HCL HONG KONG SAR LIMITED

DIRECTORS REPORT AND AUDITED FINANCIAL STATEMENTS

31 MARCH 2019

HCL HONG KONG SAR LIMITED

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HCL HONG KONG SAR LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of HCL Hong Kong SAR Limited (the "Company") for the year ended 31 March 2019.

Principal activity

The principal activity of the Company is the provision of consulting services related to computer software. There were no significant changes in the nature of the Company's principal activities during the year.

Recommended dividend

The directors do not recommend the payment of any final dividend in respect of the year.

Directors

The directors during the year and up to the date of this report were:

Mr. Anil Kumar Chanana (resigned on 31 December 2018)
Mr. Prateek Aggarwal (appointed on 31 December 2018)
Mr. R. Srinivasan
Mr. Subramanian Gopalakrishnan
Mr. Sundaram Sridharan

In accordance with Article 106 of the Company's articles of association, any two directors retire and, being eligible, offer themselves for re-election.

Directors' interests

At no time during the period was the Company or any of its fellow subsidiaries or holding companies a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of the Company or its associated corporations.

Directors' interests in transactions, arrangements or contracts

No director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which the Company or any of its fellow subsidiaries or holding companies was a party during the year.

HCL HONG KONG SAR LIMITED

REPORT OF THE DIRECTORS (continued)

Auditor

Ernst & Young retire as an auditor of the Company and new auditor will be proposed and appointed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Subramanian Gopalakrishnan
Director

HCL Hong Kong SAR Limited

27th June' 2019

EY 安永

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Independent auditor's report
To the sole member of HCL Hong Kong SAR Limited
(Incorporated in Hong Kong with limited liability)

Opinion
We have audited the financial statements of HCL Hong Kong SAR Limited (the "Company") set out on pages 6 to 30, which comprise the statement of financial position as at 31 March 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

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

Information other than the financial statements and auditor's report thereon
The directors are responsible for the other information. The other information comprises the information included in the report of the directors.

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

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

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

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

Independent auditor's report (continued)
To the sole member of HCL Hong Kong SAR Limited
(Incorporated in Hong Kong with limited liability)

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. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company 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.

Independent auditor's report (continued)
To the sole member of HCL Hong Kong SAR Limited
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements (continued)
We communicate with the board of 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.

Ernst & Young
Certified Public Accountants
Hong Kong
27 June 2019

HCL HONG KONG SAR LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 MARCH 2019

	Notes	2019 HK$	2018 HK$
REVENUE	4	137,398,781	116,121,419
Cost of revenue		(107,627,894)	(94,987,529)
GROSS PROFIT		29,770,887	21,133,890
Other income	5	68	4,600
Selling and distribution expenses		(1,717,884)	(2,402,982)
Administrative expenses		(5,673,014)	(5,407,561)
Other expenses		(7,937,333)	(4,761,900)
PROFIT BEFORE TAX	6	**14,442,724**	**8,566,047**
Income tax expense	8	(2,357,820)	(1,805,956)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**12,084,904**	**6,760,091**

HCL HONG KONG SAR LIMITED
STATEMENT OF FINANCIAL POSITION
31 MARCH 2019

	Notes	2019 HK$	2018 HK$
NON- CURRENT ASSETS			
Property, plant and equipment	9	8,493,387	16,897,029
Prepayments and deposits	10	5,445,426	7,986,736
Total non-current assets		13,938,813	24,883,765
CURRENT ASSETS			
Inventories	11	522,902	228,091
Trade receivables	12	24,687,063	30,110,549
Prepayments, deposits and other receivables	10	5,561,043	5,090,347
Due from the ultimate holding company	19	11,845,883	4,064,631
Due from fellow subsidiaries	19	29,836,288	8,045,245
Tax recoverable		-	44,132
Total current assets		72,453,179	47,582,995
CURRENT LIABILITIES			
Trade and bills payables	13	5,635,151	4,898,777
Other payables and accruals	14	4,761,186	5,779,884
Due to the ultimate holding company	19	12,725,233	9,601,404
Due to fellow subsidiaries	19	4,145,848	14,808,428
Bank overdraft	15	14,144,265	7,128,133
Tax payable		4,039,738	-
Total current liabilities		45,451,421	42,216,626
NET CURRENT ASSETS		27,001,758	5,366,369
TOTAL ASSETS LESS CURRENT LIABILITIES		40,940,571	30,250,134
NON-CURRENT LIABILITY			
Deferred tax liabilities	16	1,387,420	2,781,887
Net assets		**39,553,151**	**27,468,247**
EQUITY			
Share Capital	17	193,167	193,167
Retained profits		39,359,984	27,275,080
Total equity		**39,553,151**	**27,468,247**

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Subramanian Gopalakrishnan
Director

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Sundaram Sridharan
Director

HCL HONG KONG SAR LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 MARCH 2019

	Share capital	Retained profits	Total equity
	HK$	HK$	HK$
At 1 April 2017	193,167	20,514,989	20,708,156
Profit for the year and total comprehensive income for the year	-	6,760,091	6,760,091
At 31 March 2018	**193,167**	**27,275,080**	**27,468,247**
At 1 April 2018	193,167	27,275,080	27,468,247
Profit for the year and total comprehensive income for the year	-	12,084,904	12,084,904
At 31 March 2019	**193,167**	**39,359,984**	**39,553,151**

HCL HONG KONG SAR LIMITED
STATEMENT OF CASH FLOWS
YEAR ENDED 31 MARCH 2019

	Notes	2019 HK$	2018 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		14,442,724	8,566,047
Adjustments for:			
Interest income	5	(68)	(2,091)
Depreciation	6	5,730,863	3,116,247
Bad debts written back	6	-	(2,509)
Impairement of trade receivables	6	1,158,162	918,723
		21,331,681	12,596,417
Increase in inventories		(294,811)	(130,648)
Decrease/ (increase) in trade receivables		4,265,324	(5,056,528)
Decrease/ (increase) in prepayments, deposits and other receivables		2,070,614	(1,036,572)
Movement in balances with the ultimate holding company		(4,657,423)	(1,556,876)
Movement in balances with fellow subsidiaries		(32,453,623)	(18,126,900)
Increase in trade and bills payables		736,374	4,432,688
Decrease in other payables and accruals		(1,018,698)	(280,192)
Cash used in operations		**(10,020,562)**	**(9,158,611)**
Tax refunded/ (paid)		331,583	(32,106)
Net cash flows used in operating activities		**(9,688,979)**	**(9,190,717)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		68	2,091
Purchase of items of property, plant and equipment	9	(11,517,505)	(11,345,397)
Proceed from disposal of property, plant and equipment		14,190,284	-
Net cash flows from/(used in) investing activities		**2,672,847**	**(11,343,306)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(7,016,132)**	**(20,534,023)**
Cash and cash equivalents at beginning of the year		(7,128,133)	13,405,890
CASH AND CASH EQUIVALENTS AT END OF YEAR		**(14,144,265)**	**(7,128,133)**
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank overdraft	15	(14,144,265)	(7,128,133)
TOTAL		**(14,144,265)**	**(7,128,133)**

1 Corporate information

HCL Hong Kong SAR Limited (the "Company") is engaged in the provision of consulting services related to computer software.

The Company is a limited company incorporated in Hong Kong. The address of its registered office is Room 4203A, 42nd Floor, China Resources Building, 26 Harbour Road, Hong Kong.

The Company's immediate holding company is HCL Bermuda Ltd, a company incorporated in Bermuda, and the ultimate holding company is HCL Technologies Limited, a company incorporated and listed in National Stock Exchange of India and Bombay Stock Exchange of India.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention and are presented in Hong Kong dollars ("HK$"), which is also the Company's functional currency.

2.2 Changes in accounting policies and disclosures

The Company has adopted the following new and revised HKFRSs for the current year's financial statements, which are applicable to the Company.

Amendments to HKFRS 2	*Classification and Measurement of Share-based payment transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

The adoption of the above new and revised standards has had no significant financial effect on these financial statements except for the HKFRS 9 and HKFRS 15 described below:

<u>HKFRS 9 Financial Instruments</u>

HKFRS 9 *Financial Instruments* replaces HKAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities; impairment for financial assets; and general hedge accounting.

The Company has applied the classification and measurement requirements (including impairment) of HKFRS 9 retrospectively as at 1 April 2018 (date of initial application) to instruments that have not been derecognised as at 1 April 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between the carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 is recognised in the opening retained profits and other components of equity as at 1 April 2018, without restating comparative information.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

HKFRS 9 Financial Instruments (continued)

Changes to Classification and measurement
On 1 April 2018, the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its contract liabilities into the appropriate HKFRS 9 categories.
There has been no impact on the Company's accounting for financial liabilities that are designated at fair value through profit or loss and company does not have such liabilities.

Changes to the impairment model

(a) Trade receivables

The Company applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group of receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information. Management has closely monitored the credit qualities and the collectability of the trade receivables. Trade receivables in dispute are assessed individually for impairment to determine whether specific loss allowance provisions are required. The adoption of the simplified expected credit loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 April 2018.

(b) Other financial assets carried at amortised cost

For other financial assets carried at amortised cost, including bills receivable, financial assets included in prepayments and deposits and amounts due from the ultimate holding company and fellow subsidiaries, the expected credit loss is based on the 12-month expected credit loss. This represents the portion of lifetime expected credit loss that results from default events on the financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of other financial assets at amortised cost and considers that the expected credit loss is immaterial.

As a result of the application of HKFRS 9, the Company has changed its accounting policies with respect to financial instruments, as further explained in note 2.8 to the financial statements.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 and its amendments replace HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers.

Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including the disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 4 to the financial statements. As a result of the application of HKFRS 15, the Company has changed its accounting policy with respect to revenue recognition in note 2.13 to the financial statements.

The Company has adopted HKFRS 15 using the modified retrospective method of adoption. 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 at this date. The Company has elected to apply the standard to contracts that are not completed as at 1 April 2018.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

Although the application of HKFRS 15 has impacted on the classification of certain items in the financial statements, it has had no impact on the financial performance of the Company. Hence, no cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 April 2018. The comparative information was not restated and continues to be reported under HKAS 18 and related interpretations.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

The Company has not early applied any of the new and revised HKFRSs that have been issued but are not yet effective for the accounting year ended 31 March 2019 in these financial statements. Among the new and revised HKFRSs, the following is expected to be relevant to the Company's financial statements upon becoming effective:

HKFRS 16 *Leases*[1]

[1] Effective for the Company for annual periods beginning on or after 1 April 2019

HKFRS 16 was issued in May 2016 and replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees that they can elect as practical expedients – leases of low-value assets and short-term leases (i.e., where the lease term is 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40 Investment Property and to which the fair value model in applied, or relates to a class of property, plant and equipment to which the revaluation model in applied and the lessee elects to apply that model to the right-of-use asset. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. HKFRS 16 also requires lessees to make more extensive disclosures than under HKAS 17. The Company expects to adopt HKFRS 16 on 1 April 2019.

2.4 Foreign currency translations

Transactions in foreign currencies are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Exchange differences arising from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2 Summary of significant accounting policies (continued)

2.5 Related Parties

A party is considered to be related to the Company if:

(a) The party is a person or a close member of that person's family and that person
- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) The party is an entity where any of the following conditions applies:
- (i) the entity and the Company are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Company are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or a parent of the entity), and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

2.6 Property, plant and equipment and depreciation

Items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Category of asset	Useful lives (Years)
Office equipment and plant & machineries	5-17
Computer and software equipment	3-5
Furniture and fixtures	7
Leasehold improvements	Over the shorter of the lease terms and 4 years

2 Summary of significant accounting policies (continued)

2.7 Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If such indication exists, the Company makes an estimate of the asset's recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its 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 assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

An impairment loss is recognised in the statement of profit or loss and other comprehensive income whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to profit or loss in the year in which it arises.

2.8 Financial instruments

Financial assets

Trade receivables that do not contain a significant financial component or for which the Company has applied the practical expedient of not adjusting the effect of a significant financial component are measured at the transaction price determined under HKFRS 15. All the other financial assets are initially recognised at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss. Regular way purchases and sales of financial assets are recognised on the trade date, that is, the date when the Company commits to purchase or sell the assets.

(a) Classification and measurement

(i) Under HKFRS 9

Debt instruments are measured at amortised cost using the effective interest rate method, subject to impairment if the assets are held for the collection of contractual cash flows where those contractual cash flows represent solely payments of principal and interest.

Debt instruments are measured at fair value through other comprehensive income if the assets' contractual cash flows represent solely payments of principal and interest and the assets are held for collection of contractual cash flows and for selling the financial assets. Such financial assets are subsequently measured at fair value with any gains or losses from changes in fair value recognised in other comprehensive income, except for impairment losses and reversal, foreign exchange gains and losses and interest calculated using the effective interest rate method which are recognised in the statement of profit or loss. The cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income to the statement of profit or loss when the financial asset is derecognised.

Debt instruments that do not meet the criteria for amortised cost or as financial assets at fair value though other comprehensive income are measured at fair value through profit or loss. Interest income for these financial assets is included in finance income.

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

(a) Classification and measurement (continued)

(ii) Under HKAS 39

Financial assets are classified as financial assets at fair value through profit or loss if held for trading, or upon initial recognition are designated as at fair value through profit or loss. Such investments are recognised initially at fair value, with transaction costs taken directly to the statement of profit or loss, and are subsequently remeasured at fair value. Gains and losses from changes in the fair value are recognised in the statement of profit or loss as they arise, together with the related interest income and expenses and dividends.

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment allowances.

(b) Impairment

(i) Under HKFRS 9

The Company applies the expected credit loss model on all the financial assets that are subject to impairment, financial guarantee contracts, contract assets under HKFRS 15 and lease receivables under HKAS 17. For trade receivables and contract assets without a significant financial component, the Company applies the simplified approach which requires impairment allowances to be measured at lifetime expected credit losses.

For other financial assets, impairment allowances are recognised under the general approach where expected credit losses are recognised in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, the Company is required to provide for credit losses that result from possible default events within the next 12 months. For those credit exposures where 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.

The Company considers a default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more appropriate default criterion should be applied.

(ii) Under HKAS 39

The Company recognises losses for impaired loans promptly where there is objective evidence that an impairment of a loan or a portfolio of loans has occurred. Impairment allowances are assessed either individually for individually significant loans or collectively for loan portfolios with similar credit risk characteristics including those individually assessed balances for which no impairment provision is made on an individual basis.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

Financial assets (continued)

(b) Impairment (continued)

(ii) Under HKAS 39 (continued)

If there is objective evidence that an impairment loss has been incurred for unquoted equity investments measured at cost less impairment, the amount of the loss is measured as the difference 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. Impairment losses on these assets are not reversed.

(c) Derecognition (under HKFRS 9 and HKAS 39)

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities

The Company's financial liabilities include trade and bills and other payables, bank overdraft, accruals and amounts due to group companies. Financial liabilities are recognised when the company becomes a party to the contractual provision of the instrument.

Financial liabilities are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expire.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.10 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturity of three months or less when acquired, less bank overdrafts.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2 Summary of significant accounting policies (continued)

2.11 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authority, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided using the liability method, on temporary differences at the end of the reporting period arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax. Deferred tax liabilities are provided in full while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.12 Employee benefits

(a) Employee leaves entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(b) Pension obligations

The Company contributes towards a defined contribution Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

2.13 Revenue recognition

(a) Under HKAS 18

Revenue is recognised when it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts.

Revenue from the sale of goods is recognised on the transfer of the significant risks and rewards of ownership, which generally coincides with the time of delivery of goods.

Interest income is recognised using the effective interest rate method.

Dividend income is recognised when the right to receive payment has been established.

2 Summary of significant accounting policies (continued)

2.13 Revenue recognition (continued)

(b) Under HKFRS 15

Revenue from contracts with customers is recognised when the control of goods or services is transferred to the customers, at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to be that which the Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

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

Revenue from the sale of goods is recognised on the transfer of the significant risks and rewards of ownership, which generally coincides with the time of delivery of goods.

Revenue from sale of services is recognised when it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts.

<u>Other income</u>
Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.14 Operating leases (as the lessee)

Leases in which a significant portion of the risks and rewards of 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 expensed in the statement of profit or loss and other comprehensive income on a straight line basis over the period of the lease.

3 **Critical accounting estimates and judgements**

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

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

(a) Impairment of trade receivables and other receivables

The impairment provisions for trade receivables and other receivables are based on assumptions about expected credit losses. The Company uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Company's historical experience and forward-looking information at the end of each reporting period. Changes in these assumptions and estimates could materially affect the results of the assessment and it may be necessary to make an additional impairment charge to profit or loss.

(b) Revenue recognition

The Company recognises revenue from fixed price contracts on the basis of percentage of completion method. The percentage of completion is measured by reference to the effort incurred to date compared to the estimated total effort for the contract. Significant judgment is required in determining the percentage of completion, the extent of the effort incurred, and the estimated total effort.

4 Revenue

Revenue represents the net sale of hardware and software licenses and consultancy income. An analysis of revenue is as follows:

	2019	2018
	HK$	HK$
Consultancy income	132,313,760	108,080,005
Sales of hardware	5,085,021	8,041,414
	137,398,781	**116,121,419**

	2019
	HK$
Timing of revenue recognition	
Goods transferred at a point in time	5,085,021
Services transferred over time	132,313,760
Total revenue from contract with customers	**137,398,781**

5 Other income

An analysis of other income is as follows:

	2019	2018
	HK$	HK$
Interest income	68	2,091
Bad debts written back	-	2,509
	68	**4,600**

6 Profit before tax

The Company's profit before tax is arrived at after charging/(crediting):

	2019	2018
	HK$	**HK$**
Consultancy fees*	36,467,057	54,051,474
Cost of goods sold*	18,575,797	7,053,984
Other project expenses*	22,350,443	10,873,067
Depreciation expenses (Note 9)	5,730,863	3,116,247
Recruitment, training and development costs	260,089	195,259
Minimum lease payments under operating lease of office premises	1,607,979	727,548
Legal and professional fee	429,909	236,714
Auditor's remuneration	86,500	85,000
Travel and conveyance	713,517	622,185
Communication charges	7,345	1,287,079
Other expenses	1,353,841	1,656,376
Bank charges	498,623	256,644
Other marketing costs	287,989	133,719
Staff costs (excluding directors' remuneration)**		
-Wages and salaries	31,953,483	25,186,168
-Pension scheme contributions	1,011,343	773,565
	32,964,826	**25,959,733**
Foreign exchange difference, net	463,185	385,286
Provision for bad debts (Note 12)	1,158,162	918,723
Bad debts written back	-	(2,509)

* These items are included in "cost of revenue" in the statement of profit or loss and other comprehensive income.

** Staff costs of HK$1,429,895 (2018: HK$2,269,263), HK$1,300,334 (2018: HK$681,466) and HK$30,234,597 (2018 : HK$23,009,004) are included in "Selling and distribution expenses" , "Administration expenses" and "Cost of revenue" respectively in the statement of profit or loss and other comprehensive income.

7 Directors' emoluments (equivalents to key management compensation)

None of the directors received or will receive any fees or other emoluments for the services rendered to the Company during the year ended 31 March 2019 (2018: Nil).

The directors did not render any significant services to the Company during the year and the prior year and accordingly, the cost of equity settled transactions on the share options granted to the directors was borne by the ultimate holding company of the Company.

8 Income tax

Hong Kong profits tax has been provided at the rate of **16.5%** (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2019	2018
	HK$	HK$
Charge for the year	3,762,287	443,241
Under provision in prior years	(10,000)	(212)
Deferred tax (Note 16)	(1,394,467)	1,362,927
Tax charge for the year	**2,357,820**	**1,805,956**

A reconciliation of the tax expenses applicable to profit before tax at the statutory rate to the tax expenses at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective rate are as follows:

	2019	%	2018	%
	HK$		HK$	
Profit before tax	14,442,724		8,566,047	
Tax at the statutory tax rate	2,383,049	16.5	1,413,397	16.5
Adjustment in respect of current tax of previous periods	(10,000)	(0.1)	(212)	(0.1)
Income not subject to tax	(10)	-	(345)	(0.1)
Expenses not deductible for tax	-	-	413,116	5.00
Others	(15,219)	(0.1)	(20,000)	(0.2)
Tax charge at effective rate	**2,357,820**	**16.3**	**1,805,956**	**21.1**

9 Property, plant and equipment

	Office equipment and plant & machineries HK$	Computer equipment and software HK$	Furniture and fixtures HK$	Leasehold improvments HK$	Total HK$
31 March 2019					
At 1 April 2018 :					
Cost	43,726	21,674,686	206,988	526,850	22,452,250
Accumulated depreciation	(43,726)	(4,815,109)	(206,988)	(489,398)	(5,555,221)
Net carrying amount	-	16,859,577	-	37,452	16,897,029
At 1 April 2018, net of accumulated depreciation	-	16,859,577	-	37,452	16,897,029
Additions	181,982	11,328,663	6,860	-	11,517,505
Disposals	-	(14,190,284)	-	-	(14,190,284)
Depreciation provided during the year	(29,152)	(5,680,956)	(859)	(19,896)	(5,730,863)
At 31 March 2019, net of accumulated depreciation	152,830	8,317,000	6,001	17,556	8,493,387
At 31 March 2019					
Cost	225,708	18,813,065	213,848	526,850	19,779,471
Accumulated depreciation	(72,878)	(10,496,065)	(207,847)	(509,294)	(11,286,084)
Net carrying amount	152,830	8,317,000	6,001	17,556	8,493,387
31 March 2018					
At 1 April 2017:					
Cost	43,726	10,672,998	206,988	526,850	11,450,562
Accumulated depreciation	(43,726)	(2,084,756)	(206,988)	(447,212)	(2,782,682)
Net carrying amount	-	8,588,242	-	79,638	8,667,880
At 1 April 2017, net of accumulated depreciation	-	8,588,242	-	79,638	8,667,880
Additions	-	11,345,397	-	-	11,345,397
Depreciation provided during the year	-	(3,074,062)	-	(42,185)	(3,116,247)
At 31 March 2018, net of accumulated depreciation	-	16,859,577	-	37,453	16,897,030
At 31 March 2018					
Cost	43,726	21,674,686	206,988	526,850	22,452,250
Accumulated depreciation	(43,726)	(4,815,109)	(206,988)	(489,398)	(5,555,221)
Net carrying amount	-	16,859,577	-	37,452	16,897,029

10 Prepayments, deposits and other receivables

	2019	2018
	HK$	HK$
Prepayments	4,138,823	4,842,914
Deposits and other receivables	6,867,646	8,234,169
	11,006,469	13,077,083
Less: Non-current portion	(5,445,426)	(7,986,736)
Amount disclosed as current portion	5,561,043	5,090,347

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

11 Inventories

	2019	2018
	HK$	HK$
Finished goods	522,902	228,091

12 Trade receivables

	2019	2018
	HK$	HK$
Trade debtors	20,590,884	23,886,517
Unbilled receivables	6,232,116	7,201,807
Provision for impairment	(2,135,937)	(977,775)
	24,687,063	30,110,549

The Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months. Each customer has a maximum credit limit. The Company seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Company's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. They are stated net of loss allowance.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance is as follows :

	2019	2018
	HK$	HK$
Within 1 month	19,870,861	15,609,695
1 to 3 months	3,221,086	12,146,348
Over 3 months	1,595,116	2,354,506
	24,687,063	30,110,549

12 Trade receivables (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2019 HK$	2018 HK$
At the beginning of the year	977,775	59,052
Loss allowance recognised (note 6)	1,158,162	918,723
At the end of the year	2,135,937	977,775

Impairment of trade receivables under HKFRS 9 for the year ended 31 March 2019

The Company applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses have also incorporated forward looking information. The loss allowance as at 31 March 2019 is determined as follows:

As at 31 March 2019

	Current	Upto 6 months past due	Over 6 months past due	Total
Expected loss rate (%)	0.72	4.28	73.79	10.37
Gross carrying amount (HK$)	9,483,731	8,815,885	2,291,268	20,590,884
Expected credit losses (HK$)	68,228	377,044	1,690,665	2,135,937

Impairment of trade receivables under HKAS 39 for the year ended 31 March 2018

At 31 March 2018, included in the provision for impairment of trade receivables was a provision for individually impaired trade receivables of HK$ 977,775 with a carrying amount before provision of HK$ 977,775. The individually impaired trade receivables related to customers that were in financial difficulties and were not expected to be recovered. The company did not hold any collateral or other credit enhancements over these balances.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance is as follows :

	2018 HK$
Neither past due nor impaired	10,808,927
Past due by :	
1 - 30 days	4,800,768
31 - 90 days	12,146,348
Over 90 days	2,354,506
	30,110,549

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there is no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Company. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

13 Trade and bills payables

	2019	2018
	HK$	HK$
Trade payables	5,635,151	4,898,777

The trade and bills payable are non-interest bearing and are normally settled on 60 days terms.

14 Other payables and accruals

	2019	2018
	HK$	HK$
Accrued expenses	1,254,280	1,590,548
Receipts in advance	668	177,215
Deferred revenue	442,177	95,888
Others payables	3,064,061	3,916,233
	4,761,186	5,779,884

Other payables are non-interest bearing and have an average term of three months.

15 Bank overdrafts

	2019	2018
	HK$	HK$
Unsecured bank overdrafts repayable on demand	14,144,265	7,128,133

All bank overdrafts are denominated in Hong Kong dollars.

16 Deferred tax liabilities

	Deaccelerated tax depreciation
	HK$
At 31 March 2017	(1,418,960)
Deferred tax charged to profit or loss during the year (Note 8)	(1,362,927)
At 31 March 2018 and 1 April 2018	(2,781,887)
Deferred tax credited to profit or loss during the year (Note 8)	1,394,467
At 31 March 2019	(1,387,420)

17 Share capital

	2019	2018
	HK$	HK$
Issued and fully paid:		
193,167 (2017: 193,167) ordinary shares	193,167	193,167

18 Operating lease commitments

The Company leases its office premises under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

At 31 March 2019, the Company had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2019	2018
	HK$	HK$
Within one year	1,077,855	928,986
In the second to fifth years, inclusive	1,876,850	-
	2,954,705	928,986

19 Related party transactions

(a) In addition to the transactions disclosed elsewhere in these financial statements, the Company had following material transactions with related parties during the year:

	2019	2018
	HK$	HK$
Consultancy fees charged to fellow subsidiaries (Note (I))	61,195,454	17,787,877
Consultancy fees paid to fellow subsidiaries (Note (I))	34,983,708	53,671,124

Note (I) : The consultancy fees charged/paid to fellow subsidiaries were based on agreement between the parties.

(b) Balances with the ultimate holding company and fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

20 Financial instruments by category

The Company's financial instruments include the following:	Financial assets at amortised cost 2019	Loans and receivables 2018
	HK$	HK$
Financial assets		
Trade receivables	24,687,063	30,110,549
Financial assets included in prepayments, deposits and other receivables (Note 10)	6,867,646	8,234,169
Due from the ultimate holding company	11,845,883	4,064,631
Due from fellow subsidiaries	29,836,288	8,045,245
	73,236,880	50,454,594

20 Financial instruments by category (continued)

	2019 HK$	2018 HK$
Financial liabilities - at amortised cost		
Trade and bills payables	5,635,151	4,898,777
Financial liabilities (other payables and accruals)	4,318,341	5,506,781
Due to the ultimate holding company	12,725,233	9,601,404
Due to fellow subsidiaries	4,145,848	14,808,428
Bank overdrafts (Note 15)	14,144,265	7,128,133
	40,968,838	**41,943,523**

21 Fair value of financial assets and liabilities

Management has assessed that the fair value of cash and bank balances, financial assets included in deposits and other receivables, trade receivables and balances with group companies, financial liabilities included in other payables and accruals, bank overdraft, trade and bills payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Company did not have any financial assets or liabilities measured at fair value as at 31 March 2019 and 2018.

22 Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks, including credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(a) Credit risk

Maximum exposure and year-end staging as at 31 March 2019
The table below shows the credit quality and the maximum exposure to credit risk based on the Company's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 March 2019. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12 month ECL's	Lifetime ECL's			
	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Simplified approach HK$	HK$
Trade receivables*	-	-	-	24,687,063	24,687,063
Financial assets included in other receivables					
- Normal**	6,867,646	-	-	-	6,867,646
Due from the ultimate holding company	11,845,883	-	-	-	11,845,883
Due from fellow subsidiaries	29,836,288	-	-	-	29,836,288
Total	48,549,817	-	-	24,687,063	73,236,880

22 Financial risk management objectives and policies (continued)

Maximum exposure and year-end staging as at 31 March 2019 (continued)

* For trade receivables to which the entity applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 12 to the financial statements.

** The credit quality of the financial assets included other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful"

Maximum exposure as at 31 March 2018

Credit risk mainly arises from trade receivables and cash at banks, with a maximum exposure equal to the carrying amounts of these instruments, further details of which are disclosed in note 12 to the financial statements.

The Company has a concentration of credit risk due to its dependence on major customers, however the directors consider that the credit risk is managed as the Company has policies in place to ensure that the provision of services and sales of hardware and software licenses are made to customers with appropriate credit history and to limit the amount of credit exposure to customers to minimise credit risk resulting from counterparties default. The Company reviews the recoverable amount of each individual customer at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors are of the opinion that the relevant credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are creditworthy banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances. The Company's liquidity risk is further mitigated through the availability of financing from the ultimate holding company and fellow subsidiaries so as to enable the Company to meet its liabilities when they fall due and to continue operating for the foreseeable future.

The table below summarises the maturity profile of the Company's non-derivative financial liabilities as at 31 March 2019 based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period.

	On demand HK$	Less than 1 year HK$	Total HK$
2019			
Trade and bills payables	-	5,635,151	5,635,151
Financial liabilities included in other payables and accruals	-	4,318,341	4,318,341
Due to the ultimate holding company	12,725,233	-	12,725,233
Due to fellow subsidiaries	4,145,848	-	4,145,848
	16,871,081	9,953,492	26,824,573
2018			
Trade and bills payables	-	4,898,777	4,898,777
Financial liabilities included in other payables and accruals	-	5,506,781	5,506,781
Due to the ultimate holding company	9,601,404	-	9,601,404
Due to fellow subsidiaries	14,808,428	-	14,808,428
	24,409,832	10,405,558	34,815,390

23 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns to the shareholder and to maintain an optimal capital structure to realise the cost of capital. The Company's overall strategy remains unchanged from prior year.

The Company monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes trade and bills payables, amounts due to fellow subsidiaries and a subsidiary and other payables and accruals, less cash and bank balances. Capital represents total equity.

The gearing ratios as at the end of the reporting periods were as follows:

	2019	2018
	HK$	HK$
Trade and bills payables	5,635,151	4,898,777
Other payables and accruals	4,761,186	5,779,884
Due to fellow subsidiaries	4,145,848	14,808,428
Due to the ultimate holding company	12,725,233	9,601,404
Bank overdraft	14,144,265	7,128,133
Net debt	41,411,683	42,216,626
Total capital	39,553,151	27,468,247
Capital and net debt	80,964,834	69,684,873
Gearing ratio	51%	61%

24 Reclassification of comparative figures

Reclassification has been made to the previous year's financial statements so as to more accurately classify several items in the statement of profit and loss and other comprehensive income and statement of financial position. There is no impact to the profit before tax.

25 Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 27th June' 2019.