with the Company's business goals and which focus on creating value for shareholders. Such performance conditions can include targets relating to the cash flow and net profits of the Group over specified periods.

SHARES GRANTED DURING THE YEAR

No shares were issued under the Incentive Share Scheme during the financial year ended 31 March 2019.

WARRANTS

There were no warrants granted by the Company during the financial year.

AUDIT COMMITTEE

The Audit Committee as at the date of this report comprises three members, who are independent of management within the meaning of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("Listing Manual"):

Ng Poh Khoon Jimmy (Chairman)
Xu Hai Min
Neo Chee Beng

Directors' Report

AUDIT COMMITTEE (CONT'D)

The Audit Committee held four meetings since the last Directors' report. In performing its function, the Audit Committee met with management and the Company's external auditors to discuss and review the following:

i. the audit plan of the external auditors of the Group and the results of their examination;
ii. the Group's financial and operating results and accounting policies;
iii. that no restrictions were being placed by management upon the work of the external auditor;
iv. the Group's transactions with related parties and interested persons; and
v. the independence of the external auditor.

The Audit Committee performed the functions specified in the Listing Manual which included a review of the financial statements of the Group and the Company for the financial year ended 31 March 2019 and the auditor's report thereon.

The Audit Committee is authorised to investigate any matters within its terms of reference, has full access to management and also full discretion to invite any Director or executive officer to attend its meetings, as well as reasonable resources to enable it to discharge its functions properly.

AUDITOR

The current auditor of the Company, Baker Tilly TFW LLP, was appointed since 27 July 2012. The Audit Committee has recommended to the Board of Directors that Baker Tilly TFW LLP be nominated for re-appointment as the auditor of the Company at the forthcoming Annual General Meeting of the Company. A resolution for the re-appointment of Baker Tilly TFW LLP as auditor of the Company will be proposed at the forthcoming Annual General Meeting of the Company.

On behalf of the Board of Directors

Paul Gao Xiang Nong
Executive Director

Xu Hai Min
Non-Executive Director

Hong Kong, 28 June 2019

Statement by Directors

We, being Directors of the Company, do hereby state that in our opinion:

(i) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company as set out on pages 40 to 99 are drawn up so as to present fairly, in all material respects, the consolidated financial position of the Group and the financial position of the Company as at 31 March 2019, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the financial year then ended in accordance with International Financial Reporting Standards; 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 has, on the date of this statement, authorised these financial statements for issue.

On behalf of the Board of Directors

Paul Gao Xiang Nong
Executive Director

Xu Hai Min
Non-Executive Director

Hong Kong, 28 June 2019

Independent Auditor's Report to the members of NutryFarm International Limited

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of NutryFarm International Limited (the "Company") and its subsidiaries (the "Group") as set out on pages 40 to 99, which comprise the balance sheets of the Group and the Company as at 31 March 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with International Financial Reporting Standards ("IFRSs") so as to present fairly, in all material respects, the consolidated financial position of the Group and the financial position of the Company as at 31 March 2019, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the financial year ended on that date.

Basis for Qualified Opinion

1. Refundable advances for proposed acquisition

   As disclosed in Note 20 to the financial statements, the Group has refundable advances for proposed acquisition amounted to HK$89,757,000 as at 31 March 2019.

   The refundable advances were paid to the vendor in connection with the proposed acquisition of 45% of the issued and paid-up shares of First Linkage Inc. ("First Linkage"). The proposed acquisition of First Linkage was terminated during the financial year.

   Subsequent to 31 March 2019, the Group has received refunds of HK$21,610,000 from the vendor. The Group is still in the process of recovering the remaining advances of HK$68,147,000 from the vendor. The safeguard and measure implemented by management for recovering the refundable advances for proposed acquisition of First Linkage are disclosed in Note 20 to the financial statements. Management is of the view that the safeguard and measure are adequate and appropriate for the recovery of the remaining advances of HK$68,147,000.

   We are, however, unable to conclude whether the safeguard and measure implemented by management would enable the full recovery of the remaining advances of HK$68,147,000 from the vendor. Consequently, we are unable to satisfy ourselves as to whether any adjustments might be necessary in respect of the carrying amount of the Group's refundable advances for proposed acquisition as at 31 March 2019.

2. Advances to suppliers and third parties

   As disclosed in Note 20 to the financial statements, the Group recognised allowance for impairment losses on advances to suppliers and third parties which totalled HK$10,233,000 in profit or loss during the current financial year.

   We are unable to obtain sufficient appropriate audit evidence to satisfy ourselves with respect to the appropriateness of the allowance for impairment losses provided on advances to suppliers and third parties. Consequently, we are unable to determine whether any adjustments might be necessary in respect of the carrying amount of the Group's advances to suppliers and third parties as at 31 March 2019 and the impairment losses as recognised in profit or loss during the current financial year.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's 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 we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Independent Auditor's Report to the members of NutryFarm International Limited

Report on the Audit of the Financial Statements (cont'd)

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. In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

1. Impairment assessment of goodwill and non-financial assets (Group level) and cost of investment in subsidiaries (Company level)

   As disclosed in Note 15(a) to the financial statements, the Group had goodwill of HK$42,778,000 (2018: HK$45,152,000) which arose from acquisition of Nutryfarm Biomedicine International Limited and its subsidiary ("NFB Group"). An impairment loss of HK$42,778,000 was recognised in the current financial year to write down goodwill to its recoverable amount of HK$Nil.

   As disclosed in Note 14 and 15(b) to the financial statements, the net carrying amount of the Group's property, plant and equipment and other intangible assets amounted to HK$10,811,000 and HK$Nil respectively, after deducting impairment loss of HK$22,096,000 and HK$909,000 respectively as at 31 March 2019. 99% of the Group's total property, plant and equipment and other intangible assets are derived from NFB Group.

   As disclosed in Note 11 to the financial statements, the net carrying amount of the Company's investment in subsidiaries amounted to HK$76,447,000 which represents investment in NFB Group, after deducting impairment loss of HK$58,275,000 as at 31 March 2019.

   During the financial year, the Group performed an impairment assessment to determine the recoverable amounts of the Group's goodwill and non-financial assets and the Company's cost of investment in subsidiaries. The Group's financial performance and financial position are mainly contributed by NFB Group. Management considered NFB Group as a cash-generating unit ("CGU") that generate cash flows from nutrition, health food and related health products segment that are largely independent cash flows from other segments.

   Impairment assessment of the Group's goodwill and non-financial assets and the Company's cost of investment in NFB Group is considered to be a key audit matter due to the significance of the assets to the Group's and the Company's financial position, and also due to the estimations involved in the assessment of the value-in-use of the CGU performed by the management. The estimation relates to cash flow forecasts of the CGU and discount rate applied to the cash flow forecasts.

   Our procedures to address the key audit matter

   We obtained an understanding of management's impairment assessment process.

   We obtained the Group's value-in-use calculations. Key assumptions to the value-in-use calculations include discount rate, budgeted revenue growth rate, budgeted gross margin and terminal year growth rate. We reviewed these key assumptions by comparing the forecasts to historical revenue achieved, historical costs incurred, gross margin achieved and revenue growth rate to published industry reports.

   We obtained management's assessment of the value-in-use calculations and evaluated the assessment for reasonableness.

   We involved our valuation specialist in evaluating the appropriateness of the discount rate used by management.

   We performed sensitivity analysis in the areas of budgeted revenue growth rate, budgeted gross margin, terminal year growth rate and discount rate assumptions.

   We have also assessed the adequacy and appropriateness of the disclosures made in the financial statements.

Independent Auditor's Report to the members of NutryFarm International Limited

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

2. Impairment of trade receivables

   As disclosed in Note 19 to the financial statements, the carrying amount of the Group's trade receivables is HK$9,492,000 (2018: HK$24,645,000) after deducting allowance for impairment losses of HK$17,321,000 (2018: HK$13,949,000) as at 31 March 2019.

   Management determines the expected credit losses ("ECL") of trade receivables by applying the simplified approach and using the provision matrix to measure the lifetime ECL for trade receivables. The Group categorises its trade receivables by its past due status and segregates debtors regarded as credit-impaired where one or more credit impairment events have occurred. The ECL rates for each category of debtors are estimated based on historical credit loss experience adjusted as appropriate to reflect current conditions and forecasts of future economic conditions. The measurement of allowance for ECL for trade receivables is considered to be a key audit matter as it requires management to exercise judgement and make assumptions with respect to past events, current conditions and forecasts of future economic conditions as disclosed in Notes 3(ii) and 27(b) to the financial statements.

   Our procedures to address the key audit matter

   We obtained an understanding and evaluated the Group's processes and ECL assessment for trade receivables. We assessed the reasonableness of management's judgement and assumptions applied in the ECL model such as management's determination of historical credit loss rates, the application of respective ECL rates for each category of past due status of debtors and debtors regarded as credit-impaired, and management's consideration of current conditions and forecast economic conditions specific to its trade receivables. We checked the arithmetic accuracy of management's computation of ECL and tested management's categorisation of debtors by their past due status.

   We also reviewed the adequacy of disclosures relating to the ECL assessment of trade receivables and the Group's credit risk made in the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's 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. Because of the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Independent Auditor's Report to the members of NutryFarm International Limited

Report on the Audit of the Financial Statements (cont'd)

Auditor's 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 an auditor's 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.

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

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

- Evaluate the overall presentation, structure and content of the 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 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 partner on the audit resulting in this independent auditor's report is Lim Kok Heng.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

28 June 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the financial year ended 31 March 2019

	Note	Group 2019 HK$'000	Group 2018 HK$'000
Revenue	4	**44,042**	66,896
Cost of sales		**(26,121)**	(29,792)
Gross profit		**17,921**	37,104
Other income			
- Interest income		**355**	796
- Others	5	**4,028**	994
Distribution expenses		**(7,718)**	(12,052)
Administrative expenses		**(88,903)**	(25,271)
Finance costs	6	**(7,749)**	(2,961)
Net impairment losses on financial assets	27(b)	**(9,277)**	(6,434)
Loss before tax	7	**(91,343)**	(7,824)
Tax expense	9	**(1,893)**	(456)
Loss for the financial year		**(93,236)**	(8,280)
Other comprehensive (loss)/income			
Items that are or may be reclassified subsequently to profit or loss:			
Currency translation differences arising on consolidation		**(8,867)**	14,721
Other comprehensive (loss)/income for the financial year, net of tax		**(8,867)**	14,721
Total comprehensive (loss)/income for the financial year		**(102,103)**	6,441
Loss per share for loss attributable to equity holders of the Company (cents per share)			
Basic and Diluted	10	**(96.70)**	(11.23)

The accompanying notes form an integral part of the financial statements.

Balance Sheets

At 31 March 2019

		Group		Company	
		2019	2018	**2019**	2018
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Non-current assets					
Investment in subsidiaries	11	**–**	–	**76,447**	142,201
Available-for-sale financial assets	12	**–**	–	**–**	–
Financial assets at fair value through other comprehensive income	13	**–**	–	**–**	–
Property, plant and equipment	14	**10,811**	37,766	**–**	–
Intangible assets	15	**–**	46,324	**–**	–
Other receivables	20	**25,005**	1,534	**–**	–
Land use rights	16	**5,621**	6,048	**–**	–
Deferred tax assets	17	**–**	1,933	**–**	–
		41,437	93,605	**76,447**	142,201
Current assets					
Inventories	18	**12,902**	13,256	**–**	–
Trade receivables	19	**9,492**	24,645	**–**	–
Other receivables	20	**100,714**	96,913	**133**	125
Amounts due from subsidiaries	11	**–**	–	**150,754**	117,328
Tax recoverable		**327**	–	**–**	–
Cash and bank balances		**47,380**	36,160	**1,555**	2,004
		170,815	170,974	**152,442**	119,457
Current liabilities					
Trade and other payables	21	**19,107**	24,539	**9,394**	8,506
Contract liabilities	21	**1,262**	–	**–**	–
Borrowings	22	**15,105**	15,943	**–**	–
Amounts due to subsidiaries	11	**–**	–	**74,759**	89,165
Tax payable		**–**	10	**–**	–
		35,474	40,492	**84,153**	97,671
Net current assets		**135,341**	130,482	**68,289**	21,786
Non-current liability					
Borrowings	22	**119,826**	65,032	**119,826**	65,032
Net assets		**56,952**	159,055	**24,910**	98,955
Equity					
Share capital	24	**9,642**	9,642	**9,642**	9,642
Other reserves	25	**382,910**	437,282	**430,716**	436,523
Accumulated losses		**(335,600)**	(287,869)	**(415,448)**	(347,210)
Total equity		**56,952**	159,055	**24,910**	98,955

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the financial year ended 31 March 2019

	Share capital HK$'000	Share premium HK$'000	Contributed surplus reserve HK$'000	Fair value reserve HK$'000	Currency translation reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
Group							
Balance at 1 April 2017	6,428	300,996	119,560	–	(12,300)	(279,589)	135,095
Loss for the financial year	–	–	–	–	–	(8,280)	(8,280)
Other comprehensive income for the financial year, net of tax:							
- Currency translation differences arising on consolidation	–	–	–	–	14,721	–	14,721
Total comprehensive income/(loss) for the financial year, net of tax	–	–	–	–	14,721	(8,280)	6,441
Issuance of rights issue (Note 24)	3,214	15,660	–	–	–	–	18,874
Rights issue expenses (Note 25)	–	(1,355)	–	–	–	–	(1,355)
Balance at 31 March 2018	9,642	315,301	119,560	–	2,421	(287,869)	159,055
Effect of adoption of new accounting standards [Note 2.2(a)]	–	–	–	(45,505)	–	45,505	–
Balance at 1 April 2018, restated	9,642	315,301	119,560	(45,505)	2,421	(242,364)	159,055
Loss for the financial year	–	–	–	–	–	(93,236)	(93,236)
Other comprehensive loss for the financial year, net of tax:							
- Currency translation differences arising on consolidation	–	–	–	–	(8,867)	–	(8,867)
Total comprehensive loss for the financial year, net of tax	–	–	–	–	(8,867)	(93,236)	(102,103)
Balance at 31 March 2019	9,642	315,301	119,560	(45,505)	(6,446)	(335,600)	56,952

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

For the financial year ended 31 March 2019

	Share premium HK$'000	Contributed surplus reserve HK$'000	Fair value reserve HK$'000	Currency translation reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
Company						
Balance at 1 April 2017	6,428	300,996	119,560	(7,669)	(335,403)	83,912
Loss for the financial year	–	–	–	–	(11,807)	(11,807)
Other comprehensive income for the financial year, net of tax:						
- Currency translation differences arising from translation into the presentation currency	–	–	–	9,331	–	9,331
Total comprehensive income/(loss) for the financial year	–	–	–	9,331	(11,807)	(2,476)
Issuance of rights issue (Note 24)	3,214	15,660	–	–	–	18,874
Rights issue expenses (Note 25)	–	(1,355)	–	–	–	(1,355)
Balance at 31 March 2018	9,642	315,301	119,560	1,662	(347,210)	98,955
Loss for the financial year	–	–	–	–	(68,238)	(68,238)
Other comprehensive loss for the financial year, net of tax:						
- Currency translation differences arising from translation into the presentation currency	–	–	–	(5,807)	–	(5,807)
Total comprehensive loss for the financial year	–	–	–	(5,807)	(68,238)	(74,045)
Balance at 31 March 2019	9,642	315,301	119,560	(4,145)	(415,448)	24,910

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 31 March 2019

		Group	
		2019	2018
	Note	**HK$'000**	HK$'000
Cash flows from operating activities			
Loss before tax		**(91,343)**	(7,824)
Adjustments for:			
Amortisation of land use rights	16	**134**	136
Amortisation of intangible assets	15	**199**	163
Inventories written off	7	**–**	1,053
Depreciation of property, plant and equipment	14	**3,356**	3,874
Net impairment losses on financial assets		**9,277**	6,434
Impairment losses on property, plant and equipment	14	**22,096**	–
Impairment losses on intangible assets	15	**43,687**	–
Allowance for impairment losses on advances to supplier	7	**5,005**	–
Interest income		**(355)**	(796)
Interest expense	6	**7,749**	2,961
Prepayments and deposits written off	7	**–**	350
Inventories written down	7	**1,073**	1,159
Unrealised foreign exchange loss		**1,331**	2,132
Gain on modification on the terms of loans from third parties	5	**(2,351)**	–
Operating cash flows before changes in working capital		**(142)**	9,642
Changes in operating assets and liabilities:			
Inventories		**(1,406)**	(1,990)
Trade and other receivables		**24,063**	(14,660)
Trade and other payables		**(5,418)**	(398)
Currency translation adjustments		**(3,075)**	923
Cash generated from/(used in) operations		**14,022**	(6,483)
Tax paid		**(410)**	(2,673)
Net cash generated from/(used in) operating activities		**13,612**	(9,156)
Cash flows from investing activities			
Interest received		**355**	796
Purchases of property, plant and equipment		**(460)**	(501)
Advances paid for proposed acquisition		**(32,000)**	(59,400)
Deposits paid for acquisition of property, plant and equipment		**(23,552)**	–
Purchases of intangible assets		**–**	(52)
Net cash used in investing activities		**(55,657)**	(59,157)

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows (cont'd)

For the financial year ended 31 March 2019

	Group	
	2019	2018
	HK$'000	HK$'000
Cash flows from financing activities		
Interest paid	**(3,776)**	(809)
Proceeds from rights issue	**–**	18,874
Rights issue expenses	**–**	(1,355)
Drawdown of bank loans	**14,993**	15,943
Proceeds from Director of the Company	**685**	–
Repayment of bank loans	**(14,993)**	(14,502)
Repayment to Director of the Company	**(685)**	(1,041)
Repayment to Director of a subsidiary	**–**	(735)
Proceeds from loans from third parties	**56,959**	62,900
Net cash generated from financing activities	**53,183**	79,275
Net increase in cash and cash equivalents	**11,138**	10,962
Cash and cash equivalents at beginning of the financial year	**36,160**	25,397
Effect of foreign exchange rates changes	**82**	(199)
Cash and cash equivalents at end of the financial year	**47,380**	36,160

Cash and cash equivalents comprise cash and bank balances as presented on the balance sheets.

Notes to the Financial Statements

For the financial year ended 31 March 2019

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 CORPORATE INFORMATION

NutryFarm International Limited (the "Company") is a company incorporated in Bermuda with limited liability under the Bermuda Companies Act 1981 and has its registered office at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The Company's principal office in Hong Kong is located at Room 1916, 19/F, Star House, 3 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The principal activity of the Company is that of investment holding. The principal activities of its subsidiaries are disclosed in Note 11.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are presented in Hong Kong Dollar ("HK$") and all financial information presented in Hong Kong Dollar are rounded to the nearest thousand (HK$'000) except when otherwise indicated. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions and historical experiences and various other factors that are believed to be reasonable under the circumstances, actual results may ultimately differ from these estimates.

Use of estimates and judgements

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

The areas involving a higher degree of judgement in applying accounting policies, or areas where assumptions and estimates have a significant risk of resulting in material adjustment within the next financial year are disclosed in Note 3.

The carrying amounts of cash and bank balances, trade and other current receivables and payables approximate their respective fair values due to the relatively short-term maturity of these financial instruments.

2.2 Adoption of new and revised International Financial Reporting Standards and interpretations of the International Financial Reporting Standards Interpretations Committee

(a) New and amended standards adopted by the Group

In the current financial year, the Group has adopted all the new and revised IFRS issued by the IASB and interpretations of the International Financial Reporting Standards Interpretations Committee ("IFRIC Interpretations") that are relevant to its operations and effective for the current financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS and IFRIC Interpretations.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Adoption of new and revised International Financial Reporting Standards and interpretations of the International Financial Reporting Standards Interpretations Committee (cont'd)

(a) New and amended standards adopted by the Group (cont'd)

The adoption of these new and revised IFRS and IFRIC Interpretations did not have any material effect on the financial results or position of the Group and the Company except as disclosed below:

<u>IFRS 15 Revenue from Contracts with Customers</u>

IFRS 15 replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and other revenue-related interpretations. It applies to all contracts with customers, except for leases, financial instruments, insurance contracts and certain guarantee contracts and non-monetary exchange contracts. IFRS 15 provides a single, principle-based model to be applied to all contracts with customers. An entity recognises revenue in accordance with the core principle in IFRS 15 by applying a 5-step approach.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. The entity is required to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model; to contracts with their customers. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective approach without restating prior periods' information and recognises any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period at the date of initial application in the opening retained earnings as at 1 April 2018.

Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed as at this date. The Group has elected the practical expedient to apply the standard to contracts that are not completed at the date of initial application.

Presentation of contract assets and liabilities

Upon adoption of IFRS 15, the Group has changed the presentation of receipt in advance from customers classified under trade and other payables of HK$1,462,000 as at 1 April 2018 and HK$1,262,000 as at 31 March 2019 were reclassified to contract liabilities.

At the date of initial application and 31 March 2019, the Group and the Company have assessed that the adoption of IFRS 15 does not have any material impact to the financial position of the Company and results of the Group and the Company.

The adoption of IFRS 15 did not have a material impact on total comprehensive income or the Group's operating, investing and financing cash flows.

<u>IFRS 9 Financial Instruments</u>

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 April 2018. It includes guidance on (i) the classification and measurement of financial assets and financial liabilities; (ii) impairment requirements for financial assets; and (iii) general hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in IFRS 9 are based on expected credit loss model and replace IAS 39 incurred loss model.

The Group and the Company applied IFRS 9 using a modified retrospective approach, with date of initial application on 1 April 2018. The Group and the Company have not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognised directly in accumulated losses and other components of equity as at 1 April 2018.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 **Adoption of new and revised International Financial Reporting Standards and interpretations of the International Financial Reporting Standards Interpretations Committee (cont'd)**

(a) New and amended standards adopted by the Group (cont'd)

IFRS 9 Financial Instruments (cont'd)

(a) Classification and measurement

Under IFRS 9, the Group and the Company classify its financial assets based on entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The assessment of the Group's and the Company's business model was made as of the date of initial application on 1 April 2018. The assessment of whether contractual cash flows on debt instruments solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The following are the changes in classification and measurement arising from adopting IFRS 9:

- Loans and receivables (including "trade receivables", "other receivables" (excluding prepayments, advances to suppliers and advances paid to a vendor for proposed acquisition), "amount due from subsidiaries" and "cash and bank balances") as at 31 March 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 April 2018; and

- Investment in unquoted equity shares classified as available-for-sale (AFS) financial assets at cost as at 31 March 2018 are classified and measured as equity instrument designated at fair value through other comprehensive income ("FVOCI") beginning 1 April 2018. The Group elected to classify irrevocably its equity investments under this category at the date of initial application as it intends to hold these investments on a long-term basis.

The Group and the Company have not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's and the Company's financial liabilities. The following summarises the required or elected reclassifications as at 1 April 2018 upon adoption of IFRS 9:

Group

		IFRS 9 measurement category	
IAS 39 measurement category	**Original carrying amount HK$'000**	**Amortised cost HK$'000**	**FVOCI HK$'000**
Loans and receivables			
Trade receivables	24,645	24,645	–
Other receivables	20,720	20,720	–
Cash and bank balances	36,160	36,160	–
Available-for-sale financial assets			
Unquoted equity shares	–	–	–

For the previously held AFS unquoted equity shares measured at FVOCI, cumulative impairment charge of HK$45,505,000 previously categorise in profit or loss were reclassified from accumulated losses to fair value reserve as at 1 April 2018.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Adoption of new and revised International Financial Reporting Standards and interpretations of the International Financial Reporting Standards Interpretations Committee (cont'd)

(a) New and amended standards adopted by the Group (cont'd)

IFRS 9 Financial Instruments (cont'd)

(a) *Classification and measurement (cont'd)*

Company

		IFRS 9 measurement category
	Original carrying amount	**Amortised cost**
IAS 39 measurement category	**HK$'000**	**HK$'000**
Loans and receivables		
Amounts due from subsidiaries	117,328	117,328
Other receivables	8	8
Cash and bank balances	2,004	2,004

(b) *Impairment*

IFRS 9 requires the Group to record expected credit losses on all of its financial assets at amortised cost, either on a 12-month or lifetime basis. Upon adoption of IFRS 9, the Group did not recognise additional impairment on the Group's financial assets at amortised cost.

At the date of initial application and 31 March 2019, the Group and the Company have assessed that the adoption of IFRS 9 does not have any material impact to the financial position and results of the Group and the Company.

(b) ***Standards, amendments and interpretations to existing standards that are issued, revised or amended but are not yet effective***

New standards, amendments to standards and interpretations that have been issued at the end of the reporting period but are not yet effective for the financial year ended 31 March 2019 have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group and the Company, except as disclosed below:

IFRS 16 Leases

IFRS 16 replaces the existing IAS 17: Leases. It reforms lessee accounting by introducing a single lessee accounting model. Lessees are required to recognise all leases on their balance sheets to reflect their rights to use leased assets (a "right-of-use" asset) and the associated obligations for lease payments (a lease liability), with limited exemptions for short term leases (less than 12 months) and leases of low value items. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with depreciation charge of right-of-use asset and interest expense on lease liability. The accounting for lessors will not change significantly.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 **Adoption of new and revised International Financial Reporting Standards and interpretations of the International Financial Reporting Standards Interpretations Committee (cont'd)**

(b) Standards, amendments and interpretations to existing standards that are issued, revised or amended but are not yet effective (cont'd)

IFRS 16 Leases (cont'd)

The Group plans to adopt the new standard on the required effective date using the modified retrospective approach and recognises any differences in the carrying amounts of assets and liabilities resulting from the adoption of IFRS 16 at the date of initial application in the opening accumulated losses as at 1 April 2019. Right-of-use assets for leases are recognised at an amount equal to the lease liability (adjusted for any prepaid or accrued lease payments) on adoption.

The standard is effective for annual periods beginning on or after 1 January 2019. The Group does not expect the adoption of IFRS 16 to have significant impact on its financial position and financial results for the financial year ended 31 March 2020.

2.3 **Revenue recognition**

Sale of goods

The Group transfers control and recognises a sale when goods are delivered to their customers. Revenue from these sales is recognised based on the price specified in the contract. No element of financing is deemed present as the sales are made with a credit term of 30 - 90 days, which is consistent with market practice. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. A contract liability is recognised when there is advance consideration from customers.

Interest income

Interest income is recognised using the effective interest method.

2.4 **Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In the Company's balance sheet, investment in subsidiaries is accounted for at cost less accumulated impairment losses, if any. On disposal of the investment, the difference between disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

2.5 **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. Subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and property, plant and equipment, are eliminated in full.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Basis of consolidation (cont'd)

Business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are recognised as expenses as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Any excess of the fair value of the consideration transferred in the business combination, the amount of any non-controlling interest in the acquiree (if any) and the fair value of the Group's previously held equity interest in the acquiree (if any), over the fair value of the net identifiable assets acquired is recorded as goodwill. Goodwill is accounted for in accordance with the accounting policy for goodwill stated in Note 2.6(a). In instances where the latter amount exceeds the former and the measurement of all amounts has been reviewed, the excess is recognised as gain on bargain purchase in profit or loss on the date of acquisition.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on an acquisition-by-acquisition basis whether to measure them at fair value, or at the non-controlling interests' proportionate share of the acquiree's net identifiable assets, at the acquisition date. All other non-controlling interests are measured at acquisition-date fair value or, when applicable, on the basis specified in another standard.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amount of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributable to owners of the Company.

When a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill, non-controlling interests and other components of equity related to the subsidiary are derecognised. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to accumulated profits if required by a specific IFRS.

Any retained equity interest in the previous subsidiary is remeasured at fair value at the date that control is lost. The difference between the carrying amount of the retained interest at the date control is lost, and its fair value is recognised in profit or loss.

Consolidation of the subsidiaries in the People's Republic of China ("PRC") are based on the subsidiaries' financial statements prepared in accordance with IFRS. Profits reflected in the financial statements prepared in accordance with IFRS may differ from those reflected in the PRC statutory financial statements of the subsidiaries, prepared for PRC reporting purposes. In accordance with the relevant laws and regulations, profits available for distribution by the PRC subsidiaries are based on the amounts stated in the PRC statutory financial statements.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.6 Intangible assets

(a) *Goodwill*

Goodwill is initially measured at cost and is subsequently measured at cost less any accumulated impairment losses.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(b) *Other intangible assets*

Intangible assets acquired separately are measured on initial recognition at cost. These intangible assets are recognised separately from goodwill and are initially measured at their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and the expenditure is charged to profit or loss in the financial year in which the expenditure is incurred.

Intangible assets with a finite useful life are amortised on a straight-line basis over their estimated useful lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible asset with a finite useful life is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost of disposal and the value in use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

The estimated useful lives are as follows:

	Years
Software	5
Patent	10
Customer relationship	5

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 **Property, plant and equipment**

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment initially recognised includes its purchase price, and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the assets.

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised.

Construction in progress is stated at cost less impairment losses. The cost comprises direct costs of materials and the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

On disposal of a property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to profit or loss.

Depreciation is calculated on a straight-line basis to write off the depreciable amount of property, plant and equipment over their expected useful lives. The estimated useful lives are as follows:

Buildings	20 years
Plant and machinery	10 years
Leasehold improvements	5 years
Furniture, fixtures and office equipment	3 - 5 years
Motor vehicles	3 - 4 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

2.8 **Land use rights**

Land use rights are initially recognised at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Land use rights are amortised on a straight-line basis over the remaining years of rights allocated to use the land of 50 years.

The amortisation period and amortisation method are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Impairment of non-financial assets excluding goodwill

At each balance sheet date, the Group assesses the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less cost of disposal 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 assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A previously recognised impairment loss for an asset other than goodwill is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. A reversal of an impairment loss is recognised immediately in profit or loss.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads based on normal operating capacity but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2.11 Leases

When a Group entity is the lessee:

Operating leases

Leases where a significant portion of the risks and rewards incidental to ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to profit or loss on a straight-line basis over the period of the lease. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

When an operating lease is terminated before the lease period expires, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.12 Income taxes

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised outside profit or loss, either in other comprehensive income or directly in equity in which the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity respectively).

Current tax is the expected tax payable or recoverable on the taxable income for the current year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable or recoverable in respect of previous years.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.12 **Income taxes (cont'd)**

Deferred income tax is provided using the liability method, on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except where the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting nor taxable profit or loss.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the financial year when the asset is realised or the liability is settled, based on currently enacted or substantively enacted tax rates at the balance sheet date.

2.13 **Financial assets**

The accounting policy for financial assets before 1 April 2018 are as follows:

(i) *Classification*

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the nature of the assets and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those maturing later than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are presented as "trade receivables", "other receivables" (excluding prepayments, advances to suppliers and advances paid to a vendor for proposed acquisition), "amounts due from subsidiaries" and "cash and bank balances" on the balance sheet.

Financial assets, available-for-sale

Financial assets, available-for-sale include equity securities that are non-derivatives and are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

(ii) *Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the net sale proceeds and its carrying amount is recognised in profit or loss.

(iii) *Initial measurement*

Financial assets are initially recognised at fair value plus transaction costs.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.13 Financial assets (cont'd)

The accounting policy for financial assets before 1 April 2018 are as follows (cont'd):

(iv) *Subsequent measurement*

Available-for-sale investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measurable, are measured at cost less impairment loss. Loans and receivables are carried at amortised cost using the effective interest method, less impairment.

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss.

(v) *Impairment*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account, and the amount of the loss is recognised in profit or loss. The allowance amount is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

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

Financial assets, available-for-sale

For available-for-sale financial assets carried at cost, the amount of impairment loss is measured as the differences between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of impairment loss is recognised in profit or loss and such losses are not reversed in subsequent periods.

The accounting policy for financial assets from 1 April 2018 onwards are as follows:

(i) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade date - the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets (other than financial assets at fair value through profit or loss) are added to the fair value of the financial assets on initial recognition. Transaction costs directly attributable to acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss. Trade receivables without a significant financing component is initially measured at transaction prices.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.13 Financial assets (cont'd)

The accounting policy for financial assets from 1 April 2018 onwards are as follows (cont'd):

(ii) Classification and measurement

All financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

The Group classifies its financial assets in the following measurement categories:
- Amortised cost; and
- Fair value through other comprehensive income ("FVOCI").

The classification is based on the Group's business model for managing the financial asset and the contractual cash flow characteristics of the financial assets.

The Group reclassifies financial assets when and only when its business model for managing those assets changes.

(iii) Subsequent measurement

a. *Debt instruments*

Debt instruments include cash and bank balances, trade receivables, other receivables (excluding prepayments, advances to suppliers and advances paid to a vendor for proposed acquisition) and amount due from subsidiaries. The subsequent measurement category depends on the Group's business model for managing the asset and cash flow characteristics of the asset.

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. Interest income from these financial assets is included in interest income using the EIR method.

b. *Equity investments*

The Group subsequently measures all its equity instruments at their fair values.

The Group has designated all of its equity investments that are not held for trading as FVOCI at initial recognition. Gains and losses arising from changes in fair value of these equity investments classified as FVOCI are presented as "fair value gains/losses" in other comprehensive income and accumulated in fair value reserve and will never be reclassified to profit or loss. On disposal of an equity investment, the difference between the carrying amount and sales proceed amount would be recognised in other comprehensive income. Fair value reserve relating to the disposed asset would be transferred to accumulated losses upon disposal. Dividends from equity investments are recognised in profit or loss and presented in "other income". Equity investments classified as FVOCI are not subject to impairment assessment.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.13 Financial assets (cont'd)

The accounting policy for financial assets from 1 April 2018 onwards are as follows (cont'd):

(iv) *Impairment*

The Group recognises an allowance for expected credit losses ("ECLs") for financial assets carried at amortised cost. 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, discounted at an approximation of the original effective interest rate.

The impairment methodology applied depends on whether there has been a significant increase in credit risk. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets that do not have a significant financing component, the Group applies a simplified approach to recognise a loss allowance based on lifetime ECLs at each balance sheet date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted as appropriate for current conditions and forward-looking factors specific to the debtors and the economic environment.

If the Group has measured the loss allowance for a financial asset at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

(v) *Offset*

Financial assets and liabilities are offset and the net amount presented on the balance sheet when, and only when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.14 Cash and cash equivalents in the consolidated statement of cash flows

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and deposits with financial institutions which are subject to insignificant risk of change in value and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and excludes pledged bank deposits.

2.15 Financial liabilities

Financial liabilities include "trade and other payables" (excluding receipt in advance), "borrowings" and "amounts due to subsidiaries". Financial liabilities are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instruments.

Financial liabilities are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is extinguished. Gains and losses are recognised in profit or loss when the liabilities are derecognised and through the amortisation process.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.16 **Share capital**

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share premium.

2.17 **Provisions for other liabilities**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of economic resources will be required to settle that obligation and the amount can be estimated reliably. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect of the time value of money is material, the amount of the provision shall be discounted to present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and risks specific to the obligation.

When discounting is used, the increase in the provision due to passage of time is recognised as a finance cost in profit or loss.

2.18 **Borrowing costs**

Borrowing costs, which comprise interest and other costs incurred in connection with the borrowing of funds, are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the asset is substantially completed for its intended use or sale. All other borrowing costs are recognised in the profit or loss using the effective interest method.

2.19 **Employee benefits**

Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

Such state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

2.20 **Foreign currencies**

(a) *Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Renminbi due to its financial reliance on the operation of its subsidiaries in the People's Republic of China. The financial statements of the Group and the Company are presented in Hong Kong dollar.

(b) *Transactions and balances*

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except for currency translation differences on net investment in foreign operations and borrowings and other currency instruments qualifying as net investment hedges for foreign operations, which are included in the currency translation reserve within equity in the consolidated financial statements. The currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

Notes to the Financial Statements

For the financial year ended 31 March 2019

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.20 **Foreign currencies (cont'd)**

(c) *Translation of Group entities' financial statements*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing rates at the balance sheet date;
(ii) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
(iii) All resulting exchange differences are recognised in the currency translation reserve within equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are taken to the currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

On disposal of a foreign group entity, the cumulative amount of the currency translation reserve relating to that particular foreign entity is reclassified from equity and recognised in profit or loss when the gain or loss on disposal is recognised.

2.21 **Dividends**

Interim dividends are recorded during the financial year in which they are declared payable.

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders.

2.22 **Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the balance sheet and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Where the grant relates to an expense item, it is recognised in profit or loss over the period necessary to match them on a systematic basis to the costs that it is intended to compensate.

2.23 **Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Group. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker for making decisions about allocating resources and assessing performance of the operating segments.

Notes to the Financial Statements

For the financial year ended 31 March 2019

3 CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Group's accounting policies

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the balance sheet date.

In the process of applying the Group's accounting policies, which are described in Note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required by management to determine the primary economic environment in which the entities operate, the entities' process of determining sales prices and the currency of the country whose competitive forces and regulations mainly influences the prices of its goods and services. Management has assessed that prices of the significant subsidiaries are mainly denominated and settled in Renminbi. In addition, the Company's functional currency is determined to be Renminbi due to its financial reliance on the operation of its subsidiaries in the People's Republic of China. Therefore, management concluded that the functional currency of the Company is Renminbi.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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.

i) *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each balance sheet date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

When value in use calculations are undertaken, management is required to estimate the expected future cash flows from the asset or cash-generating unit and a suitable discount rate, in order to determine the present value of those cash flows. The carrying values of the Group's property, plant and equipment and intangible assets are disclosed in Note 14 and 15 respectively. Further details of the key assumptions applied in the impairment assessment of the Group's property, plant and equipment and intangible assets are disclosed in Note 14 and Note 15 respectively. Changes in assumptions made and discount rate applied could affect the carrying values of these assets.

ii) *Calculation of loss allowance*

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions and forecasts of future economic conditions. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

As the calculation of loss allowance on trade receivables, other receivables and amounts due from subsidiaries are subject to assumptions and forecasts, any changes to these estimations will affect the amounts of loss allowance recognised and the carrying amounts of trade receivables, other receivables and amounts due from subsidiaries. Details of ECL measurement and carrying amounts of trade receivables, other receivables and amounts due from subsidiaries at balance sheet date are disclosed in Notes 27(b), 19, 20 and 11 respectively.

Notes to the Financial Statements

For the financial year ended 31 March 2019

4 REVENUE AND SEGMENT REPORTING

	Group	
	2019	2018
	HK$'000	HK$'000
Sale of nutrition, health food and related health products	**44,042**	66,896

All sales are recognised at a point in time.

(a) Segment results, assets and liabilities

The Group manages its business by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. The Group has presented the following three reportable segments.

Internet management:	The provision of technical support services relating to internet and web-TV business.
Investment holding:	The management of the Group's available-for-sale investments, financial instruments and other treasury operations.
Nutrition, health food and related health products:	Manufacturing and trading of nutrition, health food and related health products.

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

- Segment assets include all current and non-current assets except for deferred tax assets and tax recoverable. Segment liabilities include all liabilities with the exception of corporate liabilities which consists of borrowings and tax payable.

- Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

- The Group's senior executive management assesses the performance of the operating segments based on a measure of earnings before interest and income tax.

There were no inter-segments trade transactions during the financial years ended 31 March 2019 and 31 March 2018.

Notes to the Financial Statements

For the financial year ended 31 March 2019

4 REVENUE AND SEGMENT REPORTING (CONT'D)

(a) Segment results, assets and liabilities (cont'd)

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the financial years ended 31 March 2019 and 31 March 2018 is set out below:

	Internet management HK$'000	Investment holding HK$'000	Nutrition, health food and related health products HK$'000	Total HK$'000
2019				
Reportable segment revenue from external customers	–	–	44,042	**44,042**
Segment results	(434)	(3,695)	(79,820)	**(83,949)**
Interest income				**355**
Finance costs				**(7,749)**
Loss before tax				**(91,343)**
Tax expense				**(1,893)**
Loss for the financial year				**(93,236)**
Assets				
Segment assets	26,923	92,676	92,326	**211,925**
Unallocated assets				**327**
				212,252
Liabilities				
Segment liabilities	3,462	13,305	3,602	**20,369**
Unallocated liabilities				**134,931**
				155,300
Other segment information				
Depreciation and amortisation	(192)	7	3,874	**3,689**
Net impairment losses on financial assets	–	–	9,277	**9,277**
Allowance for impairment losses on advances to supplier	–	–	5,005	**5,005**
Impairment losses on property, plant and equipment	–	–	22,096	**22,096**
Impairment losses on intangible assets	–	–	43,687	**43,687**
Inventories written down	–	–	1,073	**1,073**
Capital expenditure	–	1	459	**460**

Notes to the Financial Statements

For the financial year ended 31 March 2019

4 REVENUE AND SEGMENT REPORTING (CONT'D)

(a) Segment results, assets and liabilities (cont'd)

	Internet management HK$'000	Investment holding HK$'000	Nutrition, health food and related health products HK$'000	Total HK$'000
2018				
Reportable segment revenue from external customers	–	–	66,896	**66,896**
Segment results	(219)	(11,140)	5,700	**(5,659)**
Interest income				**796**
Finance costs				**(2,961)**
Loss before tax				**(7,824)**
Tax expense				**(456)**
Loss for the financial year				**(8,280)**
Assets				
Segment assets	8,995	66,490	187,161	**262,646**
Unallocated assets				**1,933**
				264,579
Liabilities				
Segment liabilities	3,925	12,180	8,434	**24,539**
Unallocated liabilities				**80,985**
				105,524
Other segment information				
Depreciation and amortisation	84	63	4,026	**4,173**
Allowance for impairment losses on trade receivables	–	40	6,394	**6,434**
Inventories written down	–	–	1,159	**1,159**
Inventories written off	–	–	1,053	**1,053**
Prepayments and deposits written off	–	–	350	**350**
Capital expenditure	–	6	547	**553**

Notes to the Financial Statements

For the financial year ended 31 March 2019

4 REVENUE AND SEGMENT REPORTING (CONT'D)

(b) Geographic information

The Group's operations are substantially located in the PRC and substantially all of the Group's non-current assets are located in the PRC. The Group's revenue from external customers are generated from the PRC.

(c) Information about major customers

Revenue of approximately HK$21,352,000 (2018: HK$28,340,000) are derived from 3 (2018: 2) major external customers who individually contributed ten percent or more of the Group's revenue (attributable to nutrition, health food and related health products segment) and are tabled below:

	Group	
	2019	2018
	HK$'000	HK$'000
Customer 1	**9,438**	16,536
Customer 2	**6,009**	11,804
Customer 3	**5,904**	–
	21,351	28,340

5 OTHER INCOME

	Group	
	2019	2018
	HK$'000	HK$'000
Foreign exchange gain, net	**464**	–
Gain on modification on the terms of loans from third parties	**2,351**	–
Government subsidies	**823**	903
Others	**390**	91
	4,028	994

6 FINANCE COSTS

	Group	
	2019	2018
	HK$'000	HK$'000
Interest expense on bank loans	**830**	809
Interest expense on loans from third parties	**6,919**	2,152
	7,749	2,961

Notes to the Financial Statements

For the financial year ended 31 March 2019

7 LOSS BEFORE TAX

Loss before tax is arrived at after charging:

	Group	
	2019	2018
	HK$'000	HK$'000
Advertising and promotion fees	**3,057**	4,642
Auditors' remuneration paid/payable to:		
- auditor of the Company	**400**	413
- other auditors*	**700**	680
Fees for non-audit services paid/payable to:		
- auditors of the Company	**93**	–
- other auditors*	**70**	510
Allowance for impairment losses on advances to supplier	**5,005**	–
Amortisation of intangible assets	**199**	163
Amortisation of land use rights	**134**	136
Inventories written off	**–**	1,053
Depreciation of property, plant and equipment	**3,356**	3,874
Foreign exchange loss, net	**–**	1,823
Impairment losses on intangible assets	**43,687**	–
Impairment losses on property, plant and equipment	**22,096**	–
Inventories written down	**1,073**	1,159
Legal and professional fees	**2,476**	2,969
Lending facility fees	**–**	1,559
Prepayments and deposits written off	**–**	350
Rental expenses	**593**	601
Research and development expenses	**2,971**	3,599
Staff costs (Note 8)	**12,341**	14,780
Travelling expenses	**1,154**	2,467

* Includes independent member firms of the Baker Tilly International network.

Notes to the Financial Statements

For the financial year ended 31 March 2019

8 STAFF COSTS

	Group	
	2019	2018
	HK$'000	HK$'000
Key management personnel		
Directors of the Company:		
- Directors' fees	**459**	472
- Directors' remuneration and related costs	**181**	198
	640	670
Directors of subsidiary:		
- Directors' remuneration and related costs	**666**	390
- Defined contribution benefits	**32**	33
	698	423
Others:		
- Salaries	**840**	840
	2,178	1,933
Other personnel		
- Salaries and related costs	**9,053**	11,676
- Defined contribution benefits	**1,110**	1,171
	10,163	12,847
	12,341	14,780
Staff costs recognised in line items of profit or loss:		
- Cost of sales	**2,896**	3,057
- Administrative expenses	**7,560**	7,566
- Distribution expenses	**1,885**	4,157
	12,341	14,780

9 TAX EXPENSE

	Group	
	2019	2018
	HK$'000	HK$'000
Tax expense attributable to profit is made up of:		
- Current income tax provision	**–**	2,244
Deferred tax (Note 17)	**1,818**	(1,292)
Under provision of current income tax in respect of previous financial years	**75**	59
Over provision of deferred tax assets in respect of previous financial years (Note 17)	**–**	(555)
	1,893	456

Notes to the Financial Statements

For the financial year ended 31 March 2019

9 TAX EXPENSE (CONT'D)

(a) Pursuant to the rules and regulations of Bermuda and British Virgin Islands ("BVI"), the companies incorporated in Bermuda and BVI are not subject to any income tax in Bermuda and BVI.

Nutryfarm (Chengdu) Biomedicine Limited ("NFC") a PRC subsidiary enjoys preferential income tax rate of 15% (2018: 15%) as it is regarded as high-tech enterprise.

The statutory income tax rate applicable to other PRC subsidiaries is 25% (2018: 25%) and Hong Kong subsidiaries is 16.50% (2018: 16.50%).

(b) The tax expense on the results of the financial year differs from the amount of income tax determined by applying the domestic rates applicable to loss in the countries where the Group entities operate due to the following factors:

	Group	
	2019	2018
	HK$'000	HK$'000
Loss before tax	**(91,343)**	(7,824)
Notional tax expense on (loss)/profit before tax, calculated at the rates applicable in the tax jurisdictions concerned	**(5,745)**	573
Income not subject to tax	**(352)**	(282)
Expenses not deductible for tax purpose	**94**	281
Deferred tax assets not recognised	**7,821**	380
Over provision of deferred tax assets in respect of previous financial years	**–**	(555)
Under provision of current income tax in respect of previous financial years	**75**	59
	1,893	456

As at 31 March 2019, the Group has not recognised deferred tax assets in respect of tax losses of HK$56,310,000 (2018: HK$53,500,000) and other deductible temporary differences of HK$49,129,000 (2018: HK$Nil) as it is uncertain that future taxable profits will be available against which the Group can utilise the benefits. The tax losses have no expiry date except for an amount of HK$3,774,000 (2018: HK$2,044,000) that can be carried forward up to five years from the year of loss against future taxable profits/income of the PRC subsidiaries in which the tax losses arose, subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation in the PRC.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of a subsidiary for which deferred tax liabilities have not been recognised is HK$1,449,000 (2018: HK$5,682,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Notes to the Financial Statements
For the financial year ended 31 March 2019

10 LOSS PER SHARE

(a) Basic loss per share

The calculation of the basic loss per share attributable to equity holders of the Company is based on the following data:

	Group	
	2019	2018
	HK$'000	HK$'000
Net loss attributable to equity holders of the Company (HK$'000)	**(93,236)**	(8,280)
Weighted average number of ordinary shares outstanding for basic loss per share ('000)	**96,422**	73,744
Basic loss per share (cents per share)	**(96.70)**	(11.23)

(b) Diluted loss per share

Diluted loss per share is same as basic loss per share as there were no potential dilutive ordinary shares for the financial years ended 31 March 2019 and 31 March 2018.

11 SUBSIDIARIES

	Company	
	2019	2018
	HK$'000	HK$'000
Investment in subsidiaries		
Unquoted equity shares, at cost	**134,722**	142,201
Less: Allowance for impairment losses	**(58,275)**	–
Net carrying amount at 31 March	**76,447**	142,201
Movement in allowance for impairment losses during the financial year:		
At 1 April	**–**	–
Allowance made	**(58,275)**	–
At 31 March	**(58,275)**	–
Amounts due from subsidiaries		
Gross amounts	**506,492**	471,246
Less: Allowance for impairment losses	**(355,738)**	(353,918)
Net carrying amount at 31 March	**150,754**	117,328

Notes to the Financial Statements

For the financial year ended 31 March 2019

11 SUBSIDIARIES (CONT'D)

Movement in allowance for impairment losses during the financial year:

	Company	
	2019	2018
	HK$'000	HK$'000
At 1 April	**(353,918)**	(353,918)
Allowance made	**(1,820)**	–
At 31 March	**(355,738)**	(353,918)
Amounts due to subsidiaries	**74,759**	89,165

The amounts due from/to subsidiaries are non-trade in nature, unsecured, interest-free and repayable on demand.

(a) Details of subsidiaries held by the Company are as follows:

Name of subsidiary	Country of incorporation	Particulars of issued and paid up capital	Principal activities	Effective equity interest held	
				2019	2018
				%	%
Held by the Company					
Nutryfarm Biomedicine International Limited (i)	BVI	10,000 ordinary shares of US$1	Investment holding	**100**	100
LottVision Holdings Limited (i)	BVI	1 ordinary share of US$1	Investment holding	**100**	100
Held by subsidiaries					
Le Dream Land Limited (i)	BVI	1 ordinary share of US$1	Investment holding	**–**	100
LottVision Gtech Management Limited (i)	BVI	1 ordinary share of US$1	Investment holding	**100**	100
LottVision (Hong Kong) Limited (iii)	Hong Kong	1 ordinary share of HK$1	Investment holding	**100**	100
LottVision Investments Holdings Limited (i)	BVI	1 ordinary share of US$1	Investment holding	**100**	100
LottVision Internet Management Limited (i)	BVI	100 ordinary shares of US$1	Development and sale of digital video surveillance products and solutions	**100**	100
WiVision Network Digital Video Technology (Beijing) Co., Limited (v)	The PRC	Registered capital of HK$15,000,000	Provision of internet related support services	**100**	100
Nutryfarm (Chengdu) Biomedicine Limited (iv)	The PRC	Registered capital of US$1,500,000	Research and development, production of health food, sale of self-produced products and provision of related technical services	**100**	100

Notes to the Financial Statements

For the financial year ended 31 March 2019

11 SUBSIDIARIES (CONT'D)

(a) Details of subsidiaries held by the Company are as follows (cont'd):

Notes:

(i) The financial statements of these entities are not required to be audited under the laws of the BVI, the country of incorporation.

(ii) Audited by Baker Tilly TFW LLP, Singapore for subsidiaries mentioned in (i) for the purpose of preparation of the consolidated financial statements of the Group.

(iii) Audited by Baker Tilly Hong Kong Limited.

(iv) Audited by Baker Tilly Hong Kong Limited for the purpose of preparation of the consolidated financial statements of the Group.

(v) Audited by Baker Tilly TFW LLP, Singapore for the purpose of preparation of the consolidated financial statements of the Group.

In accordance to Rule 716 of The Singapore Exchange Securities Trading Limited - Listing Rules, the Audit Committee and Board of Directors of the Company confirmed that they are satisfied that the appointment of different auditors for its subsidiaries would not compromise the standard and effectiveness of the audit of the Group.

(b) Significant restrictions

Cash and cash equivalents of HK$42,010,000 (2018: HK$20,868,000) are held in the People's Republic of China and are subject to local exchange control regulations. These regulations place restrictions on the amount of currency being exported from the country, other than through dividends.

(c) Company level - Impairment review of investment in subsidiaries

During the financial year, management performed an impairment test for the investment in Nutryfarm Biomedicine International Limited and its subsidiary ("NFB Group") as NFB Group had been making net losses during the financial year. An impairment loss of HK$58,275,000 (2018: HK$Nil) was recognised for the financial year ended 31 March 2019 to write down the cost of investment of NFB Group to its recoverable amount of HK$76,447,000 (2018: HK$Nil). The recoverable amount of the investment in NFB Group has been determined based on a value-in-use calculation. Details of key assumptions used in value-in-use calculation are disclosed in Note 15(a).

The key assumptions used in the value-in-use calculations are those regarding the budgeted revenue growth rate, budgeted gross margin, terminal year growth rate and discount rate. The sensitivity analysis on the changes in these key assumptions on the recoverable amount of the cost of investment in NFB Group are as follows:

	Estimated recoverable amount	**(Decrease)/ increase in impairment charge**
	HK$'000	**HK$'000**
Budgeted revenue growth rate		
- 1% point higher	80,554	(4,107)
- 1% point lower	72,474	3,973
Budgeted gross margin		
- 1% point higher	80,076	(3,629)
- 1% point lower	72,818	3,629

Notes to the Financial Statements

For the financial year ended 31 March 2019

11 SUBSIDIARIES (CONT'D)

(c) Company level - Impairment review of investment in subsidiaries (cont'd)

The key assumptions used in the value-in-use calculations are those regarding the budgeted revenue growth rate, budgeted gross margin, terminal year growth rate and discount rate. The sensitivity analysis on the changes in these key assumptions on the recoverable amount of the cost of investment in NFB Group are as follows (cont'd):

	Estimated recoverable amount	**(Decrease)/ increase in impairment charge**
	HK$'000	**HK$'000**
Terminal year growth rate		
- 1% point higher	76,829	(382)
- 1% point lower	76,115	332
Discount rate		
- 1% point higher	73,636	2,811
- 1% point lower	79,719	(3,272)

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2019	2018
	HK$'000	HK$'000
Available-for-sale equity shares		
- Unquoted equity shares, at cost	–	45,505
Less: Allowance for impairment losses	–	(45,505)
	–	–

At the balance sheet date, unquoted equity shares have been fully impaired.

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group	
	2019	2018
	HK$'000	HK$'000
Equity investments designated at FVOCI		
Unquoted equity shares	–	–

Unquoted equity shares represent interest in a company in PRC which is engaged in online entertainment, amusement and media services provider. These investments in equity shares are not held for trading. Accordingly, management has elected to designate these investments in equity shares at fair value through other comprehensive income. It is the Group's strategy to hold these investments for long term purposes.

Notes to the Financial Statements

For the financial year ended 31 March 2019

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Group - 2019							
Cost							
At 1 April 2018	43,069	12,097	1,738	4,525	3,168	97	64,694
Additions	278	92	–	90	–	–	460
Write off	–	–	(1,189)	(1,399)	(317)	–	(2,905)
Reclassification	–	–	–	93	–	(93)	–
Currency translation differences	(2,213)	(629)	(66)	(213)	(106)	(4)	(3,231)
At 31 March 2019	**41,134**	**11,560**	**483**	**3,096**	**2,745**	**–**	**59,018**
Accumulated depreciation and impairment losses							
At 1 April 2018	12,231	5,917	1,738	4,497	2,545	–	26,928
Depreciation charge	2,212	1,094	–	(170)	220	–	3,356
Impairment losses	16,751	4,844	–	356	145	–	22,096
Write off	–	–	(1,189)	(1,399)	(317)	–	(2,905)
Currency translation differences	(627)	(295)	(66)	(199)	(81)	–	(1,268)
At 31 March 2019	**30,567**	**11,560**	**483**	**3,085**	**2,512**	**–**	**48,207**
Representing:							
Accumulated depreciation	13,816	6,716	483	2,729	2,367	–	26,111
Accumulated impairment losses	16,751	4,844	–	356	145	–	22,096
	30,567	**11,560**	**483**	**3,085**	**2,512**	**–**	**48,207**
Net carrying value							
31 March 2019	**10,567**	**–**	**–**	**11**	**233**	**–**	**10,811**

Notes to the Financial Statements

For the financial year ended 31 March 2019

14 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Group - 2018							
Cost							
At 1 April 2017	39,170	10,583	1,624	4,112	2,987	96	58,572
Additions	–	454	–	47	–	–	501
Currency translation differences	3,899	1,060	114	366	181	1	5,621
At 31 March 2018	43,069	12,097	1,738	4,525	3,168	97	64,694
Accumulated depreciation							
At 1 April 2017	8,916	4,298	1,567	3,952	2,198	–	20,931
Depreciation charge	2,265	1,150	57	179	223	–	3,874
Currency translation differences	1,050	469	114	366	124	–	2,123
At 31 March 2018	12,231	5,917	1,738	4,497	2,545	–	26,928
Net carrying value							
31 March 2018	30,838	6,180	–	28	623	97	37,766

(i) At 31 March 2019, buildings of the Group with net carrying value of HK$5,068,000 (2018: HK$19,196,000) are secured for short term loans (Note 22).

(ii) During the financial year, the Group continues to operate at a net loss. As this indicates that the Group's property, plant and equipment and intangible assets (Note 15) may be impaired, an assessment of the recoverable amount of the property, plant and equipment and intangible assets was performed.

The Group's financial performance and financial position are mainly contributed by NFB Group. Management considered NFB Group as a CGU that generate cash flows from nutrition, health food and related health products segment that are largely independent cash flows from other segments. The recoverable amount is determined based on a value-in-use calculation. As a result of review, an impairment loss on property, plant and equipment, goodwill arising on business combination and other intangible assets of HK$22,096,000, HK$42,778,000 [Note 15(a)] and HK$909,000 [Note 15(b)] respectively were recognised in profit or loss under "administrative expenses" line items for the financial year ended 31 March 2019 to write down these non-financial assets in relation to NFB Group to their recoverable amount. Details of key assumptions used in value-in-use calculation are disclosed in Note 15(a).

Notes to the Financial Statements
For the financial year ended 31 March 2019

14 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(ii) The key assumptions used in the value-in-use calculations are those regarding the budgeted revenue growth rate, budgeted gross margin, terminal year growth rate and discount rate. The sensitivity analysis on the changes in these key assumptions on the recoverable amount of the NFB Group's property, plant and equipment are as follows:

	Estimated recoverable amount	**(Decrease)/ increase in impairment charge**
	HK$'000	**HK$'000**
Budgeted revenue growth rate		
- 1% point higher	18,930	(4,107)
- 1% point lower	10,850	3,973
Budgeted gross margin		
- 1% point higher	18,452	(3,629)
- 1% point lower	11,194	3,629
Terminal year growth rate		
- 1% point higher	15,205	(382)
- 1% point lower	14,491	332
Discount rate		
- 1% point higher	12,012	2,811
- 1% point lower	18,095	(3,272)

15 INTANGIBLE ASSETS

	Group	
	2019	2018
	HK$'000	HK$'000
Goodwill arising on business combination	–	45,152
Other intangible assets	–	1,172
	–	46,324

Notes to the Financial Statements

For the financial year ended 31 March 2019

15 INTANGIBLE ASSETS (CONT'D)

(a) Goodwill arising on business combination

	Group	
	2019	2018
	HK$'000	HK$'000
Cost		
At 1 April	**45,152**	41,069
Currency translation differences	**(2,374)**	4,083
At 31 March	**42,778**	45,152
Accumulated impairment losses		
At 1 April	**–**	–
Impairment charge (Note 7)	**42,778**	–
At 31 March	**42,778**	–
Net carrying amount at 31 March	–	45,152

Impairment test for goodwill

Goodwill arose from acquisition of NFB Group is allocated to the cash generating units ("CGU") that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to a CGU, being nutrition, health food and related health products segment. An impairment loss of HK$42,778,000 (2018: HK$Nil) was recognised in profit or loss under "administrative expenses" line items for the financial year ended 31 March 2019 to write down goodwill to its recoverable amount of HK$Nil (2018: HK$45,152,000).

Key assumptions used in value in use calculation

The recoverable amount of the CGU is determined from value-in-use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, budgeted revenue growth rate, budgeted gross margin and terminal growth rate during the period. Management estimates discount rate using pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the CGU. The budgeted revenue growth rate is based on past performances and management's assessment of future trends and developments in the market. Budgeted gross margin is based on past performances.

The Group's value in use calculations used cash flow forecasts derived from the most recent financial budgets approved by management covering a five-year period using estimated average annual growth rate of 6% (2018: 6%) and budgeted gross margin of 41% (2018: 57%) for the next 5 years. Cash flows beyond the five-year period were extrapolated using an estimated terminal value growth rate of 2% (2018: 2%). This rate does not exceed the average long-term growth rate for the relevant markets. The budgeted revenue for the first year is HK$46,684,000 (2018: HK$70,911,000).

The pre-tax rate used to discount the forecast cash flows is 18% (2018: 17%).

Sensitivity to changes in assumptions

With regards to the assessment of value-in-use, management believes that reasonably possible changes in any of the above key assumptions would not cause the recoverable amount to be increased significantly that lower the impairment charge as recognised for the current financial year.

Notes to the Financial Statements

For the financial year ended 31 March 2019

15 INTANGIBLE ASSETS (CONT'D)

(b) Other intangible assets

	Software HK$'000	Patent HK$'000	Customer relationship HK$'000	Total HK$'000
Group				
Cost				
At 1 April 2017	2,455	1,749	16,756	20,960
Additions	–	52	–	52
Currency translation differences	–	177	–	177
At 31 March 2018	2,455	1,978	16,756	21,189
Written off	(2,455)	–	–	(2,455)
Currency translation differences	–	(104)	–	(104)
At 31 March 2019	**–**	**1,874**	**16,756**	**18,630**
Accumulated amortisation and impairment losses				
At 1 April 2017	2,455	577	16,756	19,788
Amortisation charge	–	163	–	163
Currency translation differences	–	66	–	66
At 31 March 2018	2,455	806	16,756	20,017
Amortisation charge	–	199	–	199
Impairment losses	–	909	–	909
Written off	(2,455)	–	–	(2,455)
Currency translation differences	–	(40)	–	(40)
At 31 March 2019	**–**	**1,874**	**16,756**	**18,630**
Representing:				
Accumulated amortisation	–	965	16,756	17,721
Accumulated impairment losses	–	909	–	909
	–	**1,874**	**16,756**	**18,630**
Net carrying value				
At 31 March 2019	–	–	–	–
At 31 March 2018	–	1,172	–	1,172

Notes to the Financial Statements

For the financial year ended 31 March 2019

15 INTANGIBLE ASSETS (CONT'D)

(b) Other intangible assets (cont'd)

The amortisation charge for the financial year is included in "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

Customer relationship arose from acquisition of NFB Group during the financial year ended 31 March 2013.

An impairment loss on patent of HK$909,000 was recognised for the financial year ended 31 March 2019 [Note 14(ii)].

16 LAND USE RIGHTS

	Group	
	2019	2018
	HK$'000	HK$'000
Cost		
At 1 April	**6,842**	6,276
Currency translation differences	**(331)**	566
At 31 March	**6,511**	6,842
Accumulated amortisation		
At 1 April	**794**	599
Amortisation charge	**134**	136
Currency translation differences	**(38)**	59
At 31 March	**890**	794
Net carrying value		
At 31 March	**5,621**	6,048
Amount to be amortised:		
- Not later than one financial year	**135**	142
- Between two and five financial years	**542**	569
- Later than five financial years	**4,944**	5,337
	5,621	6,048

Notes to the Financial Statements

For the financial year ended 31 March 2019

16 LAND USE RIGHTS (CONT'D)

Land use rights represent the rights to use a piece of land which is located in the PRC, and is valid for a period of 50 years from respective dates of grant and will be expiring in 2060.

At 31 March 2019, the land use rights of the Group with a net carrying value of HK$5,621,000 (2018: HK$6,048,000) is secured for bank loans (current) (Note 22).

Location	Description and tenure	Gross land area (sqm)	Gross built-in area (sqm)	Use of property
彭州市业开发区 PY2010-12-2457 (Pharmaceutical Park, Industrial Development Zone, Pengzhou, Chengdu, Sichuan Province)	Valid for a period of 50 years from respective dates of grant and will be expiring in 2060	34,165.33	9,175.07	Industrial

17 DEFERRED TAX ASSETS

The movements in the deferred tax assets comprising of other deductible temporary differences are as follows:

	Group	
	2019	2018
	HK$'000	HK$'000
Balance at beginning of the financial year	**1,933**	–
Currency translation differences	**(115)**	86
Tax (charge)/credit to		
- Profit or loss (Note 9)	**(1,818)**	1,847
Balance at end of the financial year	**–**	1,933

18 INVENTORIES

	Group	
	2019	2018
	HK$'000	HK$'000
Raw materials	**6,030**	8,232
Work in progress	**271**	228
Finished goods	**6,601**	4,796
	12,902	13,256

During the financial year, raw materials, consumables and changes in finished goods and work in progress included as cost of sales amounted to HK$18,760,000 (2018: HK$21,229,000).

Notes to the Financial Statements

For the financial year ended 31 March 2019

19 TRADE RECEIVABLES

	Group	
	2019	2018
	HK$'000	HK$'000
Amounts due from third parties	**26,813**	38,594
Less: Allowance for impairment losses	**(17,321)**	(13,949)
	9,492	24,645

20 OTHER RECEIVABLES

	Group		Company	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Prepayment to third party vendors [(a)]	**1,453**	1,534	**–**	–
Deposits paid for acquisition of property, plant and equipment [(c)]	**23,552**	–	**–**	–
	25,005	1,534	**–**	–
Current				
Deposits	**122**	118	**–**	–
Prepayments	**709**	682	**125**	117
Advances to suppliers	**5,138**	16,111	**–**	–
Advances to third parties [(b)]	**13,361**	19,623	**–**	–
Advances for proposed acquisition [(c)]	**89,757**	59,400	**–**	–
Advances to a related party [Note 26(a)] [(b)]	**1,162**	–	**–**	–
Other receivables	**698**	979	**8**	8
	110,947	96,913	**133**	125
Less: allowance for impairment losses				
Advances to suppliers	**(5,005)**	–	**–**	–
Advances to third parties	**(5,228)**	–	**–**	–
	100,714	96,913	**133**	125

(a) Prepayment to third party vendors of HK$1,453,000 (2018: HK$1,534,000) relate to amounts paid to third party vendors for purchase of intangible assets - patent.

(b) Advances to third parties and a related party are unsecured, interest-free and repayable on demand except for an amount of HK$9,295,000 included in advances to third parties and advances to a related party of HK$1,162,000 which are repayable on fixed maturity dates, within the next financial year.

Notes to the Financial Statements

For the financial year ended 31 March 2019

20 OTHER RECEIVABLES (CONT'D)

(c) The Group, through LottVision Internet Management Limited ("LottVision Internet Management"), an indirectly wholly-owned subsidiary, entered into a deed of sale and purchase and a shareholders' agreement with Mr. Xiaoxin Wang (the "Vendor") on 15 March 2018 in connection with the proposed acquisition of an aggregate of 4,500 fully issued and paid-up ordinary shares of First Linkage Inc. ("First Linkage") of US$1.00 each, representing 45% of the issued and paid-up shares of First Linkage. The aggregate consideration for the proposed acquisition of First Linkage is RMB90,000,000, subject to a profit guarantee and retained sum of RMB22,500,000.

As at 31 March 2018, the advances paid to the Vendor for proposed acquisition of First Linkage amounted to HK$59,400,000.

During the current financial year, the proposed acquisition of First Linkage was terminated. Accordingly, the advances paid to the Vendor become refundable.

As at 31 March 2019, the refundable advances for proposed acquisition of First Linkage amounted to HK$89,757,000 (RMB77,250,000). Subsequent to 31 March 2019, the Group has received refunds of HK$21,610,000 (RMB18,605,000) from the Vendor. The Group is still in the process of recovering the remaining advances of HK$68,147,000 (RMB58,645,000) from the Vendor.

On 15 April 2019, the Group has signed contracts with Beijing Zhonglian Shengtong Internet Technology Co., Ltd. ("Zhonglian Shengtong"), an indirectly wholly owned subsidiary of First Linkage, to acquire hardware and software for a total consideration of RMB66,400,000 (HK$77,150,000). As at 31 March 2019, a 30% deposit of HK$23,552,000 (RMB20,270,000) was paid to Zhonglian Shengtong.

Management has implemented the following safeguard and measure for recovering the remaining refundable advances for proposed acquisition of First Linkage of HK$68,147,000:

(i) Mr. Xu Haimin, a non-executive and non-independent director of the Company has been appointed as the legal representative and director of Beijing Shengyuantong Technology Development Co., Ltd., ("Shengyuantong"), Zhonglian Shengtong and Xinjiang Zhongtong Internet Science and Technology Development Co., Ltd. ("Xinjiang Zhongtong"). The ultimate beneficial owner of Shengyuantong, Zhonglian Shengtong and Xinjiang Zhongtong is the Vendor.

(ii) As disclosed in Note 32, LottVision Internet Management has entered into a sale and purchase agreement dated 21 June 2019 with First Linkage to acquire 100% of the equity interests of Xinjiang Zhongtong from Zhonglian Shengtong, whereby First Linkage has agreed to procure that Zhonglian Shengtong sell, and LottVision Internet Management has agreed to purchase, for the aggregate consideration of RMB50,000,000.

The Vendor is committed to refund the remaining advances of HK$68,147,000 (RMB58,645,000) prior to the completion of the proposed acquisition of Xinjiang Zhongtong and completion of installation of hardware and software. Otherwise, the Vendor has agreed that the outstanding advances can be used to offset against the purchase consideration of Xinjiang Zhongtong and outstanding balance of acquisition of hardware and software from Zhonglian Shengtong.

Management is of the view that the above-mentioned safeguard and measure are adequate and appropriate for recovering the remaining advances of HK$68,147,000.

Notes to the Financial Statements

For the financial year ended 31 March 2019

21 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Trade and other payables

	Group		Company	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**1,676**	5,603	**–**	–
Other payables and accruals	**7,602**	8,712	**3,202**	3,348
Accrued interest expense	**3,939**	2,152	**3,939**	2,152
Directors' fees payable	**1,070**	1,790	**1,070**	1,823
Amount due to Director of the Company	**2,640**	2,640	**1,183**	1,183
Amount due to Director of a subsidiary	**–**	770	**–**	–
Amount due to a related party	**770**	–	**–**	–
Receipt in advance	**–**	1,462	**–**	–
Advances received from a third party	**1,410**	1,410	**–**	–
	19,107	24,539	**9,394**	8,506

The amount due to Director of the Company, amount due to Director of a subsidiary, amount due to a related party and advances received from a third party are unsecured, interest-free and repayable on demand.

Related party refers to Group's key management personnel.

Contract liabilities

Contract liabilities relate to advance consideration received from customers. Contract liabilities are recognised as revenue as (or when) the Group satisfies the performance obligations under its contracts.

The following table provides information about contract liabilities from contracts with customers.

	Group	
	31.3.2019	1.4.2018
	HK$'000	HK$'000
Contract liabilities	**1,262**	1,462

There were no significant changes in the contract liability balances during the financial year.

Notes to the Financial Statements

For the financial year ended 31 March 2019

21 TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES (CONT'D)

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Accrued interest expense HK$'000	Amount due to Director of the Company HK$'000	Amount due to Director of a subsidiary HK$'000	Amount due to a related party HK$'000	Total HK$'000
Balance at 1 April 2017	–	3,681	1,505	–	5,186
Changes from financing cash flows:					
- Repayments	–	(1,041)	(735)	–	(1,776)
Non-cash changes:					
- Interest expense	2,152	–	–	–	2,152
Balance at 31 March 2018	2,152	2,640	770	–	5,562
Changes from financing cash flows:					
- Proceeds	–	685	–	–	685
- Repayments	(2,946)	(685)	–	–	(3,631)
Non-cash changes:					
- Interest expense	4,733	–	–	–	4,733
- Reclassifications	–	–	(770)	770	–
Balance at 31 March 2019	**3,939**	**2,640**	**–**	**770**	**7,349**

22 BORROWINGS

	Group		Company	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Loans from third parties	**119,826**	65,032	**119,826**	65,032
Current				
Bank loans	**15,105**	15,943	**–**	–
Total borrowings	**134,931**	80,975	**119,826**	65,032

Loans from third parties are unsecured, bears interests ranging from 4.98% to 9.45% (2018: 4.48% to 8.78%) per annum and are repayable on fixed maturity dates, within 2 to 4 (2018: 3 to 4) next financial years.

The bank loans bear interest at 5.71% (2018: 5.22%) per annum.

Notes to the Financial Statements

For the financial year ended 31 March 2019

22 BORROWINGS (CONT'D)

As at 31 March 2019, the bank loans of the Group were secured by:

(i) the Group's buildings and land use rights with net carrying value of HK$5,068,000 (2018: HK$19,196,000) (Note 14) and HK$5,621,000 (2018: HK$6,048,000) (Note 16) respectively; and

(ii) the personal guarantees provided by two Directors of a subsidiary.

The carrying amounts of the loans from third parties approximate their fair values at the end of the reporting period.

Based on discounted cash flows using market lending rate for similar borrowings which the management expects would be available to the Group at the balance sheet date, the fair values of the non-current loans from third parties at the balance sheet date approximate their carrying value as there are no significant changes in the interest rates available to the Group at the balance sheet date. This fair value measurement for disclosure purposes is categorised in Level 3 of the fair value hierarchy.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Loans from third parties HK$'000	**Bank loans HK$'000**	**Total HK$'000**
Balance at 1 April 2017	–	14,502	14,502
Changes from financing cash flows:			
- Proceeds	62,900	15,943	78,843
- Repayments	–	(14,502)	(14,502)
- Interest paid	–	(809)	(809)
Non-cash changes:			
- Interest expense	–	809	809
Effect of changes in foreign exchange rates	2,132	–	2,132
Balance at 31 March 2018	65,032	15,943	80,975
Changes from financing cash flows:			
- Proceeds	56,959	14,993	71,952
- Repayments	–	(14,993)	(14,993)
- Interest paid	–	(830)	(830)
Non-cash changes:			
- Interest expense	2,186	830	3,016
- Gain on modification on the terms of loans from third parties	(2,351)	–	(2,351)
Effect of changes in foreign exchange rates	(2,000)	(838)	(2,838)
Balance at 31 March 2019	**119,826**	**15,105**	**134,931**

Notes to the Financial Statements

For the financial year ended 31 March 2019

23 EQUITY COMPENSATION BENEFITS

LottVision Incentive Share Scheme

Pursuant to a resolution of shareholders on 29 July 2009, an employee incentive scheme (the "LottVision Incentive Share Scheme") was adopted for a term of 10 years. The purpose of this scheme is to provide incentives to employees of the Group and Executive and Non-Executive Directors to excel in their performance as well as to enhance their loyalty and dedication to the Group.

The LottVision Incentive Share Scheme is administered by the Remuneration Committee or such other committee comprising the Directors appointed by the Board of Directors (the "Incentive Committee"). Under the LottVision Incentive Share Scheme, the Incentive Committee may grant awards of shares in the Company to the employees of the Group and Executive and Non-Executive Directors, who are not the controlling shareholders of the Company or their associates, as the Incentive Committee may select, in its absolute discretion, which shall take into account the rank, job performance, level of responsibility, year of services and such other criteria as the Incentive Committee may consider appropriate. The selected employees are not required to pay for the grant of award of the shares.

The total number of shares issued and to be issued in respect of the awards granted under the LottVision Incentive Share Scheme and in respect of the options under the LottVision Share Option Scheme shall not, in aggregate, exceed 15% of the issued share capital of the Company on the date preceding the date of the relevant grant.

During the financial years ended 31 March 2019 and 31 March 2018, no award of shares were granted.

24 SHARE CAPITAL

Authorised and issued share capital

	Group and Company			
	2019		**2018**	
	Number of shares	**Par value**	**Number of shares**	**Par value**
Authorised:				
Ordinary shares of HK$0.10 (2018: HK$0.10)				
At 1 April and 31 March	**1,750,000,000**	**175,000**	1,750,000,000	175,000
Issued:				
At 1 April	**96,422,103**	**9,642**	64,281,402	6,428
Rights issue	**–**	**–**	32,140,701	3,214
At 31 March	**96,422,103**	**9,642**	96,422,103	9,642

On 21 December 2017, the Company has exercised rights issue of shares up to 32,140,701 right shares at issue price (S$0.10 for each right share, equivalent to HK$0.51) on basis of one rights share for every two existing shares held by the entitled shareholders. Based on the issued share capital of Company of 64,281,402 shares as at the date of financial year end, up to 32,140,701 rights shares was issued under the rights issue exercise.

As a result, the Company has 96,422,103 shares after the rights issue exercise. The rights shares rank pari passu in all respects with the previously issued shares.

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

Notes to the Financial Statements

For the financial year ended 31 March 2019

25 OTHER RESERVES

	Group		Company	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other reserves comprise:				
Share premium	**315,301**	316,656	**315,301**	316,656
Rights issue expenses	**–**	(1,355)	**–**	(1,355)
	315,301	315,301	**315,301**	315,301
Contributed surplus reserve	**119,560**	119,560	**119,560**	119,560
Currency translation reserve	**(6,446)**	2,421	**(4,145)**	1,662
Fair value reserve	**(45,505)**	–	**–**	–
	382,910	437,282	**430,716**	436,523

(i) Share premium

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

(ii) Contributed surplus reserve

On 17 June 2015, the reduction in par value of the issued consolidated shares from HK$2.80 each to HK$0.10 each did not result in any return of capital to shareholders. The credit amount arising from the issued share capital reduction was transferred to contributed surplus reserve.

(iii) Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2.20.

(iv) Distributability of reserve

As at 31 March 2019, the Company does not have reserves available for distribution to equity holders of the Company (2018: Nil), except for contributed surplus reserve. The Directors may apply any credit balance in the contributed surplus reserve of the Company in accordance with the Bye-Laws and the Bermuda Companies Act for future distributions and other usage, as permitted by the relevant Bermuda laws and regulations at the time the contributed surplus reserve is used and also subject to, amongst others, the availability of sufficient cash flow.

(v) Fair value reserve

The reserve represents changes in the fair value of equity shares classified as financial assets at fair value through other comprehensive income.

Notes to the Financial Statements

For the financial year ended 31 March 2019

26 RELATED PARTY TRANSACTIONS

(a) In addition to information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties, who are not members of the Group during the financial year on terms agreed by the parties concerned:

	Group	
	2019	2018
	HK$'000	HK$'000
With a director of the Company		
Advances from	**685**	–
With related parties		
Sales to	**765**	–
Advances to	**1,162**	–
Service income	**390**	–

Other related parties comprise mainly companies which are controlled by a director of the subsidiary.

(b) Key management personnel remuneration

Key management personnel are Directors and those person having authorities and responsibilities for planning, directing and controlling the activities of the Group, directly or indirectly. Remuneration for key management personnel, including amounts paid to the Company's Directors are disclosed in Note 8.

The amounts do not include compensation of any of the key management personnel and Directors who received compensation from related corporations outside the Group in their capacity as Directors and/or Executives of those related corporations.

27 FINANCIAL INSTRUMENTS

(a) **Categories of financial instruments**

Financial instruments at their carrying amounts at the balance sheet date are as follows:

	Group		Company	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Loans and receivables	**–**	81,525	**–**	119,340
Financial assets at amortised costs	**156,744**	–	**152,317**	–
Financial liabilities				
Financial liabilities at amortised cost	**154,038**	104,052	**203,979**	162,703

Notes to the Financial Statements

For the financial year ended 31 March 2019

27 FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management

As at 31 March 2019, the Group's financial assets comprised mainly trade receivables, other receivables and cash and bank balances. The Group's financial liabilities comprised trade and other payables and borrowings.

The Group is exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include foreign currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from these financial risks on the Group's financial performance as described below.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's and the Company's credit risk is primarily attributable to trade receivables, other receivables and deposits with banks.

Management has a credit policy in place over trade receivables, other receivables and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount and advance to business partners. Trade receivables are due on the date of billing. With respect to advances to third parties, the repayment terms are set out in each fund advance agreement and normally are repayable within one year. The Group does not obtain collaterals from both customers and business partners.

The following sets out the Group's internal credit evaluation practices and basis for recognition and measurement of expected credit losses (ECL):

Description of evaluation of financial assets	Basis for recognition and measurement of ECL
Counterparty has a low risk of default and does not have any past due amounts	12-month ECL
Contractual payments are more than 30 days past due or where there has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired
Contractual payments are more than 90 days past due or there is evidence of credit impairment	Lifetime ECL - credit-impaired
There is evidence indicating that the Group has no reasonable expectation of recovery of payments such as when the debtor has been placed under liquidation or has entered into bankruptcy proceedings	Write-off

Significant increase in credit risk

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial asset as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information, such as future economic and industry outlook, that is available without undue cost or effort.

Notes to the Financial Statements

For the financial year ended 31 March 2019

27 FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management (cont'd)

Credit risk (cont'd)

In particular, the Group considers the following information when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the operating results/key financial performance ratios of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Regardless of the evaluation of the above factors, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group also assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if the financial asset has a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term.

Definition of default

The Group considers information developed internally or obtained from external sources that indicates that the debtor is unlikely to pay its creditors, including the Group as constituting an event of default for internal credit risk management purposes. Based on historical experience, it indicates that receivables that meet the criteria are generally not recoverable.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred such as evidence that the borrower is in significant financial difficulty, there is a breach of contract such as default or past due event; there is information that it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for that financial asset because of financial difficulties; or the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Estimation techniques and significant assumptions

There has been no change in the estimation techniques or significant assumptions made during the current financial year for recognition and measurement of credit loss allowances.

Notes to the Financial Statements

For the financial year ended 31 March 2019

27 FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management (cont'd)

Credit risk (cont'd)

Maximum exposure and concentration assumptions

At the balance sheet date, approximately 95% (2018: 94%) of the Group's trade receivables were due from 5 (2018: 5) major customers located in PRC.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk is the carrying amount of each class of financial instruments presented on the balance sheets.

Movements in credit loss allowance are as follows:

	Trade receivables HK$'000	Other receivables HK$'000	Total HK$'000
Group			
Balance at 1 April 2018, under IAS 39 and IFRS 9	13,949	–	13,949
Loss allowance measured:			
Lifetime ECL			
- credit-impaired	4,049	5,228	9,277
Currency translation differences	(677)	–	(677)
Balance at 31 March 2019	**17,321**	**5,228**	**22,549**

	Amounts due from subsidiaries HK$'000
Company	
Balance at 1 April 2018, under IAS 39 and IFRS 9	353,918
Loss allowance measured:	
Lifetime ECL	
- credit-impaired	1,820
Balance at 31 March 2019	**355,738**

Credit risk exposure in relation to financial assets at amortised cost (other than trade receivables and other receivables) as at 31 March 2019 is insignificant, and accordingly no credit loss allowance is recognised as at 31 March 2019.

Notes to the Financial Statements

For the financial year ended 31 March 2019

27 FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management (cont'd)

Credit risk (cont'd)

Trade receivables

The Group has applied the simplified approach by using a provision matrix to measure the lifetime expected credit loss allowance for trade receivables.

The Group categorises its trade receivables by its past due status and segregates debtors regarded as credit-impaired where one or more credit impairment events have occurred.

The Group estimates the expected credit loss rates for each category of past due status of the debtors based on historical credit loss experience adjusted as appropriate to reflect current conditions and forecasts of future economic conditions. The Group has recognised a loss allowance of 100% against all credit-impaired trade receivables. A trade receivable is written off when there is information indicating that there is no realistic prospect of recovery from the debtor.

There has been no change in the estimation techniques or significant assumptions made during the current financial year.

The Group's credit risk exposure in relation to trade receivables using simplified approach under IFRS 9 as at 31 March 2019 is set out in the provision matrix below:

	Past due					
	0 to 6 months	**6 to 12 months**	**12 to 24 months**	**More than 24 months**	**Credit-impaired**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Expected loss rate	0%	0%	100%	100%	100%	
Gross receivables	9,010	482	397	1,122	15,802	26,813
Loss allowance	–	–	(397)	(1,122)	(15,802)	(17,321)
Net carrying amount	9,010	482	–	–	–	9,492

Notes to the Financial Statements

For the financial year ended 31 March 2019

27 FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management (cont'd)

Credit risk (cont'd)

Other financial assets at amortised cost

Other financial assets at amortised cost include cash and bank balances, other receivables and amounts due from subsidiaries.

The table below details the credit quality of the Group's financial assets (other than trade receivables):

	12-month or lifetime ECL	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
Other receivables	12-month	105,100	(5,228)	99,872
Cash and bank balances	N.A. Exposure Limited	47,380	–	47,380

The table below details the credit quality of the Company's financial assets:

	12-month or lifetime ECL	Gross carrying amount HK$'000	Loss allowance HK$'000	Net carrying amount HK$'000
Amounts due from subsidiaries	Lifetime ECL	506,492	(355,738)	150,754
Other receivables	N.A. Exposure Limited	8	–	8
Cash and bank balances	N.A. Exposure Limited	1,555	–	1,555

Previous accounting policy for impairment of financial assets

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group and the Company. Cash and bank balances that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Notes to the Financial Statements

For the financial year ended 31 March 2019

27 FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management (cont'd)

Credit risk (cont'd)

Previous accounting policy for impairment of financial assets (cont'd)

Financial assets that are past due but not impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	Group 2018 HK$'000
Past due < 3 months	4,163
Past due 3 to 6 months	6,932
Past due over 6 months	13,550
	24,645

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	Group 2018 HK$'000
Gross amount:	
Past due < 3 months	136
Past due 3 to 6 months	27
Past due over 6 months	13,888
Less: Allowance for impairment	(13,949)
	102
Movement in allowance for impairment:	
At 1 April	6,658
Allowance made	6,434
Currency translation differences	857
At 31 March	13,949

Trade receivables that are individually determined to be impaired at the balance sheet date relate to debtors that have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Notes to the Financial Statements

For the financial year ended 31 March 2019

27 FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management (cont'd)

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's Board of Directors when the borrowings exceed certain predetermined levels of authority.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company are required to pay:

	2019				2018			
	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**1 to 5 years**	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	1 to 5 years
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Group								
Trade and other payables	**19,107**	**19,107**	**19,107**	**–**	23,077	23,077	23,077	–
Bank loans	**15,105**	**15,362**	**15,362**	**–**	15,943	16,164	16,164	–
Loans from third parties	**119,826**	**150,629**	**6,787**	**143,842**	65,032	79,595	3,463	76,132
	154,038	**185,098**	**41,256**	**143,842**	104,052	118,836	42,704	76,132
Company								
Trade and other payables	**9,394**	**9,394**	**9,394**	**–**	8,506	8,506	8,506	–
Amounts due to subsidiaries	**74,759**	**74,759**	**74,759**	**–**	89,165	89,165	89,165	–
Loans from third parties	**119,826**	**150,629**	**6,787**	**143,842**	65,032	79,595	3,463	76,132
	203,979	**234,782**	**90,940**	**143,842**	162,703	177,266	101,134	76,132

Notes to the Financial Statements

For the financial year ended 31 March 2019

27 FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial risk management (cont'd)

Foreign currency risk

The Group operates in the PRC and Hong Kong.

Currency risk arises within entities in the Group when transactions are denominated in foreign currencies such as Hong Kong dollar ("HKD"), Singapore dollar ("SGD"), United States dollar ("USD") and Renminbi ("RMB"). Currency risk arises when transactions are denominated in foreign currencies. This risk is mitigated to certain extent by the natural hedge between sales receipts and purchases, and operating expenses disbursement.

The Group's and the Company's currency exposure based on the information provided to key management is as follows:

	2019				2018	
Denominated in:	**HKD**	**SGD**	**USD**	**RMB**	HKD	SGD
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000
Group						
Cash and bank balances	**2,489**	**170**	**–**	**–**	1,806	198
Other receivables	**–**	**–**	**–**	**89,757**	–	–
Trade and other payables	**(11,771)**	**(1,534)**	**–**	**–**	(3,005)	(5,501)
Borrowings	**–**	**(105,707)**	**(14,119)**	**–**	–	(65,032)
Net financial (liabilities)/assets denominated in foreign currencies	**(9,282)**	**(107,071)**	**(14,119)**	**89,757**	(1,199)	(70,335)
Company						
Cash and bank balances	**1,385**	**170**	**–**	**–**	1,806	198
Amounts due from subsidiaries	**108,861**	**–**	**–**	**–**	71,188	–
Trade and other payables	**(7,859)**	**(1,534)**	**–**	**–**	(3,005)	(5,501)
Amounts due to subsidiaries	**(927)**	**–**	**–**	**–**	(11,235)	–
Borrowings	**–**	**(105,707)**	**(14,119)**	**–**	–	(65,032)
Net financial assets/(liabilities) denominated in foreign currencies	**101,460**	**(107,071)**	**(14,119)**	**–**	58,754	(70,335)

Notes to the Financial Statements

For the financial year ended 31 March 2019

27 FINANCIAL INSTRUMENTS (CONT'D)

(b) **Financial risk management (cont'd)**

Foreign currency risk (cont'd)

If foreign currencies change against the respective functional currencies of the Group's entities by 5% (2018: 5%) with all other variables including tax rate being held constant, the effect arising from the net monetary assets/(liabilities) position will be as follows:

	Increase/(decrease) in loss after tax	
	2019	2018
	HK$'000	HK$'000
Group		
HKD against RMB		
- strengthened	**464**	60
- weakened	**(464)**	(60)
SGD against RMB		
- strengthened	**5,354**	3,517
- weakened	**(5,354)**	(3,517)
USD against RMB		
- strengthened	**706**	N/A
- weakened	**(706)**	N/A
RMB against HKD		
- strengthened	**(4,488)**	N/A
- weakened	**4,488**	N/A

	Increase/(decrease) in loss after tax	
	2019	2018
	HK$'000	HK$'000
Company		
HKD against RMB		
- strengthened	**(5,073)**	(2,938)
- weakened	**5,073**	2,938
SGD against RMB		
- strengthened	**5,354**	3,517
- weakened	**(5,354)**	(3,517)
USD against RMB		
- strengthened	**706**	N/A
- weakened	**(706)**	N/A

Notes to the Financial Statements

For the financial year ended 31 March 2019

27 FINANCIAL INSTRUMENTS (CONT'D)

(b) **Financial risk management (cont'd)**

Interest rate risk

The Group's and the Company's exposure to the risk of changes in interest rates arises mainly from their bank loans and loans from third parties. Borrowings at fixed rates expose the Group and the Company to fair value interest rate risk (ie. the risk that the value of a financial instrument will fluctuate due to changes in market rates). The Group's and the Company's policy is to obtain most favourable interest rate available in the market. The Group and the Company do not utilise derivative to mitigate its interest rate risk.

If the interest rates increase/decrease by 50 (2018: 50) basis points with all other variables including tax rate being held constant, the loss after tax of the Group and the Company will be higher/lower by HK$663,000 (2018: HK$393,000) and HK$599,000 (2018: HK$325,000) respectively as a result of higher/lower interest expenses on borrowings.

28 FAIR VALUES OF ASSETS AND LIABILITIES

(a) **Fair value hierarchy**

The table below analyse the fair value measurements by the levels in the fair value hierarchy based on the inputs to the valuation techniques. The different levels are defined as follows:

(i) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
(ii) Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (ie derived from prices); and
(iii) Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(b) **Fair value of the current financial assets and liabilities**

The current financial assets and financial liabilities whose carrying amounts measured on the amortised cost basis approximate their fair values due to their short-term nature and where the effect of discounting is immaterial.

(c) **Determination of fair values**

(i) Non-current loans from third parties

The basis of determining fair value for disclosure at the balance sheet date is disclosed in Note 22.

(ii) Unquoted equity shares

The fair value of the unquoted equity shares was determined to be Nil as the investee remained dormant during the current financial year.

Notes to the Financial Statements

For the financial year ended 31 March 2019

29 COMMITMENTS

(a) Operating lease commitments

As at 31 March 2019, the total future minimum lease payments under non-cancellable operating leases in respect of office premises are payable as follows:

	Group	
	2019	2018
	HK$'000	HK$'000
Not later than one financial year	**302**	443
Between two and five financial years	**–**	84
	302	527

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease upon expiry when all terms are renegotiated. No contingent rents are payable.

(b) Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognised in the consolidated financial statements are as follows:

	Group	
	2019	2018
	HK$'000	HK$'000
Approved and contracted for purchases of intangible assets	***574***	606

30 CAPITAL MANAGEMENT

The Board of Directors (the "Board") policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Board monitors the return on capital, which the Group defines as net profit for the financial year divided by total shareholders' equity, excluding non-controlling interests. The Board also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group defines "capital" as including all components of equity.

Consistent with the capital management practices of the Group, the Group's capital structure is monitored on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debts are defined as the total debts (which includes trade and other payables and borrowings), less cash and bank balances.

Notes to the Financial Statements

For the financial year ended 31 March 2019

30 CAPITAL MANAGEMENT (CONT'D)

The adjusted net debt-to-capital ratio as at 31 March 2019 and 31 March 2018 are as follows:

	Group	
	2019	2018
	HK$'000	HK$'000
Borrowings	**134,931**	80,975
Trade and other payables	**19,107**	24,539
Less: cash and bank balances	**(47,380)**	(36,160)
Adjusted net debts	**106,658**	69,354
Total capital	**56,952**	159,055
Adjusted net debt-to-capital ratio	**187%**	44%

31 EVENTS AFTER THE BALANCE SHEET DATE

The Group, through LottVision Internet Management, an indirectly wholly-owned subsidiary, entered into a sale and purchase agreement dated 21 June 2019 with First Linkage, in connection with the proposed acquisition of an aggregate of RMB1,000,000 of the fully paid-up capital of Xinjiang Zhongtong, representing 100% of the equity interests of Xinjiang Zhongtong from Zhonglian Shengtong, whereby First Linkage has agreed to procure that Zhonglian Shengtong sell, and LottVision Internet Management has agreed to purchase, for the aggregate consideration of RMB50,000,000.

In connection with the proposed acquisition of Xinjiang Zhongtong, the Company also intends to diversify its business and expand its core business to include telephone billing and digital marketing (which form Xinjiang Zhongtong's core business), as well as services in communication network optimization, internet information technology services, software development, and system integration (which form part of Xinjiang Zhongtong's business) (the "Proposed Diversification").

As at the date when these financial statements were authorised for issue by the Board of Directors, the Company is intending to submit its application for the proposed acquisition of the Xinjiang Zhongtong and Proposed Diversification to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for in-principle approval by the SGX-ST thereof. If approved in-principle by the SGX-ST, the proposed acquisition of Xinjiang Zhongtong and Proposed Diversification will be subject to approval by Company's Shareholders at a special general meeting to be convened.

Details of the assets acquired, liabilities assumed that will be recognised, acquisition costs and effects on the Group's profit or loss and cash flows for the financial year ending 31 March 2020 are not disclosed as the accounting for this business combination is still incomplete as at the date when these financial statements were authorised for issue.

32 AUTHORISATION OF FINANCIAL STATEMENTS

The financial statements of the Group and balance sheet of the Company for the financial year ended 31 March 2019 were authorised for issue in accordance with a resolution of the Board of Directors dated 28 June 2019.

Statistics of Shareholdings

As at 14 June 2019

Authorised share capital: HK$175,000,000
Issued and fully paid up: HK$9,642,210
Class of shares: ordinary
Voting rights: One vote per share

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 99	245	5.22	11,755	0.01
100 - 1,000	2,663	56.67	1,179,134	1.22
1,001 - 10,000	1,461	31.09	4,878,770	5.06
10,001 - 1,000,000	320	6.81	12,530,033	13.00
1,000,001 AND ABOVE	10	0.21	77,822,411	80.71
TOTAL	**4,699**	**100.00**	**96,422,103**	**100.00**

TWENTY LARGEST SHAREHOLDERS

No.	Name	No. of Shares	%
1	JIA LIJIE	24,187,500	25.09
2	SHI FANG	21,345,000	22.14
3	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	12,610,877	13.08
4	PHILLIP SECURITIES PTE LTD	3,698,928	3.84
5	HSBC (SINGAPORE) NOMINEES PTE LTD	3,484,432	3.61
6	UOB KAY HIAN PRIVATE LIMITED	3,157,099	3.27
7	ZHANG HONG YUN	2,957,575	3.07
8	ZHANG DEHUA	2,730,000	2.83
9	ZU HUAN	2,050,000	2.13
10	HONG LEONG FINANCE NOMINEES PTE. LTD.	1,601,000	1.66
11	QUEK SWEE SIANG	456,800	0.47
12	MAYBANK KIM ENG SECURITIES PTE. LTD.	435,313	0.45
13	LIM & TAN SECURITIES PTE LTD	425,425	0.44
14	NOMURA SINGAPORE LIMITED	425,000	0.44
15	PEH KIAM CHOON	286,600	0.30
16	NG AH LECK @ NG SIEW CHOO	266,700	0.28
17	TAN KOK CHYE	246,510	0.26
18	CHIAM HENG HSIEN	246,000	0.26
19	DBS NOMINEES (PRIVATE) LIMITED	240,586	0.25
20	LOW SIEW FATT (LUO ZHAOFA)	225,125	0.23
	TOTAL	**81,076,470**	**84.10**

Statistics of Shareholdings

As at 14 June 2019

Substantial Shareholders (as recorded in the Register of Substantial Shareholders) as at 14 June 2019.

Substantial Shareholdings	Direct interest number of shares	%	Deemed interest number of shares	%	Total number of shares	%
Paul Gao Xiang Nong	3,470,182	3.60	-	-	3,470,182	3.60

As at 14 June 2019, approximately 96.40% of the shareholding in the Company was held in the hands of the public (on the basis of information available to the Company).

Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2019 Annual General Meeting of NUTRYFARM INTERNATIONAL LIMITED (the "**Company**") will be held at The Grassroots' Club, Meeting Room 3, Level 4, 190 Ang Mo Kio, Avenue 8, Singapore 568046 on Monday, 29 July 2019 at 10.00 a.m. (Singapore time) and any adjournment thereof (the "**Annual General Meeting**") for the following purposes:

AS ORDINARY BUSINESS

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

1. To receive and adopt the Directors' report and audited financial statements of the Company for the financial year ended 31 March 2019 together with the auditor's report thereon.
   (Resolution 1)

2. To re-elect Mr. Ng Poh Khoon Jimmy, a Director retiring pursuant to Bye-law 104 of the Bye-Laws of the Company and who, being eligible, will offer himself for re-election.
   (Resolution 2)

3. To approve the payment of Directors' fees of S$80,000 for the financial year ended 31 March 2019.
   (Resolution 3)

4. To re-appoint Baker Tilly TFW LLP as the Company's auditor, to hold office until the close of the next annual general meeting of the Company, at a fee to be agreed between the Directors of the Company and Baker Tilly TFW LLP.
   (Resolution 4)

5. 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 resolutions as Ordinary Resolutions, with or without any modifications:

6. General authority to the Directors of the Company to allot and issue Shares

   That, pursuant to the Bye-Laws of the Company and the rules, guidelines and measures issued by the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), authority be and is hereby given to the Directors of the Company to issue:

   (i) ordinary shares in the capital of the Company ("**Shares**");

   (ii) convertible securities;

   (iii) additional convertible securities issued pursuant to adjustments; or

   (iv) Shares arising from the conversion of the securities in (ii) and (iii) above,

   (whether by way of rights, bonus or otherwise or in pursuance of any offer, agreement or option made or granted by the directors of the Company during the continuance of this authority or thereafter) at any time and upon such terms and conditions and for such purposes and to such persons as the directors of the Company may in their absolute discretion deem fit (notwithstanding that such issue of Shares pursuant to the offer, agreement or option or the conversion of the convertible securities may occur after the expiration of the authority contained in this Resolution),

   provided always that:

   (1) the aggregate number of Shares to be issued pursuant to this Resolution (including Shares to be issued in pursuance of convertible securities made or granted pursuant to this Resolution) does not exceed fifty per cent. (50%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings), provided further that the aggregate number of Shares to be issued other than on a pro-rata basis to members of the Company (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed twenty per cent. (20%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings);

Notice of Annual General Meeting

(2) (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 (1) above, the percentage of issued Shares 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 this Resolution is passed, after adjusting for:

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

(ii) (where applicable) new Shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the SGX-ST Listing Manual; and

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

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the rules, guidelines and measures issued by the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Companies Act 1981 of Bermuda (as amended) and otherwise and the Bye-Laws of the Company for the time being; and

(4) unless revoked or varied by the Company in a general meeting of the Company, the authority conferred by this Resolution 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 the earlier. (See Explanatory Note (i))
(Resolution 5)

7. <u>Authority to the directors of the Company to allot and issue Shares and grant options under the LottVision Incentive Share Scheme and the LottVision Share Option Scheme</u>

That the directors of the Company be and are hereby authorised to offer and grant:

(a) awards in accordance with the provisions of the LottVision Incentive Share Scheme and to allot and issue from time to time such number of fully-paid Shares as may be required to be issued pursuant to the vesting of the awards under the LottVision Incentive Share Scheme; and

(b) options under the LottVision Share Option Scheme, and to allot and issue from time to time such number of fully-paid Shares as may be required to be issued pursuant to the exercise of options granted under the LottVision Share Option Scheme,

provided always that the aggregate number of Shares, (i) to be allotted and issued pursuant to the LottVision Incentive Share Scheme; (ii) to be allotted and issued pursuant to exercise of options granted under the LottVision Share Option Scheme; and / or (iii) to be allotted and issued under any other share based incentive schemes of the Company, shall not exceed fifteen per cent (15%) of the total number of issued Shares of the Company (excluding treasury shares and subsidiary holdings) from time to time. For the avoidance of doubt, shareholders' pre-emptive right under Bye-law 10 of the Bye-Laws of the Company does not apply. (See Explanatory Note (ii))
(Resolution 6)

By Order of the Board

Peng XU
Company Secretary

Adrian CHAN
Deputy Secretary

9 July 2019

Notice of Annual General Meeting

Explanatory Notes:

(i) Resolution 5 is to authorise the directors of the Company from the date of the Annual General Meeting until the next annual general meeting of the Company to allot and issue Shares (including Shares arising pursuant to convertible securities) in the Company up to an amount not exceeding fifty per cent. (50%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) of the Company, of which the total number of Shares (including Shares arising pursuant to convertible securities) issued other than on a pro-rata basis to existing shareholders shall not exceed twenty per cent. (20%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings) of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company.

(ii) Resolution 6, if passed, will empower the directors of the Company, to allot and issue Shares pursuant to the vesting of the awards under the LottVision Incentive Share Scheme, and to grant options and to allot and issue Shares upon the exercise of such options under the LottVision Share Option Scheme. The authority will, unless previously revoked or varied at a general meeting, expire at the conclusion of the next annual general meeting of the Company or the expiration of the period within which the annual general meeting of the Company is required by law to be held, whichever is the earlier. This authority is in addition to the general authority to allot and issue Shares sought under Resolution 5.

Notes:

1. If a Shareholder who is not a Depositor is unable to attend the Annual General Meeting and wishes to appoint a proxy/proxies to attend and vote on his behalf, he could complete, sign and return the proxy form despatched to Shareholders who are not Depositors ("**Shareholder Proxy Form**") in accordance with the instructions printed thereon. With the exception of The Central Depository (Pte) Limited ("**CDP**") who may appoint more than two (2) proxies, a Shareholder entitled to attend and vote at the Annual General Meeting who holds two (2) or more Shares is entitled to appoint no more than two (2) proxies to attend and vote on his behalf. A proxy need not be a Shareholder.

2. Where a form of proxy appoints more than one (1) proxy (including the case where such appointment results from a nomination by CDP), the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

3. If a Depositor who is an individual and whose name appears in the Depository Register (as defined in Section 81SF of the Securities and Futures Act (Cap. 289) of Singapore) as at a time not earlier than forty-eight (48) hours before the time appointed for the Annual General Meeting and is unable to attend the Annual General Meeting personally and wishes to nominate an alternative person(s) to be appointed as CDP's proxy/proxies to attend and vote on his behalf, he should complete, sign and deposit the proxy form despatched together with this Notice of Annual General Meeting to Depositors (the "**Depositor Proxy Form**") in accordance with the instructions printed thereon.

4. A Depositor who is not an individual can only be represented at the Annual General Meeting if its nominee is/are appointed as CDP's proxy/proxies. To appoint its nominee/nominees as proxy/proxies of CDP and to enable its nominee/nominees to attend and vote at the Annual General Meeting, such Depositor should complete, execute and deposit the Depositor Proxy Form in accordance with the instructions at the Annual General Meeting.

5. A corporation which is a Shareholder may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its corporate representative at the Annual General Meeting.

6. To be valid, the Shareholder Proxy Form or the Depositor Proxy Form, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the office of Singapore Share Transfer Agent, Boardroom Corporate & Advisory Service Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower Singapore 048623 not less than forty-eight (48) hours before the time appointed for holding the Annual General Meeting or at any adjournment thereof. Detailed instructions can be found on the Shareholder Proxy Form and Depositor Proxy Form.

7. The completion and return of a Shareholder Proxy Form by a Shareholder who is not a Depositor, or a Depositor Proxy Form by a Depositor, shall not preclude him from attending and voting in person at the Annual General Meeting if he wishes to do so, in place of his proxy/proxies.

8. 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 Shareholder of the Company (i) consents to the collection, use and disclosure of the Shareholder's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) 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 or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the Shareholder discloses the personal data of the Shareholder's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the Shareholder 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 or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the Shareholder will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the Shareholder's breach of warranty.