

PEARL GLOBAL (HK) LIMITED

REPORTS

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017

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

PEARL GLOBAL (HK) LIMITED

CONTENTS	PAGES
DIRECTORS' CONSOLIDATED REPORT	1 - 2
INDEPENDENT AUDITOR'S REPORT	3 - 5
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	6
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	7 - 8
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	9
CONSOLIDATED STATEMENT OF CASH FLOWS	10
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	11 - 35
DETAILED STATEMENT OF COMPREHENSIVE INCOME (FOR MANAGEMENT INFORMATION ONLY)	36 - 37

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, 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and garment trading. The principal activities of subsidiaries are set out in Note (21a) 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 comprehensive income on page 5.

During the year, interim dividend at US\$Nil (2016: US\$3.13) per share totaling US\$Nil (2016: US\$470,000) in the subsidiary has been declared by the directors and paid out of retained profits.

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 (20) to the consolidated financial statements.

There were no movements in reserves except for changes to retained profits which arose from profit or loss.

DIRECTORS

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

Holding Company

Mahesh Kumar SETH
Deepak Kumar SETH
Pulkit SETH
Hari Krishnan THEVARVATTATH
(Appointed on April 12, 2016 and resigned on November 10, 2016)

Subsidiaries

Shefali SETH
Deepak Kumar SETH
Pulkit SETH
Amit KUMAR
Frank Petrus SMITS
Vinod Ramanlal KANTHARIA
Agarwal SWETA
Arulrayan SILUVAIRYAN

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 (23) 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 subsidiary 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 22, 2017.

LOUIS LAI & LUK CPA LIMITED CERTIFIED PUBLIC ACCOUNTANTS
黎劍民、陸永熙會計師事務所有限公司

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

9/F, Surson Commercial Building,
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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 35, which comprise the consolidated statement of financial position as at March 31, 2017 and the consolidated statement of 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, 2017, and of its consolidated financial performance and its consolidated cash flows for the period 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 LAI & LUK CPA LIMITED CERTIFIED PUBLIC ACCOUNTANTS
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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 LAI & LUK CPA LIMITED CERTIFIED PUBLIC ACCOUNTANTS
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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 22, 2017.

PEARL GLOBAL (HK) LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED MARCH 31, 2017

	<u>NOTES</u>	<u>2017</u>	<u>2016</u>
		US\$	US\$
REVENUE	(6)	82,109,383	67,762,700
OTHER INCOME AND GAINS, NET	(6)	663,604	586,545
GAIN ON DISPOSAL OF PLANT AND EQUIPMENT		6,449	8,096
COST OF GOODS SOLD		(70,621,281)	(58,289,268)
STAFF COSTS		(2,998,675)	(2,177,134)
DEPRECIATION		(141,446)	(123,343)
OTHER OPERATING EXPENSES		(7,973,639)	(5,481,222)
PROFIT FROM OPERATION		1,044,395	2,286,374
FINANCE COSTS	(7)	(203,815)	(380,393)
PROFIT BEFORE TAXATION	(8)	840,580	1,905,981
TAXATION	(10)	(242,074)	(441,792)
PROFIT FOR THE YEAR		598,506	1,464,189
OTHER COMPREHENSIVE INCOME/(EXPENSES)		<u>494,909</u>	<u>(101,324)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>1,093,415</u>	<u>1,362,865</u>
PROFIT ATTRIBUTABLE TO:			
Equity holders of the Company	(11)	392,310	1,342,920
Non-controlling interests		<u>206,196</u>	<u>121,269</u>
		<u>598,506</u>	<u>1,464,189</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company		738,283	1,237,684
Non-controlling interests		<u>355,132</u>	<u>125,181</u>
		<u>1,093,415</u>	<u>1,362,865</u>

THE NOTES ON PAGES 11 TO 35 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

PEARL GLOBAL (HK) LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2017

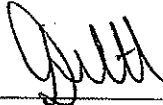
	<u>NOTES</u>	<u>2017</u>	<u>2016</u>
		US\$	US\$
Non-Current Assets			
Property, plant and equipment	(12)	1,857,525	1,435,493
Deposits		173,692	133,858
Loan to third parties		2,985,766	-
Deferred tax assets	(10)	111,664	110,899
		5,128,647	1,680,250
Current Assets			
Inventories	(13)	701,004	785,652
Deposits and prepayments		2,193,533	1,979,979
Trade deposit paid		484,799	429,421
Trade and other receivables	(14)	11,627,003	15,130,231
Amounts due from fellow subsidiaries	(15)	202,685	-
Amount due from a related company	(9(ii))	10,092	-
Cash and cash equivalents		3,966,776	2,475,946
		19,185,892	20,801,229
Current Liabilities			
Amount due to a fellow subsidiary	(16)	4,425,500	1,968,284
Amount due to ultimate holding company	(16)	754,731	2,913,972
Trade and other payables	(17)	2,860,451	3,711,723
Provision for taxation		136,740	265,790
Secured bank borrowings	(18)	4,339,294	5,179,101
		12,516,716	14,038,870
Net Current Assets		<u>6,669,176</u>	<u>6,762,359</u>
Total Assets less Current Liabilities		11,797,823	8,442,609
Non-Current Liabilities			
Employee benefits obligation	(19)	302,257	210,458
NET ASSETS		<u><u>11,495,566</u></u>	<u><u>8,232,151</u></u>

THE NOTES ON PAGES 11 TO 35 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

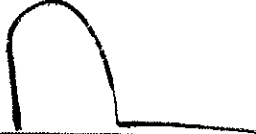
PEARL GLOBAL (HK) LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)
AS AT MARCH 31, 2017

	<u>NOTES</u>	<u>2017</u>	<u>2016</u>
		US\$	US\$
EQUITY			
Share capital	(20)	7,060,000	4,890,000
Revaluation surplus		341,941	-
Retained earnings		<u>2,314,765</u>	<u>1,918,423</u>
Total equity attributable to equity holders of the company		9,716,706	6,808,423
Non-controlling interests		<u>1,778,860</u>	<u>1,423,728</u>
TOTAL EQUITY		<u><u>11,495,566</u></u>	<u><u>8,232,151</u></u>

APPROVED BY THE BOARD OF DIRECTORS ON MAY 22, 2017 AND SIGNED ON BEHALF OF THE BOARD BY:



 Deepak Kumar SETH
 Director



 Pulkit SETH
 Director

THE NOTES ON PAGES 11 TO 35 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, 2017

	<u>Share Capital</u>	<u>Revaluation Surplus</u>	<u>Retained Profits</u>	<u>Non- controlling Interests</u>	<u>Total</u>
	US\$	US\$	US\$	US\$	US\$
At April 1, 2015	1,610,000	-	680,739	991,800	3,282,539
Capital injection	3,280,000	-	-	-	3,280,000
Total comprehensive income for the year	-	-	1,237,684	125,181	1,362,865
Dividend declared to non-controlling interest shareholders	-	-	-	(626)	(626)
Disposal of partial interest of a subsidiary without losing control	-	-	-	<u>307,373</u>	<u>307,373</u>
At March 31, 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	-	<u>341,941</u>	<u>396,342</u>	<u>355,132</u>	<u>1,093,415</u>
At March 31, 2017	<u>7,060,000</u>	<u>341,941</u>	<u>2,314,765</u>	<u>1,778,860</u>	<u>11,495,566</u>

THE NOTES ON PAGES 11 TO 35 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

PEARL GLOBAL (HK) LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2017

	<u>2017</u>	<u>2016</u>
	US\$	US\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	840,580	1,905,981
Adjustments for:		
Interest income	(10,608)	(2,160)
Interest expenses	203,815	380,393
Depreciation	307,250	213,635
Remeasurement of define benefits plan	5,768	17,680
Gain on disposal of plant and equipment	<u>(6,449)</u>	<u>(8,096)</u>
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	1,340,356	2,507,433
Decrease in deposits	(39,834)	-
Decrease/(Increase) in inventories	84,648	(47,160)
(Increase)/Decrease in deposits and prepayments	(213,554)	966,907
Increase in trade deposit paid	(55,378)	(170,200)
Decrease/(Increase) in trade and other receivables	3,503,228	(7,791,150)
Increase in loan to third parties	(2,985,766)	-
Net receipt from fellow subsidiaries	2,254,531	1,326,300
Net payments to ultimate holding company	(2,159,241)	(3,206,900)
(Decrease)/Increase in trade and other payables	(851,272)	2,504,264
Net payments to a related company	<u>(10,092)</u>	<u>(50,000)</u>
NET CASH GENERATED FROM/(USED IN) OPERATIONS	867,626	(3,960,506)
Interest received	10,608	2,160
Interest paid	(203,815)	(380,393)
Income tax paid	<u>(387,062)</u>	<u>(211,288)</u>
Net cash generated from/(used in) operating activities	287,357	(4,550,027)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of plant and equipment	6,449	8,096
Payment to acquire property, plant and equipment	(224,968)	(576,568)
Proceeds from disposal of partial interests of a subsidiary	-	193,050
Increase in employee benefits obligation	<u>91,799</u>	<u>51,002</u>
Net cash used in investing activities	(126,720)	(324,420)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payment to)/receipts from secured bank borrowings	(839,807)	3,297,420
Capital injection/issuance of share capital	2,170,000	3,280,000
Dividend paid to non-controlling interests shareholders	-	<u>(626)</u>
Net cash generated from financing activities	1,330,193	6,576,794
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,490,830	1,702,347
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,475,946</u>	<u>773,599</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>3,966,776</u>	<u>2,475,946</u>

THE NOTES ON PAGES 11 TO 35 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, 2017.

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, 2017, 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. 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 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.

Infrastructures	5 years
Leasehold improvement	3 years
Machineries	5 years
Furniture and fixtures	3 - 5 years
Motor vehicles	5 years
Tools and equipment	3 - 5 years
Computer equipment	3 years

Land is stated at cost and not depreciated. Land titles represent building usage rights of Taman Pasadenia 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 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 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 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. 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.

k. 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.

l. Inventories

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

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

m. 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.

n. 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 Comprehensive Income.

o. 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 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 Comprehensive Income.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

p. Turnover

Turnover represents invoiced amount of sales less discounts and returns.

q. 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.
- Commission income is recognised when the services are rendered.
- Other income is recognised on a receipt basis.
- Sample income is recognised when samples are delivered to buyers.

r. 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.

s. 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.

t. 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.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

u. 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 Comprehensive Income represent contribution payable to the funds by the Group in accordance with the rules of the MPF Scheme.

v. 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.

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

w. 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.
- (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 primarily Indonesian Rupiah. 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 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.

6. <u>REVENUE, OTHER INCOME AND GAINS</u>	2017	2016
	US\$	US\$
Revenue recognised during the year including revenue arising from:		
Turnover:		
Export sales	82,109,383	67,762,700
	-----	-----
Other income and gains, net:		
Bank interest income	6,244	2,160
Other interest income	16,766	-
Claim and recovery	4,364	313,921
Sampling income	591,230	220,464
Sundry income	45,000	50,000
	-----	-----
	663,604	586,545
	-----	-----
Total revenue recognised	82,772,987	8,349,245
	=====	=====

PEARL GLOBAL (HK) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. <u>FINANCE COSTS</u>	<u>2017</u>	<u>2016</u>
	US\$	US\$
Bank finance charges	110,646	52,855
Bank interest and bank charges	44,833	81,002
Other interest paid	<u>48,336</u>	<u>246,536</u>
	<u>203,815</u>	<u>380,393</u>

8. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging and (crediting):

Depreciation	307,250	213,635
Gain on disposal of plant and equipment	(6,449)	(8,096)
Staff costs (including directors' remuneration)		
- Salaries and allowance	2,827,505	2,050,841
- Employee benefit	102,709	70,263
- Employee welfare	49,016	48,743
- Mandatory provident fund contribution	<u>19,445</u>	<u>7,287</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>2017</u>	<u>2016</u>
	US\$	US\$
Emoluments:		
Acting as directors	60,000	-
Provision for management services	-	135,000
Retirement benefits	<u>-</u>	<u>-</u>
	<u>60,000</u>	<u>135,000</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>Overdue amount</u>	<u>Provision</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 (23) 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.

10. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the current year. Income tax of subsidiary has been provided at the prevailing rate of the country the subsidiary operates.

	<u>2017</u>	<u>2016</u>
	US\$	US\$
Hong Kong profits tax		
- current year	12,724	249,598
- overprovision for previous year	(2,571)	(2,570)
Overseas income tax		
- current year	234,608	173,600
Overseas deferred tax	(2,687)	21,164
Total	<u>242,074</u>	<u>441,792</u>