

PEARL GLOBAL (HK) LIMITED

REPORTS

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2018

**LOUIS LAI & LUK CPA LIMITED
CERTIFIED PUBLIC ACCOUNTANTS**

PEARL GLOBAL (HK) LIMITED

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PEARL GLOBAL (HK) LIMITED
DIRECTORS' CONSOLIDATED REPORT

The directors present their consolidated report and the annual audited financial statements of the Group for the year ended March 31, 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and garment trading. The principal activities of subsidiaries are set out in Note (26a) to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Company and its subsidiaries (the "Group") for the year are set out in the consolidated statement of profit or loss and other comprehensive income on page 6.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment are set out in Note (12) to the consolidated financial statements.

SHARE CAPITAL AND RESERVES

Details and movement of share capital of the Group are set out in Note (25) to the consolidated financial statements.

Details and movement of reserves of the Group are set out in the consolidated statement of changes in equity on page 9.

DIRECTORS

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

<u>Holding Company</u>	<u>Subsidiaries</u>
Mahesh Kumar SETH	Shefali SETH
Deepak Kumar SETH	Deepak Kumar SETH
Pulkit SETH	Pulkit SETH
	Amit KUMAR
	Frank Petrus SMITS
	Vinod Ramanlal KANTHARIA
	Sweta AGARWAL
	Arulrayan SILUVAIRYAN (Resigned on January 10, 2018)
	Smits Frank PETRUS (Appointed on March 23, 2017)
	Adriann Bernard De JONG (Resigned on July 31, 2017)

There being no provision in the Company's Articles of Association to the contrary, all directors continue in office for the ensuing year.

PEARL GLOBAL (HK) LIMITED

DIRECTORS' CONSOLIDATED REPORT (CONT'D)

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE GROUP'S BUSINESS

Except for the related party transactions as disclosed in Note (28) to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Group, any of its holding company, its subsidiaries or its fellow subsidiaries was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY PROVISION

At no time during the financial year and up to the date of this report, there was or is, any permitted indemnity provision being in force for the benefit of any of the directors of the Company and holding company (whether made by the Company or otherwise) or an associated company (if made by the Company).

BUSINESS REVIEW

The Company is a wholly owned subsidiary of another body corporate. Accordingly, the Company is exempted from preparing a business review.

AUDITORS

The Company's auditors, Messrs. Louis Lai & Luk CPA Limited, retire and, being eligible, offer themselves for re-appointment.

By Order of the Board



Deepak Kumar SETH
Chairman

Hong Kong, May 25, 2018.

LOUIS K.M. LAI FCCA CPA (PRACTISING) 黎劍民會計師

LUK WING HAY FCCA CPA (PRACTISING) 陸永熙會計師

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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF
PEARL GLOBAL (HK) LIMITED
(incorporated in Hong Kong with limited liability)**

Opinion

We have audited the consolidated financial statements of Pearl Global (HK) Limited and its subsidiaries ("the Group") set out on pages 6 to 43, which comprise the consolidated statement of financial position as at March 31, 2018 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at March 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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.

LOUIS K.M. LAI FCCA CPA (PRACTISING) 黎劍民會計師

LUK WING HAY FCCA CPA (PRACTISING) 陸永熙會計師

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INDEPENDENT AUDITOR'S REPORT (CONT'D)
TO THE MEMBER OF
PEARL GLOBAL (HK) LIMITED
(incorporated in Hong Kong with limited liability)

Responsibilities of Directors and Those charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance (Cap.622) 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 consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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.

LOUIS K.M. LAI FCCA CPA (PRACTISING) 黎劍民會計師

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**INDEPENDENT AUDITOR'S REPORT (CONT'D)
TO THE MEMBER OF
PEARL GLOBAL (HK) LIMITED
(incorporated in Hong Kong with limited liability)**

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Cont'd)

- 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 the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 those charged with governance 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.



Louis Lai & Luk CPA Limited
Certified Public Accountants

Luk Wing Hay
Practising Certificate Number P01623

Hong Kong, May 25, 2018.

PEARL GLOBAL (HK) LIMITED

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

FOR THE YEAR ENDED MARCH 31, 2018

	<u>NOTES</u>	<u>2018</u>	<u>2017</u>
		US\$	US\$
REVENUE	(6)	111,319,998	82,109,383
OTHER INCOME AND GAINS, NET	(6)	600,499	663,604
GAIN ON DISPOSAL OF PLANT AND EQUIPMENT		19,031	6,449
COST OF GOODS SOLD		(96,343,163)	(70,621,281)
STAFF COSTS		(4,511,717)	(2,998,675)
DEPRECIATION		(271,090)	(141,446)
OTHER OPERATING EXPENSES		<u>(9,953,902)</u>	<u>(7,973,639)</u>
PROFIT FROM OPERATION		859,656	1,044,395
FINANCE COSTS	(7)	<u>(337,321)</u>	<u>(203,815)</u>
PROFIT BEFORE TAXATION	(8)	522,335	840,580
TAXATION	(10)	<u>(256,778)</u>	<u>(242,074)</u>
PROFIT FOR THE YEAR		265,557	598,506
OTHER COMPREHENSIVE (EXPENSE)/INCOME		<u>(106,105)</u>	<u>494,909</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		159,452	1,093,415
PROFIT ATTRIBUTABLE TO:		=====	=====
Equity holders of the company	(11)	417,615	392,310
Non-controlling interests		<u>(152,058)</u>	<u>206,196</u>
		265,557	598,506
		=====	=====
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the company		325,574	738,283
Non-controlling interests		<u>(166,122)</u>	<u>355,132</u>
		159,452	1,093,415
		=====	=====

THE NOTES ON PAGES 12 TO 43 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

PEARL GLOBAL (HK) LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2018

	<u>NOTES</u>	<u>2018</u>	<u>2017</u>
		US\$	US\$
Non-Current Assets			
Property, plant and equipment	(12)	3,186,051	1,857,525
Available-for-sale investments	(13)	4,558,893	-
Deposits		173,692	173,692
Loan to third parties	(14)	3,216,396	2,985,766
Deferred tax assets	(10b)	117,667	111,664
Goodwill	(15)	1,932,750	-
		13,185,449	5,128,647
Current Assets			
Inventories	(16)	1,569,079	701,004
Deposits and prepayments		2,441,427	2,193,533
Trade deposit paid		557,094	484,799
Trade and other receivables	(17)	20,618,841	11,627,003
Amounts due from fellow subsidiaries	(18)	-	202,685
Amount due from a related company	(9(ii))	-	10,092
Cash and cash equivalents		3,642,958	3,966,776
		28,829,399	19,185,892
Current Liabilities			
Amounts due to fellow subsidiaries	(19)	13,268,547	4,425,500
Amount due to an ultimate holding company	(19)	3,082,119	754,731
Loan from a non-controlling interest	(20)	80,000	-
Loan from a director of a subsidiary	(20)	110,000	-
Trade and other payables	(21)	3,951,207	2,860,451
Provision for taxation		30,975	136,740
Obligation under finance lease - current portion	(22)	24,072	-
Secured bank borrowings	(23)	7,149,665	4,339,294
		27,696,585	12,516,716
Net Current Assets		1,132,814	6,669,176
Total Assets Less Current Liabilities		14,318,263	11,797,823
Non-Current Liabilities			
Employee benefits obligation	(24)	541,273	302,257
Obligation under finance lease - non-current portion	(22)	41,719	-
		582,992	302,257
NET ASSETS		13,735,271	11,495,566

THE NOTES ON PAGES 12 TO 43 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

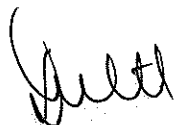
PEARL GLOBAL (HK) LIMITED

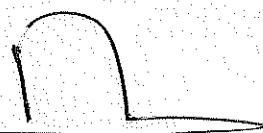
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

AS AT MARCH 31, 2018

	<u>NOTES</u>	<u>2018</u>	<u>2017</u>
		US\$	US\$
EQUITY			
Share capital	(25)	9,060,000	7,060,000
Revaluation surplus		257,559	341,941
Translation reserve		25,015	-
Other reserve		(161,863)	-
Retained earnings		<u>2,699,706</u>	<u>2,314,765</u>
Total equity attributable to equity holders of the company		11,880,417	9,716,706
Non-controlling interests		<u>1,854,854</u>	<u>1,778,860</u>
TOTAL EQUITY		<u><u>13,735,271</u></u>	<u><u>11,495,566</u></u>

APPROVED BY THE BOARD OF DIRECTORS ON MAY 25, 2018 AND SIGNED ON BEHALF OF THE BOARD BY:


 _____ X
 Deepak Kumar SETH
 Director


 _____ X
 Pulkit SETH
 Director

THE NOTES ON PAGES 12 TO 43 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

PEARL GLOBAL (HK) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED MARCH 31, 2018

	Share Capital	Revaluation Surplus	Translation Reserve	Other Reserve	Retained Earnings	Non- Controlling Interests	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
At April 1, 2016	4,890,000	-	-	-	1,918,423	1,423,728	8,232,151
Capital injection	2,170,000	-	-	-	-	-	2,170,000
Total comprehensive income for the year	-	341,941	-	-	396,342	355,132	1,093,415
At March 31, 2017	7,060,000	341,941	-	-	2,314,765	1,778,860	11,495,566
Capital injection by holding company	2,000,000	-	-	-	-	-	2,000,000
Capital injection by non-controlling interests	-	-	-	-	-	80,253	80,253
Transfer to other reserve	-	-	-	(161,863)	-	161,863	-
Total comprehensive income for the year	-	(84,382)	25,015	-	384,941	(166,122)	159,452
At March 31, 2018	9,060,000	257,559	25,015	(161,863)	2,699,706	1,854,854	13,735,271

THE NOTES ON PAGES 12 TO 43 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

PEARL GLOBAL (HK) LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2018

	<u>2018</u>	<u>2017</u>
	US\$	US\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	522,335	840,580
Adjustment for:		
Interest income	(103,462)	(10,608)
Interest expenses	337,321	203,815
Depreciation	461,881	307,250
Remeasurement of define benefits plan	(62,318)	5,768
Gain on disposal of plant and equipment	(19,031)	(6,449)
Fair value changes of available-for-sale investments	(84,382)	-
Foreign exchange gain arising from translating foreign currency items	(55,505)	-
Bad debt	57,692	-
Write off of other receivables	100,340	-
	1,154,871	1,340,356
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		
Decrease in deposits	-	(39,834)
(Increase)/decrease in inventories	(293,972)	84,648
Increase in deposits and prepayments	(48,059)	(213,554)
Increase in trade deposits paid	(72,295)	(55,378)
(Increase)/decrease in trade and other receivables	(8,904,726)	3,503,228
Decrease in trade and other payables	(10,960)	(851,272)
Net receipts from fellow subsidiaries	9,045,732	2,254,531
Net receipts from a related company	10,092	-
Net receipts from/(payment to) ultimate holding company	2,327,388	(2,159,241)
Net receipts from a non-controlling interest	80,000	-
Net receipts from a director of a subsidiary	110,000	-
Net payment to a related party	-	(10,092)
Increase in employee benefits obligation	164,411	91,799
	3,562,482	3,945,191
CASH GENERATED FROM OPERATIONS		
Bank interest received	2,736	10,608
Interest paid	(337,321)	(203,815)
Income tax paid	(343,393)	(387,062)
Employee benefits obligations paid	(12,439)	-
	2,872,065	3,364,922
Net cash generated from operating activities	2,872,065	3,364,922

THE NOTES ON PAGES 12 TO 43 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

PEARL GLOBAL (HK) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

FOR THE YEAR ENDED MARCH 31, 2018

	<u>2018</u>	<u>2017</u>
	US\$	US\$
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of plant and equipment	21,496	6,449
Payment to acquire property, plant and equipment	(1,017,741)	(224,968)
Acquisition of available-for-sale investments	(4,474,511)	-
Net cash paid for acquisition of a subsidiary	(1,847,465)	-
Acquisition of non-controlling interest	(4,350)	-
Interest received from available-for-sale investment	8,000	-
Interest received from loan to third parties	92,726	-
Increase in loan to third parties	<u>(230,630)</u>	<u>(2,985,766)</u>
Net cash used in investing activities	<u>(7,452,475)</u>	<u>(3,204,285)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net receipts from/(payment to) secured bank loans	2,107,443	(839,807)
Net receipts from obligation under finance lease	65,791	-
Allotment of share capital	2,000,000	2,170,000
Capital injection by non-controlling interests	<u>80,253</u>	<u>-</u>
Net cash generated from financing activities	<u>4,253,487</u>	<u>1,330,193</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(326,923)	1,490,830
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	3,966,776	2,475,946
Effects of changes in foreign exchange rates	<u>3,105</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>3,642,958</u></u>	<u><u>3,966,776</u></u>

THE NOTES ON PAGES 12 TO 43 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Pearl Global (HK) Limited is a company incorporated in Hong Kong with limited liability. The principal activities of the Company are investment holding and garment trading. The address of its registered office is Unit 801-3, 8/F., 9 Wing Hong Street, Cheung Sha Wan, Kowloon, Hong Kong. The directors consider that the ultimate holding company is Pearl Global Industries Limited, a company incorporated in India. The shares of the ultimate holding company is listed on the Bombay Stock Exchange and National Stock Exchange in India.

2. PRINCIPAL ACCOUNTING POLICIES

a. Basis of Preparation

These financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS(s)”) (which also include Hong Kong Accounting Standards (“HKAS(s)”) and Interpretations (“Int(s)”) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention and are presented in United States dollars (US\$), which is also the Company’s functional and presentation currency.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note (5) to the consolidated financial statements.

b. Changes in Accounting Policies and Disclosures

Certain new and revised HKFRSs became effective for the first time during the current financial year but are not applicable to the Group, and accordingly, they have had no material impact on the Group’s financial statements for the year ended March 31, 2018.

c. Issued but Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not early applied any new and revised HKFRSs that have been issued but are not yet effective for the accounting year ended March 31, 2018, in these consolidated financial statements. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

d. Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to March 31, 2018. Subsidiary is an entity over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiary is consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balance and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiary have been changes where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the Consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the Consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non controlling interests and the shareholders of the Company.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of the controlling and non-controlling interests within consolidated equity to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest are adjusted and the fair value of the consideration paid or received recognised directly in equity and attributed to the owners of the Company.

In the Company's statements of financial position the investments in subsidiary is stated at cost less allowance for impairment losses. The results of subsidiary is accounted for by the Company on the basis of dividends received and receivable.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

e. Property, Plant and Equipment

Property, plant and equipment except land, are stated at cost less aggregate depreciation and aggregate identified impairment loss, if any.

Depreciation is provided to write off the cost less residual value of property, plant and equipment over its expected useful lives.

Land use rights	30 years
Infrastructures	5-25 years
Leasehold improvement	3 years
Machineries	5-10 years
Furniture and fixtures	3 - 5 years
Motor vehicles	5-8 years
Tools and equipment	3 - 5 years
Office equipment	3-4 years
Computer equipment	3 years
Computer software	5 years

Land is stated at cost and not depreciated. Land titles represent building usage rights of Taman Pasadena Apartment at Jakarta ("Hak Milik atas Satuan Rumah Susun") for a maximum period of 20 years and could be extended.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the Consolidated statement of profit or loss and other comprehensive income.

When assets are sold or otherwise disposed of, their carrying amounts are written off from the consolidated financial statements and any resulting gain or loss is included in the Consolidated statement of profit or loss and other comprehensive income.

f. Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

g. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

h. Financial Assets

Financial assets of the Group are only classified under loans and receivables category.

i. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables are carried at amortized cost using effective interest method, less any identified impairment losses. An impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the assets recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

j. Available-For-Sale Investments

Available-for-sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as (1) loans and receivables, (2) held to-maturity investment or (3) financial assets at fair value through profit or loss. They are included in non-current assets unless the directors intend to dispose of the investment within 12 months of the end of the reporting period.

Purchases and sales of investments are recognised on trade date-the date on which the Company recognised at fair value plus transaction costs and subsequently carried at fair value. When securities classified as available-for-sale are sold or impaired, the aggregate fair value adjustment (if any) are included in the statement of profit or loss and other comprehensive income as gains or losses from investment securities.

The Company's directors use judgment in determining the fair value of available-for-sale investments.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

j. Available-For-Sale Investments (cont'd)

The Company assesses at the end of each reporting period whether there is objective evidence that its financial assets is impaired. In the case of securities classified as available for sales, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale investments, measured as the difference between the acquisition cost and the current fair value, is charged to the statement of profit or loss and other comprehensive income without reversing back.

k. Financial Liabilities

Financial liabilities of the Group are classified, at initial recognition, as loans and borrowings or derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group's financial liabilities include trade and other payables, and amounts due to a related company, fellow subsidiaries, ultimate holding company, a director and secured bank borrowings, which are subsequently measured at amortized cost, using the effective interest method.

l. Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's equity instrument represents its issued share capital and is recorded at the share subscription received/receivable at the date of issuance of shares.

m. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method.

n. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

o. Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

o. Goodwill (cont'd)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at the end of the reporting period.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

p. Translation of Foreign Currency

(i) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in United States Dollars ("US\$"), which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange 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 the consolidated statement of profit or loss and other comprehensive income.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

q. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of specific assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the consolidated statement of profit or loss and other comprehensive income.

r. Turnover

Turnover represents invoiced amount of sales less discounts and returns.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

s. Recognition of Revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the bases as follows:

- Revenue from sales of goods is recognised when goods are delivered to buyers.
- Interest income from bank deposit is accrued on a time proportion basis on the principal outstanding and at the rate applicable.
- Management fee income is recognised when the services are rendered.
- Claims and recovery is recognised when the Company is entitled to the income.
- Other income is recognised on a receipt basis.
- Sample income is recognised when samples are delivered to buyers.

t. Borrowing Costs

Interest and other borrowing costs incurred in connection with the borrowing of funds are recognised as expenses in the period in which they are incurred.

u. Bank Borrowings

Interest bearing bank loans and overdrafts are initially measured as fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs, if any) and the settlement or redemption of borrowings is recognised over the terms of borrowings in accordance with the Group's policy for borrowing cost as stated in the preceding note.

v. Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset and whether the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Company substantially all the rewards and risks incidental to ownership of a leased item, are capitalised at the inception of the lease at the fair value of the leased item, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction in the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are expensed through the statement of profit or loss.

Capitalised leased assets are depreciated over the shorter of the lease terms and the estimated useful lives of the assets.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

v. Leases (cont'd)

Operating lease payments, net of any incentives received from the lessor, are recognised as an expense in the statement of profit or loss on a straight-line basis over the lease terms. Where the Company is the lessor, assets leased by the Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms.

Lease payments which cannot be allocated reliably between the land and buildings elements are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

w. Employee Benefits Obligation

The Group determines its post-employment benefits obligation under the Labor Law of the Republic of Indonesia No. 13/2003. The cost of providing post-employment benefits is determined using "Projected Unit Credit" method. Actuarial gains or losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded the higher of 10% of the defined benefit obligation and 10% of the fair value of plan assets at that date. These gains or losses are recognised on a straight-line basis method over the expected average remaining working lives of the employees. Past service cost arising from the introduction of a defined benefit plan or changes in the benefits obligation of an existing plan are required to be amortized over the period until the benefits concerned become vested.

x. Retirement Benefit Scheme

The Group participates in Mandatory Provident Fund Scheme ("MPF Scheme") for its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Pursuant to the rules of the MPF Scheme, each of the employer and employees are required to make contributions to the scheme at rates specified in the rules.

The MPF Scheme is a defined contribution plan and the Group is only obliged to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit cost arising from the MPF Scheme charged to the Consolidated statement of profit or loss and other comprehensive income represent contribution payable to the funds by the Group in accordance with the rules of the MPF Scheme.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

y. Related Parties

A related party is a person or entity that is related to the Group.

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or a parent of the Group.

(B) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (A).
- (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

z. Financial Risks

The financial risks in connection with the Group's financial instruments include risks as follows.

- (i) Market risk includes three types of risk as below:
 - Currency risk: the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.
 - Fair value interest rate risk: the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.
 - Price risk: the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. Market risk embodies not only the potential for loss but also the potential for gain.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

z. Financial Risks (cont'd)

- (ii) Credit risk: the risk that the corresponding party to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss.
- (iii) Liquidity risk (also referred to as funding risk): the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.
- (iv) Cash flow interest rate risk: the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

3. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- (i) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- (ii) To support the Group's stability and growth; and
- (iii) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group. 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.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. FINANCIAL RISK MANAGEMENT

(i) Financial instruments by category

The financial assets of the Group comprise trade and other receivable, deposits, amounts due from fellow subsidiaries, and cash and cash equivalents which are categorized as loans and receivables. The carrying amounts of these financial assets are the amounts shown on the consolidated and company statements of financial position or in the corresponding notes to the consolidated financial statements. The financial liabilities of the Group comprise trade and other payables, and amounts due to ultimate holding company, fellow subsidiaries, a related company, a director, and secured bank borrowings which are categorized as financial liabilities at amortised cost. The carrying amounts of these financial liabilities are the amounts shown on the Consolidated statement of financial position or in the corresponding notes to the consolidated financial statements.

(ii) Financial risk management

The Group's financial risks are limited by the financial management policies and practices described below:

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group.

- Foreign exchange risk: the Group exposed to foreign exchange risk from various currency exposures including Indonesian Rupiah, Vietnamese Dong and Euro. The Group has some forward deals with bank to hedge its exposure to foreign currency risk in connection with the recording currency.
- Credit risk: the Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any customers.
- Interest rate risk: the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgment 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.

(a) Estimate of fair values of current assets and liabilities

The nominal value of current assets and liabilities are assumed to approximate their fair values.

(b) Employee benefits

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality bonds that are denominated in the currency in which the benefits will be paid (Rupiah currency), and that have maturity approximating the terms of the related post employment benefit liability.

(c) Income taxes

The Group is subject to income tax in Hong Kong, Vietnam and Indonesian tax jurisdictions. Significant judgment is required in determining local provision for income tax, among other, non deductible expenses. The Group recognises provision for income tax based on self assessment. Where the final tax outcome as a result of tax audit is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Prepaid taxes are impaired as the carrying amounts may not be recoverable.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. REVENUE, OTHER INCOME AND GAINS

	<u>2018</u>	<u>2017</u>
Revenue recognised during the year including revenue arising from:	US\$	US\$
Turnover:		
Sales	111,319,998	82,109,383
	-----	-----
Other income and gains, net		
Bank interest income	2,736	6,244
Other interest income	100,726	16,766
Claim and recovery	100,580	4,364
Exchange gain, net	34,071	-
Sampling income	86,296	591,230
Sundry income	276,090	45,000
	-----	-----
	600,499	663,604
	-----	-----
Total revenue recognised	111,920,497	82,772,987
	=====	=====

7. FINANCE COSTS

Bank finance charges	337,321	155,479
Other interest paid	-	48,336
	-----	-----
	337,321	203,815
	=====	=====

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. PROFIT BEFORE TAXATION

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Profit before taxation is stated after charging and (crediting):		
Bad debt	57,692	-
Depreciation	461,881	307,250
Gain on disposal of plant and equipment	(19,031)	(6,449)
Staff costs (including directors' remuneration)		
- Salaries and allowance	3,848,861	2,827,505
- Employee benefit	124,177	102,709
- Employee welfare	510,200	49,016
- Mandatory provident fund contribution	28,478	19,445
Write off of other receivables	100,340	-
	<u>=====</u>	<u>=====</u>

9. DIRECTORS' REMUNERATION, LOANS AND OTHER MATERIAL INTERESTS

- (i) Remuneration of the directors of the Group disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follow:

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Emoluments:		
Acting as directors	-	-
Provision of management services	60,000	60,000
Retirement benefits	<u> -</u>	<u> -</u>
	<u>60,000</u>	<u>60,000</u>
	<u>=====</u>	<u>=====</u>

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. DIRECTORS' REMUNERATION, LOANS AND OTHER MATERIAL INTERESTS (CONT'D)

- (ii) Loans, quasi-loans and other dealings in favour of directors (including shadow directors) of the Group and its holding company disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follow:

Loans, quasi-loans and credit transactions entered into by the Group for a director of the Group or of its holding company or a controlled body corporate of such a director

<u>Name of borrower</u>	<u>Outstanding principal</u>		
	<u>At beginning of year</u>	<u>At end of year</u>	<u>Greatest outstanding</u>
Prudent Fashions Limited ⁽¹⁾	10,092 =====	- =====	10,092 =====

⁽¹⁾ Related company, connected to Deepak Kumar Seth and Pulkit Seth

Guarantee or security in connection with loans, quasi-loans and credit transactions entered into by the Group for a director of the Group or of its holding company or a controlled body corporate of such a director

During the year, no guarantee or security in connection with loans, quasi-loans and credit transactions entered into by the Group for a director of the Group or of its holding company or a controlled body corporate of such a director.

- (iii) Material interests of directors (including shadow directors) of the Group disclosed pursuant to section 383(1)(e) of the Hong Kong Companies Ordinance and Part 4 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follow:

In the opinion of the directors, except for the related party transactions disclosed in Note (28) to the consolidated financial statements, the directors or shadow directors, if any, of the Group had no material interests in those significant transactions, arrangements or contracts in relation to the Group's business entered into by the Group or another company in the same group of companies or subsisted during the year.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. TAXATION

Hong Kong profits tax has not been provided since the Company has no assessable profit for the year. Income tax of subsidiary has been provided at the prevailing rate of the country the subsidiary operates.

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Hong Kong Profits tax :		
Current year	-	12,724
Underprovision/(Overprovision) in prior years	35,161	(2,571)
Overseas income tax		
Current year	212,042	234,608
Overseas deferred tax	<u>9,575</u>	<u>(2,687)</u>
Total	<u><u>256,778</u></u>	<u><u>242,074</u></u>

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. TAXATION (CONT'D)

- a. The tax charge for the year can be reconciled to the profit per consolidated statement of profit or loss and other comprehensive income as follows:

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Profit before taxation	522,335	840,580
Tax at the domestic income tax rate	110,228	216,097
Tax effect of expenses that are not deductible in determining taxable profit	25,697	21,826
Tax effect of expenses that are not taxable in determining taxable profit	(6,469)	(2,852)
Net tax allowance claimed	(14,630)	5,718
Overprovision for previous year	35,161	(2,571)
Tax loss not yet recognised	364,014	4,610
Deemed income subject to overseas taxation	(266,798)	1,933
Current year deferred tax	<u>9,575</u>	<u>(2,687)</u>
Taxation expense for the year	<u>256,778</u>	<u>242,074</u>

- b. The following is the analysis of deferred tax balance presented on the consolidated statement of financial position.

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Subsidiary:		
Deferred tax assets	<u>117,667</u>	<u>111,664</u>

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit of US\$345,569 (2017: profit of US\$392,310) attributable to shareholders of the Group is a profit of US\$1,565,913 (2017: loss of US\$123,882) which is dealt with in the Company's own accounts.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT

	Land		Land Use		Leasehold		Leasehold		Furniture		Motor		Tools and		Office		Computer		Construction		Total	
	US\$	US\$	Right	Building	Infrastructures	Improvement	Machineries	and Fixtures	and Fixtures	Vehicles	Equipment	Equipment	Equipment	Software	in progress	US\$	US\$	US\$	US\$	US\$		US\$
Cost																						
At 1/4/2016	182,932	-	-	-	283,340	53,471	2,239,956	164,232	358,580	469,127	-	7,566	-	-	762,838	-	-	-	-	-	4,522,042	
Additions	-	-	-	-	44,987	99,895	7,531	39,314	22,831	-	-	10,390	-	-	-	-	-	-	-	-	224,968	
Disposal	-	-	-	-	-	-	(152,667)	-	(21,297)	-	-	-	-	-	-	-	-	-	-	-	(173,964)	
Surplus on revaluation	-	-	-	-	-	-	504,314	-	-	-	-	-	-	-	-	-	-	-	-	-	504,314	
At 31/3/2017	182,932	-	-	-	283,340	98,458	2,691,498	171,783	376,597	491,958	-	17,956	-	-	762,838	-	-	-	-	-	5,077,360	
and 1/4/2017																						
Acquisition of a subsidiary	-	55,448	133,940	-	932,018	-	995,338	-	52,737	-	-	63,199	-	-	-	-	-	10,256	-	-	2,242,936	
Additions	-	-	-	-	91,893	-	651,184	9,468	179,990	34,097	-	9,178	-	-	-	-	-	-	-	-	1,017,742	
Disposal	-	-	-	-	-	-	(159,667)	-	(130,640)	-	-	-	-	-	-	-	-	-	-	-	(290,307)	
Reclassify to other assets	-	-	-	-	-	-	6,812	-	(2,464)	-	-	(4,348)	-	-	-	-	-	-	-	-	-	
Other decrease	-	-	(91)	-	-	-	-	-	-	-	-	(771)	-	-	-	-	-	-	-	-	(862)	
Exchange realignment	-	49	118	-	822	-	878	-	817	-	-	42	-	-	-	-	9	-	-	-	2,735	
At 31/3/2018	182,932	55,497	133,967	-	1,308,073	98,458	4,186,043	181,251	477,037	526,055	-	27,134	-	-	762,838	-	-	10,265	-	-	8,049,604	

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Land	Land Use Right	Leasehold Building	Infrastructures	Leasehold Improvement	Machineries	Furniture and Fixtures	Motor Vehicles	Tools and Equipment	Office Equipment	Computer Equipment	Computer Software	Construction in Progress	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<u>Accumulated Depreciation</u>														
At 1/4/2016	-	-	-	282,106	37,162	2,032,915	162,225	160,170	407,736	-	4,235	-	-	3,086,549
Charge for the year	-	-	-	605	27,567	165,802	4,079	71,557	33,377	-	4,263	-	-	307,250
Written back on disposal	-	-	-	-	-	(152,667)	-	(21,297)	-	-	-	-	-	(173,964)
At 31/3/2017 and 1/4/2017	-	-	-	282,711	64,729	2,046,050	166,304	210,430	441,113	-	8,498	-	-	3,219,835
Acquisition of a subsidiary	-	25,334	15,516	384,681	-	948,993	-	40,920	-	42,655	-	10,214	-	1,468,313
Charge for the year	-	1,590	15,163	49,901	14,996	258,956	4,815	78,973	27,764	5,925	3,756	42	-	461,881
Written back on disposal	-	-	-	-	-	(159,667)	-	(128,175)	-	-	-	-	-	(287,842)
Reclassify to other assets	-	-	-	-	-	329	-	(103)	-	(226)	-	-	-	-
Exchange realignment	-	23	20	361	-	875	-	38	-	40	-	9	-	1,366
At 31/3/2018	-	26,947	30,699	717,654	79,725	3,095,536	171,119	202,083	468,877	48,394	12,254	10,265	-	4,863,553
<u>Net Carrying Amount</u>														
At 31/3/2018	182,932	28,550	103,268	590,419	18,733	1,090,507	10,132	274,954	57,178	51,660	14,880	-	762,838	3,186,051
At 31/3/2017	182,932	-	-	629	33,729	645,448	5,479	166,167	50,845	-	9,458	-	762,838	1,857,525

(1) Depreciation expenses of US\$271,090 (2016: US\$165,803) has been charged to profit or loss and other consolidated statement of comprehensive income within cost of goods sold and US\$141,447 (2017: US\$190,791) has been charged to consolidated statement of profit or loss and other comprehensive income within depreciation expenses.

(2) As of March 31, 2018 and 2017, machineries and equipments are used as collateral for bank loan facilities amounting to US\$1,500,000 as disclosed in Note (23) and (33) to the consolidated financial statements.

(3) At of March 31, 2018, leasehold building of net carrying amount of US\$103,268 is under finance lease as disclosed in Note (22) to the consolidated financial statements.

(4) As at May 1, 2017, property, plant and equipment of net carrying amount of US\$774,623 were acquired by acquisition of a subsidiary.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. AVAILABLE-FOR-SALE INVESTMENTS

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Key man insurance	2,643,275	-
Equity portfolio	<u>1,915,618</u>	<u>-</u>
	<u><u>4,558,893</u></u>	<u><u>-</u></u>

The insurance policy was pledged to bank to secure for banking facilities granted to the Company as disclosed in Note (33) to the financial statements.

14. LOAN TO THIRD PARTIES

Loan to third parties is unsecured, bears interest rate of 2% per annum, and is repayable on or before March 31, 2020. No provisions for bad and doubtful debts have been recognised on the loan to a third party. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

15. GOODWILL

US\$

Cost and carrying amount

Acquisition of a subsidiary and as at 31/3/2018		<u><u>1,932,750</u></u>
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16. INVENTORIES

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Raw materials	143,293	-
Work in progress	<u>1,425,786</u>	<u>701,004</u>
	<u><u>1,569,079</u></u>	<u><u>701,004</u></u>

As of March 31, 2018 and 2017, inventories are used as collateral for bank loan facilities as disclosed in Note (23) and (33) to the consolidated financial statements.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. TRADE AND OTHER RECEIVABLES

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Trade receivables (Note (i))	20,036,736	11,464,372
Other receivables	<u>582,105</u>	<u>162,631</u>
	<u>20,618,841</u>	<u>11,627,003</u>

(i) Aging analysis of trade receivables is as follows:

Neither past due nor impaired	19,307,909	10,419,571
Past due but not impaired	<u>728,827</u>	<u>1,044,801</u>
	<u>20,036,736</u>	<u>11,464,372</u>

As of March 31, 2018 and 2017, trade receivables are used as collateral for bank loan facilities as disclosed in Note (23) and (33) to the consolidated financial statements.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayments. No provisions for bad and doubtful debts have been recognised on the amounts due from fellow subsidiaries. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

19. AMOUNTS DUE TO FELLOW SUBSIDIARIES/ULTIMATE HOLDING COMPANY

The amounts due to fellow subsidiaries/ultimate holding company are unsecured and have no fixed terms of repayment. The fellow subsidiaries, ultimate holding company and had agreed not to demand repayment until the Group is financially capable of repayment. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

20. LOAN FROM A NON-CONTROLLING INTEREST/A DIRECTOR OF A SUBSIDIARY

The amounts are interest-free. The amounts due are unsecured and have no fixed terms of repayment. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

21. TRADE AND OTHER PAYABLES

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Trade payables (Note (i))	2,300,091	1,733,912
Other payables	620,594	858,375
Accruals	<u>1,030,522</u>	<u>268,164</u>
	<u>3,951,207</u>	<u>2,860,451</u>

(i) Aging analysis of trade payables is as follows:

Due for payment:		
Not later than one year	<u>2,300,091</u>	<u>1,733,912</u>

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. OBLIGATION UNDER FINANCE LEASE

The carrying amount of the obligation under finance lease at the end of reporting period is analysed as follows:

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Amount repayable within one year	24,072	-
Amount repayable in 2 nd to 5 th year	<u>41,719</u>	<u>-</u>
	<u>65,791</u>	<u>-</u>

23. SECURED BANK BORROWINGS

The carrying amount of the secured bank borrowings at the end of reporting period is analysed as follows:

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Amount repayable within one year:		
Discounted bills loan	1,170,997	4,339,294
Term loan	<u>1,825,785</u>	<u>-</u>
	2,996,782	4,339,294
Amount not repayable within one year but contain a repayment on demand clause (Note a)		
- Amount repayable in the 2 nd year	532,121	-
- Amount repayable in 3 rd to 5 th years	2,492,588	-
- Amount repayable after 5 years	<u>1,128,174</u>	<u>-</u>
	4,152,883	-
	<u>7,149,665</u>	<u>4,339,294</u>

- (a) The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.
- (b) The bank borrowing facilities are secured by the Group's machineries and equipment, inventories, trade receivables together with director's personal guarantee.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. EMPLOYEE BENEFITS OBLIGATION

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Balance brought forward	302,257	210,458
Charged to consolidated statement of profit or loss and comprehensive income	251,455	92,263
Payment during the year	<u>(12,439)</u>	<u>(464)</u>
Balance carried forward	<u><u>541,273</u></u>	<u><u>302,257</u></u>

25. SHARE CAPITAL

	<u>2018</u>		<u>2017</u>	
	<u>No. of shares</u>	<u>Amount</u>	<u>No. of shares</u>	<u>Amount</u>
		US\$		US\$
Issued and fully paid: Ordinary shares				
At April 1, 2017/April 1, 2016	1,610,000	7,060,000	1,610,000	4,890,000
Increase in of share capital	<u>-</u>	<u>2,000,000</u>	<u>-</u>	<u>2,170,000</u>
	<u>1,610,000</u>	<u>9,060,000</u>	<u>1,610,000</u>	<u>7,060,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

On April 27, 2017 and July 31, 2017, the Company's issued share capital was increased by the ultimate holding company's capital injection of US\$1,000,000 each in cash, making a total issued share capital of US\$9,060,000.


PEARL GLOBAL (HK) LIMITED


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTES	2018 US\$	2017 US\$
Non-Current Assets			
Property, plant and equipment		48,731	43,162
Interests in subsidiaries	(24a)	10,546,246	3,619,402
Available-for-sale investments		2,643,275	-
Loan to third parties		3,216,396	2,985,766
		16,454,648	6,648,330
Current Assets			
Deposits and prepayments		52,803	668,263
Trade and other receivables	(17)	14,046,253	7,486,110
Amount due from a related company	(9(ii))	-	10,092
Cash and cash equivalents		2,797,908	2,115,631
		16,896,964	10,280,096
Current Liabilities			
Amount due to fellow subsidiaries	(19)	13,480,703	3,849,548
Amount due to an ultimate holding company	(19)	2,982,096	1,563,888
Trade and other payables	(20)	1,330,031	803,438
Secured bank loans	(23)	5,620,609	4,339,294
		23,413,439	10,556,168
Net Current Liabilities		(6,516,475)	(276,072)
NET ASSETS		9,938,173	6,372,258
EQUITY			
Share capital		9,060,000	7,060,000
Retained earnings/(Accumulated losses)		878,173	(687,742)
TOTAL EQUITY		9,938,173	6,372,258

APPROVED BY THE BOARD OF DIRECTORS ON MAY 25, 2018 AND SIGNED ON BEHALF OF THE BOARD BY:


 _____ X
 Deepak Kumar SETH
 Director


 _____ X
 Pulkit SETH
 Director

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONT'D)

(a) Particulars of principal subsidiaries:

<u>Name of subsidiaries</u>	<u>Place of incorporation</u>	<u>Percentage of Equity attributable to the Company</u>				<u>Principal activity</u>
		<u>2018</u>		<u>2017</u>		
		<u>Directly</u>	<u>Indirectly</u>	<u>Directly</u>	<u>Indirectly</u>	
PT Pinnacle Apparels *	Indonesia	-	69.91%	-	69.91%	Engaged in garment and textiles industry
A&B Investment Limited *	U.A.E.	100%	-	100%	-	Investment holding
PGIC Investment Limited	Hong Kong	100%	-	100%	-	Investment holding
Pearl Global - F.Z.E. *	U.A.E.	100%	-	100%	-	General trading import and export
Pearl Global (Chang Zhou) Textile Technology Co., Ltd. *	China	100%	-	100%	-	Textile technology research
DSSP Global Limited	Hong Kong	100%	-	100%	-	General trading and investment holding
Pearl Grass Creation Limited	Hong Kong	80%	-	51%	-	General trading
Vin Pearl Global Vietnam Limited	Hong Kong	100%	-	100%	-	Investment holding
Pearl Global Vietnam Company Limited *	Vietnam	-	100%	-	-	General trading Import and export
Prudent Fashions Limited	Bangladesh	97.5%	-	-	-	Garment manufacturer

* Not audited by Louis Lai & Luk CPA Limited

(b) The amount due from/ (to) subsidiaries is unsecured, interest-free and has no fixed terms of repayments. The nature of consideration to be provided for settlement is expected to be cash or cash equivalents.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. MOVEMENT IN THE RESERVES OF THE COMPANY

	<u>Accumulated Losses</u>
	US\$
Balance at April 1, 2016	(563,860)
Total comprehensive expenses for the year	(123,882)
Balance at March 31, 2017	(687,742)
Total comprehensive income for the year	<u>1,565,915</u>
Balance at March 31, 2018	<u>878,173</u>

28. RELATED PARTY TRANSACTIONS

During normal course of business, the Group had the following transactions with the related parties below.

<u>Name of Company</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>2018</u>	<u>2017</u>
			US\$	US\$
Multinational Textile Group Ltd.	Related company ⁽¹⁾	- Sampling income	-	45,000
Norp Knit Industries Ltd.	Fellow Subsidiary	- Amount due (to)/ from	(8,401,203)	927,560
		- Sales	1,253,722	588,672
		- Purchases	51,008,772	37,423,132
		- Sampling income	1,645	588,672
Pearl Global Fareast Ltd.	Fellow Subsidiary	- Amount due to	(5,079,500)	(4,425,500)
Pearl Global Industries Ltd., India	Ultimate holding company	- Interest paid	-	48,336
		- Sales	841,545	494,029
		- Purchases	1,108,189	1,541,103
		- Sampling income	-	2,559
		- Sampling expenses	2,448,389	1,178,947

⁽¹⁾ Connected with Deepak Kunar SETH, who is the director of the captioned company.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. CONTINGENT LIABILITIES

The Group had the following contingent liabilities not provided for in the consolidated financial statements at the end of reporting period:

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Irrevocable letters of credit	5,958,863	2,365,876
	<u>5,958,863</u>	<u>2,365,876</u>

30. OPERATING LEASE COMMITMENTS

At the end of reporting period, the Group had the outstanding commitments under its non-cancellable operating leases, which fall due as follows:

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Within one year	126,378	417,555
In the second to fifth years inclusive	<u>6,061</u>	<u>578,521</u>
	<u>132,439</u>	<u>996,076</u>

Operating lease payments represent rental payments payable by the Group for its leased premises. Leases are negotiated for an averaged term three to five years.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. CURRENCY RISK

(i) Exposure to currency risk

The following table details the Group's exposure at the end of reporting period to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the Group to which they relate. For presentation purpose, the amounts of the exposure are shown in United States dollars, translated using the spot rate at the end of reporting period.

	(Expressed in US\$)						
	2018						
	HK\$	IDR	EUR	GBP	SGD	VND	Total
Available-for-sale investments	-	-	464,600	-	-	-	464,600
Deposit and prepayment	83,451	300,655	-	-	-	-	384,106
Trade and other receivables	6,155	9,684	253,589	-	-	-	269,428
Bank and cash balances	99,290	465,094	77,017	210	215	-	641,826
Trade and other payables	13,788	-	-	-	-	343,095	356,883
Provision for taxation	10,153	(41,049)	-	-	-	-	(30,896)
Net exposure arising from recognised assets and liabilities	212,837	734,384	795,206	210	215	343,095	2,085,947

	(Expressed in US\$)					
	2017					
	HK\$	IDR	GBP	SGD		Total
Deposit and prepayment	54,583	285,108	-	-		339,691
Trade and other receivables	9,466	31,840	-	-		41,306
Bank and cash balances	89,223	107,392	210	225		197,050
Trade and other payables	(11,336)	-	-	-		(11,336)
Provision for taxation	(13,799)	(122,941)	-	-		(136,740)
Net exposure arising from recognised assets and liabilities	128,137	301,399	210	225		429,971

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. CURRENCY RISK (CONT'D)

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit/loss before tax in response to reasonably possible changes (e.g.±10%) in the foreign exchange rates to which the Group has significant exposure at the end of reporting period.

	<u>2018</u>		<u>2017</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
	US\$	US\$	US\$	US\$
British Pound (GBP)	21	(21)	18	(18)
Euro (EUR)	79,521	(79,521)	-	-
Hong Kong Dollar (HKD)	21,284	(21,284)	-	-
Indonesian Rupiah (IDR)	73,438	(73,438)	25,167	(25,167)
Singapore Dollar (SGD)	22	(22)	19	(19)
Vietnamese Dong (VND)	34,310	(34,310)	-	-
	<u>208,596</u>	<u>(208,596)</u>	<u>25,204</u>	<u>(25,204)</u>

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period and had been applied to the Group's exposure to currency risk for the variables.

The stated changes represent management's assessment of reasonably possible change in foreign exchange rates over the period until the next annual reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any change in movement in value of the Hong Kong dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on Group's profit after tax and equity measured in the respective functional currencies, translated into United States dollars at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2017.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. INTEREST RATE RISK

	<u>2018</u>	<u>2017</u>
	US\$	US\$
Financial liabilities bearing variable interests:		
Discounted bills loan	1,170,997	4,339,294
Term loan	<u>4,619,033</u>	<u>-</u>
	<u>5,790,030</u>	<u>4,339,294</u>

Should market interest rate on March 31 increase by 10%, the profit or loss for the year would be reduced by a net amount of US\$33,732 (2017: US\$17,018). The carrying amounts of financial assets and financial liabilities measured at amortised cost and the carrying amount of financial liabilities bearing variable interest measure at fair value would not be affected by the assumed 10% increase in interest rates.

33. BANKING FACILITIES

General banking facilities granted by the banks were secured by bank accounts, machineries and equipment, inventories, trade receivables, ultimate holding company's and fellow subsidiaries' corporate guarantee and directors' personal guarantee.

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

35. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Company's Board of Directors on May 25, 2018.