

FINANCIAL RISK MANAGEMENT

1 Financial risk factors

The Group's activities expose it to a variety of financial risks including foreign exchange risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by management who identifies, evaluates and mitigates financial risks in close co-operation with the Group's operating subsidiaries. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Foreign exchange risk

The Group operates in various countries and is exposed to foreign exchange risk against Hong Kong dollar arising from foreign exchange exposure. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operation.

Most of the assets, receipts and payments of the Group are either in Hong Kong dollar, US dollar, Euro or Renminbi. The Group minimises its foreign exchange exposure against purchase orders denominated in foreign currencies by entering into forward contracts with reputable financial institutions or at spot and maintain no material long position. The hedging policies are regularly reviewed by the Group.

Certain assets of the Group are denominated in US dollar but the foreign exchange risk is considered not significant as Hong Kong dollar exchange rate is pegged to US dollar.

The remaining Group's assets and liabilities are primarily denominated in the respective group companies' functional currency, which would not expose the Group to material foreign exchange risk.

(ii) Credit risk

The Group's credit risk is primarily attributable to deposits with banks and financial institutions, deposits and trade and other receivables with a maximum exposure equal to the carrying amounts of these financial instruments.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

(a) Credit risk of deposits with banks and financial institutions

As at 31 March 2022, all bank balances and bank deposits are held at reputable financial institutions which are leading and reputable with low credit risk and there is no significant concentration risk to a single counterparty and there is no history of defaults from these counterparties. The ECL is close to zero and no provision was made as at 31 March 2022 and 2021.

(b) Credit risk of deposits and other receivables

Deposits and other receivables were mainly rental deposit and utilities and management fee deposits. The credit quality of deposits and other receivables has been assessed with reference to historical information about the default rates and financial position of the counterparties. Given there is no history of defaults from these counterparties, the directors of the Company are of the opinion that there was no significant increase in credit risk and the expected credit loss was limited to 12-month expected credit losses. Therefore, ECL rate of the deposits and other receivables is assessed to be close to zero and no provision was made as at 31 March 2022 and 2021.

1 Financial risk factors (continued)

(ii) Credit risk (continued)

(c) Credit risk of trade receivables

The Group performs periodic credit evaluations of its customers, taking into account their financial position, past experience and other factors. The utilisation of credit limits is regularly reviewed. Sales to retail customers are settled in cash or using major credit cards. No material credit limits were exceeded during the reporting period, and management does not expect any material losses from non-performance by these counterparties.

Trade receivables mainly represent receivables from electronic payment service providers, receivables from e-commerce platform providers, receivables from shopping malls and department stores in the PRC, and wholesales, which are due within 90 days from the date of invoice. As at 31 March 2022, 89.5% (2021: 87.4%) of the total trade receivables were due within 90 days from the date of invoice. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 18.

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9, which permits the use of the lifetime ECL provision for all trade receivables.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and days past due. The ECL rates are based on the past repayment history and the historical credit loss experience. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The ECL allowance provided on a collective basis is insignificant as there was no history of material default from trade receivables.

For trade receivables relating to accounts in which objective evidence that the debtor faces significant financial difficulties or enter liquidation, they are assessed individually for impairment allowance. Accordingly, provision of ECL allowance of HK\$2,766,000 (2021: HK\$1,259,000) were made as at 31 March 2022.

Movements on the Group's provision for ECL of trade receivables are disclosed in Note 18.

Provision for ECL allowance on trade receivables is presented as net provision within operating loss. Subsequent recoveries of amounts previously written off are credited against the same line item.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, dividend payments, new investments and close out market positions if required.

As at 31 March 2022, the Group's financial liabilities included mainly trade payables and other payables amounting to HK\$399,188,000 (2021: HK\$409,225,000), which were substantially due within 3 months, lease liabilities amounting to HK\$251,561,000 (2021: HK\$349,603,000) and HK\$219,949,000 (2021: HK\$299,513,000) which were due within 12 months and over 12 months respectively, and short-term bank borrowings amounting to HK\$102,484,000.

The bank borrowings were trust receipt loans and revolving loans due within one to two year and contained a repayment-on-demand clause. The undiscounted cash flows therefore approximate the carrying amounts as the impact of discounting is not significant.

1 Financial risk factors (continued)

(iv) Interest rate risk

The Group's interest rate risk resulted from timing differences in the repricing of interest-bearing assets or liabilities. Major interest-bearing assets and liabilities of the Group are short-term bank deposits, time deposits and short-term bank borrowings, details of which have been disclosed in Note 20 and Note 23. As any reasonable changes in interest rate would not result in a significant change in the Group's results, no sensitivity analysis is presented for interest rate risk.

The Group monitors its interest rate risk through management of maturity profile and choice of fixed or floating interest rates.

2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity.

The table below analyses the Group's gearing ratio as at 31 March 2022:

	2022 HK\$'000
Total borrowings	102,484
Total equity	982,908
Gearing ratio	10.4%

As at 31 March 2021, the Group had no borrowings, the gearing ratio is not applicable.

As at 31 March 2022, the Group maintained a cash position of HK\$296,719,000 (2021: HK\$526,404,000).

The Group has complied with covenants of the major borrowing facilities throughout the year.

3 Fair value estimation

As at 31 March 2022 and 2021, the carrying values of trade receivables, other receivables and deposits, time deposits, cash and cash equivalents, trade payables, other payables and accruals, borrowings and lease liabilities are a reasonable approximation to their fair values.