

PEARL GLOBAL FAREAST LIMITED

REPORTS

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2020

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

PEARL GLOBAL FAREAST LIMITED

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PEARL GLOBAL FAREAST LIMITED

DIRECTORS' REPORT

The directors present their annual report and the annual audited financial statements of the Company for the year ended March 31, 2020.

PRINCIPAL ACTIVITY

The principal activity of the Company is trading of garments.

FINANCIAL STATEMENTS AND APPROPRIATIONS

The financial performance of the Company for the year ended March 31, 2020 and the financial position of the Company are set out in the financial statement on pages 7 to 8.

The directors do not recommend the payment of any dividend for the year.

SHARE CAPITAL

Details of share capital of the Company are set out in Note (18) to the financial statements.

PLANT AND EQUIPMENT

Movements in plant and equipment are set out in Note (11) to the financial statements.

DIRECTORS

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

Deepak Kumar SETH
Pulkit SETH
Sanjay Kumar SARKER
Sweta AGARWAL

In accordance with Article 7 of the Company's Articles of Association, all the directors retire and, being eligible, offer themselves for re-election.

MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for the related party transaction as disclosed in Note (21) to the financial statements, no transactions, arrangements or contracts of significance to which the Company was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

PEARL GLOBAL FAREAST LIMITED

DIRECTORS' REPORT (CONT'D)

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the directors was in force during the year and up to the date of this report.

MANAGEMENT CONTRACTS

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

BUSINESS REVIEW

No business review is presented as the Company has been able to claim an exemption under section 388(3) of the Hong Kong Companies Ordinance (Cap. 622) since it is a wholly owned subsidiary of another body corporate, as at the reporting date.

AUDITORS

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

On behalf of the Board



Deepak Kumar SETH
Chairman

Hong Kong, June 26, 2020.

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

Opinion

We have audited the financial statements of Pearl Global Fareast Limited (the "Company") set out on pages 6 to 30, which comprise the statement of financial position as at March 31, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at March 31, 2020, and of its financial performance and its 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 Financial Statements section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The directors are responsible for the other information. The other information comprises the information included in the directors' report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

LOUIS K.M. LAI FCCA CPA

黎劍民會計師

LUK WING HAY FCCA CPA (PRACTISING)

陸永熙會計師

9/F., Surson Commercial Building,
140-142 Austin Road, Tsimshatsui,
Kowloon, Hong Kong.

Tel 電話 : (852) 2314 3668
Fax 圖文傳真 : (852) 2314 3113
E-mail 電郵: info@lll.com.hk
Web Site 網頁: www.lll.com.hk

香港九龍尖沙咀
柯士甸道140至142號
瑞信集團大廈九樓

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

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 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 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

黎劍民會計師

LUK WING HAY FCCA CPA (PRACTISING)

陸永熙會計師

9/F., Surson Commercial Building,
140-142 Austin Road, Tsimshatsui,
Kowloon, Hong Kong.

Tel 電話 : (852) 2314 3668
Fax 圖文傳真 : (852) 2314 3113
E-mail 電郵 : info@lll.com.hk
Web Site 網頁 : www.lll.com.hk

香港九龍尖沙咀
柯士甸道140至142號
瑞信集團大廈九樓

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

Auditor's Responsibilities for the Audit of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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, June 26, 2020.

PEARL GLOBAL FAREAST LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2020

	<u>NOTES</u>	<u>2020</u>	<u>2019</u>
		US\$	US\$
REVENUE	(5)	30,073,725	28,775,492
COST OF SALES		<u>(25,870,361)</u>	<u>(24,260,212)</u>
GROSS PROFIT		4,203,364	4,515,280
OTHER INCOME AND GAINS	(6)	57,912	51,832
STAFF COSTS		(83,623)	(77,837)
OTHER OPERATING EXPENSES		<u>(3,370,844)</u>	<u>(3,075,249)</u>
PROFIT FROM OPERATION		806,809	1,414,026
FINANCE COSTS	(7)	<u>(67,366)</u>	<u>(42,900)</u>
PROFIT BEFORE TAXATION	(8)	739,443	1,371,126
TAXATION	(10)	<u>-</u>	<u>-</u>
PROFIT FOR THE YEAR		739,443	1,371,126
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>739,443</u> =====	<u>1,371,126</u> =====

THE NOTES ON PAGES 10 TO 30 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

PEARL GLOBAL FAREAST LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2020

	<u>NOTES</u>	<u>2020</u>	<u>2019</u>
		US\$	US\$
Non-Current Assets			
Plant and equipment	(11)	-	-
Current Assets			
Trade receivables	(12)	5,111,613	6,923,358
Amounts due from fellow subsidiaries	(13)	7,115,828	4,932,500
Loan receivable	(14)	1,864,250	1,901,248
Cash and cash equivalents		842,585	1,982,694
		<u>14,934,276</u>	<u>15,739,800</u>
Current Liabilities			
Other payables and accruals	(15)	139,067	264,476
Amount due to holding company	(16)	913,275	939,029
Amounts due to fellow subsidiaries	(17)	4,330,672	5,724,476
		<u>5,383,014</u>	<u>6,927,981</u>
Net Current Assets		<u>9,551,262</u>	<u>8,811,819</u>
NET ASSETS		<u>9,551,262</u>	<u>8,811,819</u>
EQUITY			
Share capital	(18)	4,335,000	4,335,000
Retained earnings		<u>5,216,262</u>	<u>4,476,819</u>
TOTAL EQUITY		<u>9,551,262</u>	<u>8,811,819</u>

APPROVED BY THE BOARD OF DIRECTORS ON JUNE 26, 2020 AND SIGNED ON BEHALF OF THE BOARD BY:



 Deepak Kumar SETH
 Director



 Pulkit SETH
 Director

THE NOTES ON PAGES 10 TO 30 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

PEARL GLOBAL FAREAST LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED MARCH 31, 2020

	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	US\$	US\$	US\$
At April 1, 2018	4,335,000	3,105,693	7,440,693
Total comprehensive income for the year	<u>-</u>	<u>1,371,126</u>	<u>1,371,126</u>
At March 31, 2019 and April 1, 2019	4,335,000	4,476,819	8,811,819
Total comprehensive income for the year	<u>-</u>	<u>739,443</u>	<u>739,443</u>
At March 31, 2020	<u>4,335,000</u>	<u>5,216,262</u>	<u>9,551,262</u>

THE NOTES ON PAGES 10 TO 30 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

PEARL GLOBAL FAREAST LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2020

	<u>2020</u>	<u>2019</u>
	US\$	US\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	739,443	1,371,126
Adjustments for:		
Bank interest income	(19,647)	(12,081)
Interest expenses	<u>67,366</u>	<u>42,900</u>
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	787,162	1,401,945
Net (payment to)/receipt from fellow subsidiaries	(3,577,132)	915,363
Decrease/(Increase) in trade receivables	1,811,745	(728,850)
Decrease in prepayments	-	1,234
Decrease/(Increase) in loan receivable	36,998	(37,100)
Net payment to holding company	(25,754)	(238,373)
(Decrease)/Increase in other payables and accruals	<u>(125,409)</u>	<u>148,307</u>
Cash (used in)/generated from operations	(1,092,390)	1,462,526
Interest paid	<u>(67,366)</u>	<u>(42,900)</u>
Net cash (used in)/generated from operating activities	(1,159,756)	1,419,626
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received and net cash generated from investing activities	19,647	12,081
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,140,109)	1,431,707
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	<u>1,982,694</u>	<u>550,987</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>842,585</u>	<u>1,982,694</u>
	=====	=====

THE NOTES ON PAGES 10 TO 30 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

Pearl Global Fareast Limited (the “Company”) is a company incorporated in Hong Kong with limited liability. Its principal activity is trading of garments. The address of its registered office is Room1801, 18/F., Kimberland Centre, 55 Wing Hong Street, Cheung Sha Wan, Kowloon, Hong Kong. The directors consider that the ultimate holding company is Pearl Global Industries Limited incorporated in India. The shares of the ultimate holding company are 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 (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Int(s)”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance.

The 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 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 Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note (4) to the financial statements.

b. Changes in Accounting Policies and Disclosures

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company’s financial statements:

- (i) HKFRS 16, *Leases*
- (ii) HK(IFRIC)-Int 23, *Uncertainty over Income Tax Treatments*
- (iii) Amendments to HKFRS 9, *Prepayment Features with Negative Compensation*
- (iv) Amendments to HKAS 19, *Plan Amendment, Curtailment or Settlement*
- (v) Amendments to HKAS 28, *Long-term Interests in Associates and Joint Ventures*
- (vi) Amendments to HKFRSs *Annual Improvements to HKFRSs 2015-2017 Cycle*

None of the developments have had a material effect on how the Company’s results and financial position of the current or prior periods have been prepared or presented. The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

c. Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated 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. The principal annual rates used for this purpose are as follows:

Furniture and fixtures	25%
Office equipment	33 1/3%
Computer equipment	33 1/3%

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

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

d. Financial Instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

The Company's financial assets are classified as financial assets at amortised cost. They include deposits, trade receivables and cash and bank balances that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

d. Financial Instruments (Cont'd)

(ii) Impairment loss on financial assets

The Company recognises loss allowances for expected credit loss (“ECLs”) on trade receivables and financial assets measured at amortised cost. The ECLs are measured on either of the following bases:

- (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and
- (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Company has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Company has established a provision matrix that is based on the Company’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12 months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Company’s historical experience and informed credit assessment and including forward-looking information.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

d. Financial Instruments (Cont'd)

(iii) Financial liabilities

The Company's financial liabilities as financial liabilities are initially measured at fair value, net of directly attributable cost incurred and are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Derecognition

The Company derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9/HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(vi) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

e. Impairment of Non-Financial Assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and non-current assets, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, (only if there are revalued assets in the financial statements) unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

f. 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.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

g. Translation of Foreign Currency

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in United States Dollars ("US\$"), which is the Company'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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

h. 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 period. Taxable profit differs from net profit as reported in the 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 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. No deferred tax asset has been recognised on the unused tax losses due to the infeasibility to predict the availability of future taxable profit for offsetting such deductible timing differences.

Deferred tax, if material, is charged or credited in the statement of profit or loss and other comprehensive income.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

i. Revenue Recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

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

(i) Sales of goods

Revenue from sales of goods is recognised when the customers have obtained control of the goods, being when the goods are delivered to the respective customers' specific locations and have been accepted by the customers, and the corresponding trade receivable are recognised as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. There is generally only one performance obligation.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

j. Retirement Benefit Scheme

The Company's contributions to the mandatory provident fund scheme are charged to the statement of profit or loss as incurred.

The Company's employees who have completed the required number of years of service to the Company are eligible for long service payments in the event of the termination of their employment.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Company to the end of reporting period.

k. Employee Benefits

Employee benefits are all forms of considerations, including wages, salaries, allowances and contribution to retirement benefit scheme payable by the Company in exchange for services rendered by its employees and directors. The employee benefits are classified as staff costs and charged to the statement of profit or loss and other comprehensive income.

No provision on employees' entitlements to unconsumed annual leaves as of the end of reporting period is provided in the financial statement as such leaves are not permitted to be carried forward and utilized by the respective employees in the following year. Sick leave and maternity leave are recognised until the time of leave.

l. 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.

m. Related Parties

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

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

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

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

m. Related Parties (Cont'd)

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

- (i) The entity and the Company are members of the same Company (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 Company 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 Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
- (vi) The entity is controlled or jointly controlled by a person identified in (A).
- (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a Company of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

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 and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependants of that person or that person's spouse or domestic partner.

3. CAPITAL MANAGEMENT

The Company's objectives when managing capital are:

- (i) To safeguard the Company'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 Company's stability and growth; and
- (iii) To provide capital for the purpose of strengthening the Company's risk management capability.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Company 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 Company. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the years ended March 31, 2020 and March 31, 2019.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Company assesses its revenue arrangements against specific criteria, i.e. whether it has exposure to the significant risks and rewards associated with the sale of goods & rendering of services, in order to determine if it is acting as a principal or as an agent. The Company has concluded that it is operating on a principal to principal basis in all its revenue arrangements.

The Company applies judgement to determine whether each product or service promised to a customer are capable of being distinct, and are distinct in the context of contract, if not the promised services are combined and accounted as a single performance obligation.

For performance obligation where control is transferred over the time, revenues are recognised by measuring progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgement and is based on the nature of the promised service to be rendered.

Provision for expected credit loss on trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision matrix calculate ECLs for trade receivables. The provision rates are based on days past due for Companyings of various customer segments that have similar loss patterns.

Depreciation on plant and equipment

Depreciation on the Company's plant and equipment is calculated using the straight-line method to allocate cost up to residual values over the estimated useful lives of the assets. Management reviews the useful lives and residual values periodically to ensure that the method and rate of depreciation are consistent with the expected pattern of realisation of economic benefits rates of depreciation are consistent with the expected pattern of realization of economic benefits from plant and equipment. The accounting estimate of the useful lives of plant and equipment is based on historical experience, taking into account anticipated technological changes.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. REVENUE

Revenue represents the fair value of the consideration received and receivables for sales of good during the year, net of rebates and discounts.

6. OTHER INCOME AND GAINS

	<u>2020</u>	<u>2019</u>
	US\$	US\$
Bank interest income	19,647	12,081
Loan interest income	37,202	37,100
Foreign exchange gains, net	<u>1,063</u>	<u>2,651</u>
	<u>57,912</u>	<u>51,832</u>

7. FINANCE COSTS

	<u>2020</u>	<u>2019</u>
	US\$	US\$
Interest on amount due to the holding company	42,900	42,900
Early payment discount	<u>24,466</u>	<u>-</u>
	<u>67,366</u>	<u>42,900</u>

8. PROFIT BEFORE TAXATION

	<u>2020</u>	<u>2019</u>
	US\$	US\$
Profit before taxation is stated after charging/(crediting):		
Auditors' remuneration	10,652	8,194
Foreign exchange gains, net	(1,063)	(2,651)
Staff cost (including directors' remuneration)		
- Salaries and allowance	78,650	73,097
- Mandatory provident fund contribution	3,707	3,480
- Staff welfare	<u>1,266</u>	<u>1,260</u>

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. DIRECTORS' REMUNERATION

No fees or other emoluments were paid or payable to the directors during the year (2019: Nil).

10. TAXATION

No Hong Kong profits tax has been provided in the financial statements as the income of the Company neither arises in nor is derived from Hong Kong.

No deferred tax has been recognised in the financial statements on the grounds that the Company has no taxable/deductible temporary differences during the current year.

11. PLANT AND EQUIPMENT

	<u>Furniture and Fixtures</u>	<u>Office equipment</u>	<u>Computer equipment</u>	<u>Total</u>
	US\$	US\$	US\$	US\$
<u>Cost</u>				
At 1/4/2018, 31/3/2019, 1/4/2019 and 31/3/2020	12,296 -----	2,996 -----	5,629 -----	20,921 -----
<u>Accumulated Depreciation</u>				
At 1/4/2018, 31/3/2019, 1/4/2019 and 31/3/2020	12,296 -----	2,996 -----	5,629 -----	20,921 -----
<u>Net Carrying Amount</u>				
At 31/3/2019 and 31/3/2020	- =====	- =====	- =====	- =====

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. TRADE RECEIVABLES

	<u>2020</u>	<u>2019</u>
	US\$	US\$
Trade receivables (Note A&B)	5,111,613	6,923,358
	=====	=====
Note A: At March 31, the aging analysis of trade receivables is as follows:	US\$	US\$
Neither past due nor impaired	3,699,411	6,659,962
Past due but not impaired	1,412,202	263,396
	=====	=====
	5,111,613	6,923,358
	=====	=====

Note B: Trade receivables are non-interest bearing and are generally on terms of 45 to 65 days.

13. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

Amounts due from fellow subsidiaries 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 (Cap. 622) are as follows:

	<u>Outstanding principal</u>		
<u>Name of borrower</u>	<u>At beginning of year</u>	<u>At end of year</u>	<u>Maximum outstanding</u>
	US\$	US\$	US\$
Pearl Global (HK) Ltd	4,889,500	6,739,618	6,739,618
Pearl Grass Creations Limited	43,000	173,000	173,000
Pearl Global Vietnam Co. Limited	-	13,210	13,210
DSSP Global Limited	-	190,000	190,000
	=====	=====	
	4,932,500	7,115,828	
	=====	=====	

Principal terms: The amounts due from fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. LOAN RECEIVABLE

	<u>2020</u>	<u>2019</u>
	US\$	US\$
Loan to a third party	1,864,250	1,901,248
	=====	=====

The loan to a third party is unsecured, interest bearing at 2% per annum and repayable on or before March 31, 2020. The date of loan repayment is further extent to March 31, 2023.

15. OTHER PAYABLES AND ACCRUALS

	<u>2020</u>	<u>2019</u>
	US\$	US\$
Other payables	46,078	239,928
Accruals	<u>92,989</u>	<u>24,548</u>
	139,067	264,476
	=====	=====

16. AMOUNT DUE TO HOLDING COMPANY

- (a) The amount due to holding company of US\$ 253,275 (2019: US\$ 279,029) is unsecured, interest-free and has no fixed terms of repayment.
- (b) The loan amount due to holding company of US\$ 660,000 (2019: USD 660,000) is unsecured and has no fixed terms of repayment. The interest is bearing at 6 % or 6 months LIBOR rate plus 4 %, whichever is higher.

17. AMOUNTS DUE TO FELLOW SUBSIDIARIES

The amounts due to fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18. SHARE CAPITAL

	<u>2020</u>	<u>2019</u>
	US\$	US\$
Issued and fully paid:		
535,000 ordinary shares	4,335,000	4,335,000
	=====	=====

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

19. COMMITMENTS

At the end of the reporting period, the Company did not have any significant capital commitments.

20. FINANCIAL INSTRUMENT

Risk management

The Company is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include credit risk, foreign currency risk, liquidity risk and interest rate risk.

Policies for managing these risks are set by the Company's board of directors. The overall objectives in managing financial risks focus on securing the Company's short to medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Company's policy to actively engage in the trading of financial instruments for speculative purposes.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. FINANCIAL INSTRUMENT (CONT'D)

Risk management (Cont'd)

(a) Categories of financial assets and financial liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities.

	<u>2020</u>	<u>2019</u>
	US\$	US\$
Financial assets		
Financial assets measured at amortised cost		
Trade receivables	5,111,613	6,923,358
Amounts due from fellow subsidiaries	7,115,828	4,932,500
Loan receivable	1,864,250	1,901,248
Cash and cash equivalents	<u>842,585</u>	<u>1,982,694</u>
	14,934,276	15,739,800
	=====	=====
Financial liabilities		
Financial liabilities measured at amortised cost		
Other payables and accruals	139,067	264,476
Amount due to holding company	913,275	939,029
Amounts due to fellow subsidiaries	<u>4,330,672</u>	<u>5,724,476</u>
	5,383,014	6,927,981
	=====	=====

(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Company. The Company's exposure to credit risk mainly arises from granting credit to customers and other counterparties in the ordinary course of its operations.

Trade receivables

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are usually due within 30-90 days from the date of billing. Debtors with balances that are past due are usually requested to settle all outstanding balances before any further credit is granted. Normally, the Company does not obtain collateral from customers. Trade receivables at the reporting date mainly comprise amounts receivable from sales of goods. No interest is charged on the trade receivables.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. FINANCIAL INSTRUMENT (CONT'D)

Risk management (Cont'd)

(b) Credit risk (Cont'd)

Trade receivables (Cont'd)

The Company measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Company's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Company's different customer bases.

The directors of the Company are on the opinion that the expected credit loss rate is close to zero as these trade receivables have no recent history of default.

Expected loss rates are based on actual loss experience over the past one year. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables.

After performing the individual credit evaluations on all customers, no provision for impairment on trade receivables during the year.

Other financial assets at amortised cost

As at March 31, 2020, in addition to the cash and bank balances which are considered to have low credit risk, other financial assets at amortised cost of the Company include other receivables and deposits. No provision was made against the gross amount of other receivables, deposits and cash and bank balances because the directors of the Company considered the impact of the ECLs of these financial assets to be insignificant based on past credit history and the nature of these financial assets.

(c) *Foreign currency risk*

The Company operates internationally and is primarily exposed to foreign exchange risk arising from currency exposures of the United States dollars, with respect to the HK\$. The Company will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. FINANCIAL INSTRUMENT (CONT'D)

(c) Foreign currency risk (Cont'd)

(i) Exposure to currency risk

The following table details the Company'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 entity to which they related.

	<u>2020</u>	<u>2019</u>
	(Expressed in US\$)	(Expressed in US\$)
	HKD	HKD
Cash and cash equivalents	2,195	10,916
Other payables and accruals	<u>(2,663)</u>	<u>(2,048)</u>
Net exposure arising from recognised assets and liabilities	<u>(468)</u>	<u>8,868</u>

(ii) Sensitivity analysis

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

	<u>2020</u>		<u>2019</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
	US\$	US\$	US\$	US\$
Hong Kong Dollar	-	-	-	-

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 Company'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 end of next annual reporting period. In this respect, it is assumed that the pegged rate between the HK\$ and the United States dollar would be materially unaffected by any change in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on Company's profit after tax and equity measured in the respective functional currencies, translated into HK\$ at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2019.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. FINANCIAL INSTRUMENT (CONT'D)

(d) *Liquidity risk*

Ultimate responsibility for liquidity risk management rest with the board of directors. As the fellow subsidiaries has confirmed their willingness to provide continuous financial support to the Company, the directors are of the opinion that the Company is adequately protected from the liquidity risk.

(e) *Interest rate risk*

The Company has no significant interest bearing assets except secured bank borrowings. Its expenses and operating cash flows are substantially independent of changes in market interest rates. Carrying amounts of net financial liabilities as at March 31 that exposed to interest rate risks were as follows:

	<u>2020</u>	<u>2019</u>
	US\$	US\$
Financial assets bearing variable interest:		
Cash and cash equivalents	842,585	1,982,694
Loan receivable	1,864,250	1,901,248
Financial liabilities bearing variable interest:		
Loan amount due to holding company	<u>(660,000)</u>	<u>(660,000)</u>
Net financial assets exposed to interest rate risk	2,046,835	3,223,942
	=====	=====

Sensitivity analysis

At March 31, 2020, it is estimated that a general increase/decrease of 100 basis points in interest rate, with all other variables held constant, interest income and profit before taxation for the year ended March 31, 2020 would increase/decrease by a net amount of HK\$20,468 (2019: HK\$32,239). The carrying amount of financial asset/liability measured at amortized cost and the carrying amount of financial asset/liability bearing interest rate measured at fair value would not be affected by the assumed 100 basis points increase/decrease in interest rate.

Although a financial asset or financial liability may be subject to interest rate risk, its carrying amount may not necessarily be affected by the assumed 100 basis points increase in market interest rates.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21. RELATED PARTY TRANSACTION

During normal course of business, the Company had the following material transactions with its related parties:

<u>Name of Company</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>2020</u>	<u>2019</u>
			US\$	US\$
PT Pinnacle Apparels	Fellow subsidiaries	Purchase of goods	21,949,720	21,933,408
		Sundry expenses	28,460	43,657
Pearl Global Vietnam Co Ltd	Fellow subsidiaries	Purchase of goods	3,920,641	1,450,109
Pearl Global Industries Limited	Ultimate holding Company	Purchase of goods	-	876,695
		Interest expenses	42,900	42,900
		Sampling expenses	51,800	48,533
			=====	=====

22. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED MARCH 31, 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended March 31, 2020 and which have not been adopted in these financial statements. These include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Definition of a Business</i>	January 1, 2020
Amendments to HKAS 1 and HKAS 8, <i>Definition of Material</i>	January 1, 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, <i>Interest Rate Benchmark Reform</i>	January 1, 2020
Amendments to HKFRS 17, <i>Insurance Contracts</i>	January 1, 2021
Amendments to HKFRS 10 and HKAS 28, <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Effective for annual periods beginning on or after a date to be determined

The Company is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application.

PEARL GLOBAL FAREAST LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. COMPARATIVE FIGURES

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

24. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Company's Board of Directors on June 26, 2020.