

2020

ANNUAL REPORT

ROYALE HOME HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1198



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tse Kam Pang (*Chairman*)
Mr. Yang Jun (*Chief Executive Officer*)

Non-Executive Directors

Mr. Wu Zhongming
Mr. Wu Dingliang
Ms. Qin You
Mr. Liu Zhijun

Independent Non-Executive Directors

Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew
Mr. Chan Wing Tak Kevin

AUDIT COMMITTEE

Mr. Yue Man Yiu Matthew (*Chairman*)
Mr. Lau Chi Kit
Mr. Chan Wing Tak Kevin

REMUNERATION COMMITTEE

Mr. Lau Chi Kit (*Chairman*)
Mr. Yue Man Yiu Matthew
Mr. Chan Wing Tak Kevin

NOMINATION COMMITTEE

Mr. Lau Chi Kit (*Chairman*)
Mr. Yue Man Yiu Matthew
Mr. Chan Wing Tak Kevin

COMPANY SECRETARY

Mr. Chui See Lai

AUDITOR

Ernst & Young

SOLICITORS

Jeffrey Mak Law Firm

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
Hong Kong Branch
Bank of China
The Hongkong and Shanghai Banking
Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3 Building D
P.O. Box 1586 Gardenia Court
Camana Bay, Grand Cayman, KY1-1100
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 607, 6/F
Tsim Sha Tsui Centre, West Wing
66 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

STOCK CODE

1198

INVESTOR RELATIONS

Tel: (852) 2636 6648
Email: info@royale.com.hk

CHAIRMAN'S STATEMENT

Dear Shareholders,

I hereby present the annual results of Royale Home Holdings Limited ("Royale Home" or the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2020.

REVIEW OF 2020

During the year under review, the outbreak of novel coronavirus pneumonia (COVID-19) affected the businesses across the globe and changed the pattern of consumer behavior and habits. Apart from the Group has maintained stable development in its franchise business and continued to strengthen its product development, the Group further refined the positioning of its bespoke product line, branded "皇朝定製+", to be in favor of consumer purchasing habits, and launched a new showroom, demonstrating the comprehensive services portfolio of offering house customization solutions, household furniture, cupboard, wooden doors as well as retaining wall system.

Due to the urban development, the value of the Group's land parcels in Zengcheng District had increased significantly over the years. The Group has been looking for opportunities to realize its asset value. On 18 June 2020, the government agreed to resume two parcels of land situated in Zengcheng District, Guangzhou. Under the consideration of maximizing the profit from land resumption, the Group formed a joint venture ("JV") with an indirect wholly-owned subsidiary of Ganglong China Property Group Limited ("Ganglong", stock code: 6968.HK) and successfully acquired the land parcel situated in Zengcheng District, Guangzhou. The land parcels will be developed as commercial and residential projects and the Group believe it will capture the rapid development of Zengcheng District.

During the year ended 31 December 2020, the Group recorded a significant increase of 69.4% to HK\$1,443.5 million in sales and achieved outstanding performance with an increase of 1,035.0% to HK\$714.8 million in profit attributable to owners of the parent.

OUTLOOK

In 2021, as the market has been gradually recovering from the COVID-19 pandemic, Company will continue its franchise business, the Group will keep on to undertake more furniture projects from commercial customers and work with large property developers by co-operating with local distributors to sell its products to those prospective property owners, aiming to expand its revenue sources.

The Group will make timely adjustment to cope with the changes of business environment, such as leveraging new marketing channels as well as expanding the types and designs of its household product portfolios. Leveraging on the digital software to develop the products that are in favor of younger generation and launch the e-commerce platforms, the Group aims to broaden its target customer bases and optimizing their shopping experience.

In order to support the growing business, the Group will build a new production facility based in Yingde City, Guangdong Province, which will be fully equipped with automated production lines aiming to reduce labor cost and enhance production efficiency.

The JV has begun the construction of the commercial and residential in center of Zengcheng District, Guangzhou, which the first phase of resident building project is expected to be completed in the first quarter of 2022. Pre-sale of the properties are expected to begin in the third quarter of 2021.

As noted from above, since Science City Group became our shareholder in 2019, the Group has a more solid base for diversity. The synergy effect from such is manifested progressively. The Group will continue to identify and develop businesses which are coherent with the concept of the new corporate image and provide reasonable and stable return to our shareholders.

APPRECIATION

On behalf of the Board of Directors, I would like to extend my gratitude to the management team, business partners and customers, franchisees and all employees. I would also like to express sincere appreciation to our shareholders for their support of the Group.

TSE Kam Pang
Chairman

Hong Kong, 31 March 2021

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Board recommends the payment of final dividend and special dividend of HK4 cents per share and HK6 cents per share respectively in cash for the year ended 31 December 2020 (2019: HK\$nil per share for final dividend and special dividend). Such final dividend and special dividend will not be subject to any withholding tax in Hong Kong.

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the final dividend and special dividend will be distributed on or about Friday, 16 July 2021 to shareholders of the Company whose names appear on the register of members of the Company on Friday, 18 June 2021. The register of members of the Company will be closed from Tuesday, 15 June 2021 to Friday, 18 June 2021, both days inclusive, during which period no share transfer will be effected. In order to qualify for the proposed final dividend and special dividend, all share transfer documents accompanied by the relevant share certificates shall be lodged not later than 4:30 p.m. on Friday, 11 June 2021 with the Company's share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 26 May 2021 to Monday, 31 May 2021, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on Monday, 31 May 2021, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 25 May 2021.

FINANCIAL REVIEW

For the year ended 31 December 2020, the Group recorded revenue of HK\$1,443.5 million (2019: HK\$852.1 million), representing an increase of 69.4% from last year. The increase in revenue was due to the new business activities for trading commodities launched by the Group and increase sales on the furniture projects. The Group's overall gross profit margin decreased from 31.1% for 2019 to 11.0% for 2020. For the furniture business, the gross profit margin decreased from 31.1% in 2019 to 17.6% in 2020 was due to the serious impact of the COVID-19 epidemic in the first half of the year and sales promotional activities carried out by the Group in the second half of the year; however, comparing the second half of 2020 with the first half, the gross profit margin of furniture business was significantly improved from gross loss rate of 5% to gross profit margin of 24.9% as operations gradually resumed normal under the effective control of the epidemic by the government of the People's Republic of China ("PRC").

Profit for the year was HK\$706.1 million (2019: HK\$67.2 million), representing an increase of 950.9%. Profit attributable to owners of the parent for the year was HK\$714.8 million (2019: HK\$63.0 million), representing an increase of 1,035.0%. The significant increase was a result of the Group recognised the land resumption net income before tax of HK\$1,063 million during the financial year 2020.

For the year ended 31 December 2020, selling and distribution expenses decreased by 1.2% to approximately HK\$83.5 million (2019: HK\$84.4 million), which was mainly due to a decrease in commission and payroll expenses.

Administrative expenses increased by 7.1% to HK\$96.2 million (2019: HK\$89.8 million), which was attributable to the increase in professional fee for acquisition projects and listing related matters.

Finance costs during the year increased by 91.2% to HK\$31.1 million (2019: HK\$16.3 million) as the Group has increase debt for financing the joint venture projects.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year under review, the Group officially changed its name from Royale Furniture Holdings Limited to Royale Home Holdings Limited with a new design of logo. This has marked the first step in the Group's determination in demonstrating a brand new corporate image as well as signifying the strategy to expand its business from supplying pure furniture to a broad range of household goods.

Due to the raging COVID-19 and the economic slowdown, customers have postponed their consumption of durable goods. However, due to the success of combat against the epidemic by the government of the PRC, the consumer market in the second half of 2020 has recovered.

While the Group has maintained its market share of the franchise business. The Group continues to cooperate with large real estate developers and local distributors to provide real estate design services and display hardcover units, aiming to sell our products to prospective real estate owners. The Group has also been actively exploring large-scale projects by monitoring market information and reacting promptly. This has further boosted the project sales of furniture.

As the Group observed the demand for aluminium as a raw material to be used in the business process of real estate developers and local distributors, the Group launched new business activities for buying and selling commodities, which mainly included physical trading of commodities such as aluminium ingots and bars.

In addition, the Group has entered into a continuing connected sales agreement with the Science City Group to sell furniture products to Science City Group member companies to increase turnover and expand sales channels for furniture projects in China.

The Group has successfully diversified its business by tapping into the finance leasing. The Group acquired 20% of the equity interest in Science City (Guangzhou) Finance and Leasing Co., Limited ("SC Finance and Lease") for RMB72.5 million, and agreed to make a capital injection of RMB75 million into the SC Finance and Lease. Upon completion, the Group holds 22.5% of equity interest in SC Finance and Lease. The Group also considers the investment as a pilot project to tap into the finance leasing market and explore its underlying synergy with current business in order to increase the Group's asset value and expand its business scope.

Management system reform

The Group manages its department by the division and incentives programs. The system proved its efficiency and flexibility in the crisis management in response to the sudden COVID-19 outbreak. With the division system, the Group was able to motivate its senior executives to make effective and prompt decision to the fast-changing economic environment with their expertise and experience. As a result, the Group was able to allocate and utilise its resources more efficiently.

Brand management

Ms. Lin Chi Ling, a famous celebrity in Asia, continued to be the Group's spokesperson. She will feature in the Group's advertisements and other marketing activities to promote the Group's brand. In view of the increasing online demands driven by the COVID-19 pandemic, the Group has undergone a series of omnichannel promotion such as Wechat, Home.163 etc. and established e-commerce platforms for product launch, brand and product promotion by livestreaming.

Inventory and prepayments, deposits and other receivables

The Group's inventory decreased by 10.0% to approximately HK\$265.9 million as at 31 December 2020 (2019: HK\$295.5 million), which was mainly due to the Group implement tight control on inventory level. Prepayments, deposits and other receivables increased by 1,908.5% to HK\$1,769.9 million (2019: HK\$88.1 million), which was mainly due to an increase in other receivables on the proceeds from land resumption.

MANAGEMENT DISCUSSION AND ANALYSIS

Working capital

The Group had net current assets of HK\$1,165.6 million at the end of the year (2019: net current assets of HK\$399.8 million). It represents a substantial improvement on the Group's working capital.

Liquidity and financial resources

The Group had cash and cash equivalents amounted to HK\$236.9 million as at 31 December 2020 (2019: HK\$440.5 million). As at 31 December 2020, the Group's current ratio (current assets to current liabilities) improved to 2.02 (2019: 1.88) and the net current assets amounted to HK\$1,165.6 million (2019: net current assets of HK\$399.8 million). As at 31 December 2020, the interest-bearing bank and other borrowings amounted to HK\$341.3 million (2019: HK\$212.8 million), loan from an associate, loan from ultimate holding company, loan from non-controlling interests, loan from a director and medium term bonds are total amount of HK\$505.8 million (2019: loan from non-controlling interests and medium term bonds are total amount of HK\$67.0 million). Approximately, 67.7% of the Group's cash was denominated in Renminbi with the remaining balance was denominated in Hong Kong Dollars. The exposure to the foreign exchange rate fluctuation during the year has been minimal since both of our operating cash inflow and outflow are predominantly in Renminbi. Currently, the Group does not maintain any hedging policy with respect to these foreign currency exposures.

Capital structure

During the year under review, the capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

Gearing ratio

The gearing ratio is defined as net debt divided by capital plus net debt was 24% as at 31 December 2020 (2019: 1%).

Pledge of assets

As at 31 December 2020, the Group's (i) pledged certain of its buildings, the construction in progress and right-of-use assets which had aggregate carrying values of approximately HK\$604,327,000 (2019: HK\$588,419,000); (ii) the pledged deposits amounted to HK\$nil (2019: HK\$9,787,000) to secured certain bank loans granted to the Group.

Significant investments, acquisitions and disposals

On 18 June 2020, (i) Guangzhou City Zengcheng District Land Development Reserve Centre (the "Land Reserve Centre"), Guangzhou City Planning and Natural Resources Bureau (Zengcheng branch) (the "Planning Bureau"), the People's Government of Shitan Town, Zengcheng District of Guangzhou City ("Shitan Town Government") and Guangzhou Yufa Furniture Co., Limited ("Yufa") entered into a land resumption agreement, pursuant to which it was agreed that the Land Use Right of a Land Parcel of Yufa with a total land area of 77,478.70 square metres located at Baishigang, Jigang Cooperative Society, Hengling Village, Shitan Town ("Land Parcel A") will be resumed by the government; (ii) the Land Reserve Centre, the Planning Bureau, Shitan Town Government and Guangzhou Fuli Furniture Co., Limited ("Fuli") entered into a land resumption agreement pursuant to which it was agreed that Land Use Right of a Land Parcel of Fuli with a total land area of 110,097.10 square metres located at Baishigang, Jigang Cooperative Society, Hengling Village, Shitan Town* ("Land Parcel B") will be resumed by the government. Please refer to the announcement and circular of the Company dated 18 June 2020 and 30 September 2020 respectively for details of the land resumptions.

MANAGEMENT DISCUSSION AND ANALYSIS

On 28 July 2020, Comfort Sofa Limited (舒適梳化有限公司) (“Comfort Sofa”), an indirect wholly-owned subsidiary of the Company, entered into an acquisition agreement (the “Acquisition Agreement”) with China Finance Leasing Limited (中國金融租賃有限公司) (“China Finance”). Pursuant to the Acquisition Agreement, Comfort Sofa agreed to acquire, and China Finance agreed to sell, 20% of the equity interest in Science City (Guangzhou) Finance and Leasing Co., Limited* (科學城(廣州)融資租賃有限公司) (“SC Finance and Lease”) at a consideration of RMB62,500,000. Upon Completion, the Comfort Sofa will assume the obligation to pay up the unpaid capital amount of RMB10,000,000. As a result, the total sum payable by the Comfort Sofa in respect of the acquisition amounts to RMB72,500,000. On 23 December 2020, Comfort Sofa entered into a capital injection agreement with China Finance and Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團有限公司) (“Science City”), pursuant to which Comfort Sofa has agreed to make a capital injection of RMB75 million into SC Finance and Lease. Science City” has also provided a pro rata injection. Upon completion, Comfort Sofa holds 22.5% of the equity interest in SC Finance and Lease.

On 27 October 2020, Guangzhou Wanlibao Investment Co., Ltd.* (廣州萬利寶投資有限公司) (“Wanlibao”), an indirect wholly-owned subsidiary of the Company entered into a joint venture agreement (the “Joint Venture Agreement”) with Huizhou Gangjie Land Co., Ltd.* (惠州市港傑置業有限公司) (“Gangjie”), an indirect wholly-owned subsidiary of Ganglong, pursuant to which Gangjie and Wanlibao have agreed to establish a joint venture in the PRC for the purpose of acquiring a parcel of land situated at Hengling Village, Shitan Town, Zengcheng District, Guangzhou* (廣州市增城區石灘鎮橫嶺村) (consisting substantially of Land Parcel A and Land Parcel B of residential (and commercial) uses with a total land area of approximately 196,435.11 square metres (the “Target Land Parcel”) by way of the bidding at the public auction (the “Public Auction”) and potential subsequent development. The equity interest of the joint venture will be owned as to 60% by the Gangjie and as to 40% by the Wanlibao. The joint venture has successfully acquired the Target Land Parcel at the Public Auction held on 11 November 2020 at the bid-winning price of RMB3.83 billion.

Save for the aforementioned, the Group did not make any material acquisition or disposal of subsidiaries, associated companies and joint ventures as well as any significant investments. Apart from those disclosed in this annual report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this annual report.

Contingent liabilities

Certain subsidiaries of the Group are currently defendant in a lawsuit brought by an independent third-party lessee alleging that a warehouse built on the leased land by the lessee was tore down by the subsidiaries without consent of termination of the lease contract by the lessee. The total compensation claimed amounted to HK\$161,035,000. As at 31 December 2020, the bank deposit of HK\$187,000 has been frozen following a court order.

As at the report date, the arbitration has yet to be resolved. Considering the warehouse is an unauthorized construction, the directors, based on the advice from the Group’s legal counsel and the progress of the case, believes that the ultimate outcome of the litigation cannot be reliably estimated.

PROSPECT

In 2021, as the market has been gradually recovering from the COVID-19 pandemic, the Company will continue its franchise business, the Group will keep on to undertake more furniture projects from commercial customers and work with large property developers by co-operating with local distributors to sell its products to those prospective property owners, aiming to expand its revenue sources.

The Group will make timely adjustment to cope with the changes of business environment, such as leveraging new marketing channels as well as expanding the types and designs of its household product portfolios. Leveraging on the digital software to develop the products that are in favor of younger generation and launch the e-commerce platforms, the Group aims to broaden its target customer bases and optimising their shopping experience.

In order to support the growing business, the Group will build a new production facility based in Yingde City, Guangdong Province, which will be fully equipped with automated production lines aiming to reduce labor cost and enhance production efficiency.

In 2020, the Group formed a JV with an indirect wholly-owned subsidiary of Ganglong, the JV has begun the construction of the commercial and residential projects in center of Zengcheng District, Guangzhou, which the first phase of resident building project is expected to be completed in the first quarter of 2022. Pre-sale of the properties are expected to begin in the third quarter of 2021.

As noted from above, since Science City Group became our shareholder in 2019, the Group has a more solid base for diversity. The synergy effect from such is manifested progressively. The Group will continue to identify and develop businesses which are coherent with the concept of the new corporate image and provide reasonable and stable return to our shareholders.

CORPORATE GOVERNANCE REPORT

A. CORPORATE GOVERNANCE PRACTICES

This corporate governance report (the “Corporate Governance Report”) is to outline the major principles of the Company’s corporate governance. Shareholders of the Company (“Shareholders”) are encouraged to make their views known to the Group if they have issues with the Company’s corporate governance and to directly raise any matters of concern to the chairman of the Board (the “Chairman” or the “Chairman of the Board”).

The Corporate Governance Code (the “CG Code”) is set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). For the financial year of the Company ended 31 December 2020 (the “Year”) under review, save as disclosed in this Corporate Governance Report, the Company has complied with the applicable code provisions (the “Code Provisions”) and principles under the CG Code as set out in Appendix 14 to the Listing Rules on the Stock Exchange.

The following is a summary of the work performed by the Board in corporate governance function during the Year:

- (a) develop and review the Company’s policies and practices on corporate governance;
- (b) review and monitor the training and continuous professional development of the Directors and senior management of the Company;
- (c) review and monitor the Company’s policies and practices on compliance with legal and regulatory requirements;
- (d) review and monitor the code of conduct applicable to employees and the Directors; and
- (e) review the Company’s compliance with the CG Code and disclosure in the Corporate Governance Report.

B. DIRECTORS’ SECURITIES TRANSACTIONS

In accordance with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry with the Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code regarding the Directors’ securities transactions during the Year.

C. THE BOARD

Roles and responsibilities

The Board is responsible for leadership and control of the Company and be collectively responsible for promoting the success of the Company by directing and supervising the Company’s affairs. Directors should make decisions objectively in the interests of the Company.

While day-to-day management, administration and operation of the Company are delegated to the Executive Directors, Chief Executive Officer and senior management, the Independent Non-executive Directors are responsible for:

- (a) participating in board meetings of the Company to bring an independent judgement to bear on issue of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
- (b) taking the lead where potential conflicts of interest arise;
- (c) serving on the audit, remuneration and other governance committees, if invited; and
- (d) scrutinizing the Company’s performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

CORPORATE GOVERNANCE REPORT

The Board provides leadership, approves major policies, reviews and monitors the business performance of the Group, approves major funding and investment proposals, as well as the financial statements of the Group. Day-to-day management, administration and operation of the Company are delegated to the Executive Directors, Chief Executive Officer and senior management.

Board Composition

The directors of the Company (the “Directors”) during the Year were:

Executive directors (the “Executive Directors”):

Mr. Tse Kam Pang (*Chairman*)

Mr. Yang Jun (*Chief Executive Officer*)

Non-Executive Directors (the “Non-executive Directors”):

Mr. Wu Zhongming

Mr. Wu Dingliang

Ms. Qin You

Mr. Liu Zhijun

Independent non-executive directors (the “Independent Non-executive Directors”):

Mr. Lau Chi Kit

Mr. Yue Man Yiu Matthew

Mr. Chan Wing Tak Kevin

As at 31 December 2020, the Board consisted of a total of nine members, including two Executive Directors, four Non-executive Directors and three Independent Non-executive Directors. The name and biographical details of each Director and other senior management are set out on pages 21 to 23 of this annual report.

Relationship among Directors

During the Year and up to the date of this report, to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board.

Chairman and Chief Executive Officer

Code Provision A.2.1 of the CG Code stipulates that the roles of the Chairman of the Board and the Chief Executive Officer should be separate and should not be performed by the same individual, and that the division of responsibilities between the Chairman and the Chief Executive Officer should be clearly stated.

The roles of Chairman and Chief Executive Officer are held by Mr. Tse Kam Pang and Mr. Yang Jun respectively. Their respective responsibilities are clearly established and defined.

The Chairman of the Board is responsible for leading the Board, and facilitating the business of the Board and the effectiveness of individual Director, both during and outside Board meetings. The Chairman plays a key role in the development of the Group’s strategy and in ensuring management succession. The Chairman is also required to ensure that the principles of good corporate governance and processes of Board meetings are maintained.

The Chief Executive Officer is responsible to lead executive management of the Group. The Board sets limits to the authorities exercisable by the Chief Executive Officer and the Chief Executive Officer remains accountable to the Board within the limits of delegated authorities. The Chief Executive Officer commits to take overall responsibilities for the supervision and the conducts of the Company’s business and its ordinary operation, in accordance with the policies, strategies and objectives established by the Group. The Board is responsible to monitor the performance of the Chief Executive Officer and to ensure whether the Board’s objectives have been attained.

CORPORATE GOVERNANCE REPORT

Board meeting and procedure

The Company convenes at least four regular Board meetings a year and the Directors shall meet more frequently as and when required. At least 14 days' notice of all regular Board meetings is given to all Directors, and all Directors are given the opportunity to include matters for discussion in the agenda. For all other board meetings, reasonable notice should be given.

During the Year, apart from the ad hoc meetings and consents obtained by means of written resolutions of all the Board members, the Board has held four scheduled meetings. The attendance of individual members of the Board is set out in the table below:

	Special meetings	General meeting	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
<i>Executive Directors</i>						
Mr. Tse Kam Pang	2/2	1/1	15/15			
Mr. Yang Jun	2/2	1/1	15/15			
<i>Non-executive Directors</i>						
Mr. Wu Zhongming	2/2	1/1	15/15			
Mr. Wu Dingliang	2/2	1/1	15/15			
Ms. Qin You	2/2	1/1	15/15			
Mr. Liu Zhijun	2/2	1/1	15/15			
<i>Independent Non-executive Directors</i>						
Mr. Lau Chi Kit	2/2	1/1	15/15	2/2	1/1	1/1
Mr. Yue Man Yiu Matthew	2/2	1/1	15/15	2/2	1/1	1/1
Mr. Chan Wing Tak Kevin	2/2	1/1	15/15	2/2	1/1	1/1

All the Directors have access to relevant and timely information. They also have access to the advice and services of the company secretary of the Company (the "Company Secretary"), who is responsible for providing the Directors with Board papers and related materials. Where queries are raised by the Directors, prompt and full responses will be given if possible.

Should a potential conflict of interest involving a substantial shareholder of the Company or a Director arise, the matter will be discussed in a Board meeting, as opposed to being dealt with by a written resolution. Independent Non-executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues.

Independent Non-executive Directors are identified in all corporate communications containing the names of the Directors. An updated list of the Directors identifying the Independent Non-executive Directors and the roles and functions of the Directors is maintained on the website of the Company and the website of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

Code provision A.4.1 provides that Non-executive Directors should be appointed for a specific term and subject to re-election. Mr. Lau Chi Kit, the Independent Non-executive Director, has been reappointed with fixed term of service with the Company on 1 June 2020. Mr. Yue Man Yiu Matthew, the Independent Non-executive Director, has been re-appointed with fixed term of service with the Company on 31 May 2019. Mr. Chan Wing Tak Kevin, the Independent Non-executive Director, has been appointed with fixed term of service with the Company on 1 June 2020. Mr. Wu Zhongming, Mr. Wu Dingliang, Ms. Qin You and Mr. Liu Zhijun are the Non-executive Directors and have been appointed with fixed term of service with the Company on 1 June 2020 respectively. However, they are eligible for re-appointment and subject to retirement by rotation at least once every three years in accordance with the articles of association of the Company. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and it still considers the Independent Non-executive Directors to be independent.

Skills, knowledge, experience and attributes of Directors

All Directors served in office during the Year. Every Director commits to give sufficient time and attention to the affairs of the Company. The Directors also demonstrate their understanding and commit to standards of corporate governance. The Executive Directors bring their perspectives to the Board through his understanding of the Group's business. The Non-executive Directors and the Independent Non-executive Directors contribute their skills and experience, understanding of local and global economies, and knowledge of capital markets to the Group's business.

Division of responsibilities between the Board and management

While the Board is responsible for directing and approving the Group's overall strategies, the Group also has formed management teams in its business areas, comprising the Executive Directors and senior officers of the Group, with authority and responsibility for developing and exercising both operational and non-operational duties. The management team members of the Group have a wide range of skills, knowledge and experience necessary to govern the Group's operations. All management team members are required to report directly to the Chairman on a regular basis to report business performance and operational and functional issues of the Group. This will allow the Group's management to allocate resources more efficiently for its decision-making and facilitate its daily operations.

The Board and the Group's management fully appreciate their respective roles and are committed to corporate governance. The Board is responsible for overseeing the processes by which the management identifies business opportunities and risks. The Board's role is not to manage the day-to-day business operations of the Group and the responsibility of which remains vested in the management.

The Board has set up formal procedures for the Board's decisions. Matters which the Board considers suitable for delegation to its committees are contained in the specific terms of reference of its committees. The terms of reference clearly define the powers and responsibilities of the Board committees. In addition, the Board will receive reports and/or recommendations from time to time from the Board committees on any matter significant to the Group.

CORPORATE GOVERNANCE REPORT

Induction and training

Each newly appointed Director, executive, non-executive and independent non-executive Director, is required to undertake an induction program to ensure that he has proper understanding of his duties and responsibilities. The induction program includes an overview of the Group's business operation and governance policies, the Board meetings' procedures, matters reserved to the Board, an introduction of the Board committees, the Directors' responsibilities and duties, relevant regulatory requirements, and briefings with senior officers of the Group and site visits (if necessary).

Pursuant to Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure their contribution to the Board remains informed and relevant. During the Year, all Directors participated in appropriate continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

Participation in continuous professional development program during the Year are summarised as follows:

	Reading regulatory updates and directors' duties	Reading materials relating to business and industry	Attending professional briefings/seminars/conferences relevant to directors' duties, regulatory updates and business
<i>Executive Directors</i>			
Mr. Tse Kam Pang	✓	✓	✓
Mr. Yang Jun	✓	✓	✓
<i>Non-Executive Directors</i>			
Mr. Wu Zhongming	✓	✓	✓
Mr. Wu Dingliang	✓	✓	✓
Ms. Qin You	✓	✓	✓
Mr. Liu Zhijun	✓	✓	✓
<i>Independent Non-executive Directors</i>			
Mr. Lau Chi Kit	✓	✓	✓
Mr. Yue Man Yiu Matthew	✓	✓	✓
Mr. Chan Wing Tak Kevin	✓	✓	✓
<i>Company Secretary</i>			
Mr. Chui See Lai	✓	✓	✓

CORPORATE GOVERNANCE REPORT

Directors' and officers' liability insurance and indemnity

The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors and/or officers. Throughout the Year, no claim was made against the Directors and the officers of the Company.

Independent advice

The Board and its committees may seek advice from independent professional advisors whenever it considers appropriate. Each Director, with the consent of the Chairman of the Board and/or the chairman of the audit committee, may seek independent professional advice on matters connected with the Company to perform his responsibilities, at the Group's expense. No Director exercised his right for independent professional advice during the Year.

Independence of Non-executive Directors

Three Independent Non-executive Directors, namely Mr. Lau Chi Kit, Mr. Yue Man Yiu Matthew and Mr. Chan Wing Tak Kevin were considered to be independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

Also, the three Independent Non-executive Directors, representing over one-third of the Board, constituted a proper balance of power maintaining full and effective control of both the Group and its executive management.

Company secretary

All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws are followed. Moreover, the Company Secretary is responsible for facilitating communications among Directors as well as with management.

During the Year, the Company Secretary, Mr. Chiu See Lai, who is a full-time employee of the Company, has confirmed that he has taken no less than 15 hours of relevant professional training.

D. BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established the following Board committees to oversee particular aspects of the Company's affairs. All committees are provided with sufficient resources to discharge their duties.

Audit Committee

As at 31 December 2020, the audit committee of the Board (the "Audit Committee") consisted of three Independent Non-executive Directors, namely Mr. Yue Man Yiu Matthew, who is the chairman of the Audit Committee, Mr. Lau Chi Kit and Mr. Chan Wing Tak Kevin. The members of the Audit Committee meet regularly, normally twice a year, with the senior financial management and meet with external auditor for final result reviews.

The Audit Committee is provided with sufficient resources to perform its duties. Latest terms of reference of the Audit Committee can be viewed on the website of the Company and the website of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

The main duties of the Audit Committee include the following:

1. to monitor the integrity of the annual and interim reports as well as to review significant financial reporting judgments before submission to the Board and to report to the Board;
2. to review the relationship with the external auditor; and
3. to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

There were two meetings of the Audit Committee held in 2020. Details of the members' attendance record in the Year are set out on page 10 of this annual report. During the Year, the Audit Committee performed the following work (in summary):

- (a) The Audit Committee assisted the Board in assuring the integrity of the Company's financial statements, including reviewed the financial results of the Group for the year ended 31 December 2019 and the interim results for the six months ended 30 June 2020. It evaluated and made recommendations to the Board about the appropriateness of accounting policies and practices, areas of judgment, compliance with Hong Kong Financial Reporting Standards and other legal requirements, and the results of external audit. It reviewed interim and annual financial statements of the Company, reported its work and findings to the Board and made recommendations on specific actions or decision for the Board to consider after each Audit Committee's meeting. Minutes of the Audit Committee's meetings were made available to all Directors for inspection.
- (b) The Audit Committee also managed the relationship with the external auditor on behalf of the Board. It made recommendation to the Board on the appointment of the external auditor and the relevant terms of engagement, including remuneration. The Audit Committee was required to review the integrity, independence and objectivity of the external auditor. Also, it examined the external auditor' independence including its engagement of non-audit services. Based on the review of the Audit Committee, the Board was satisfied that the external auditor was independent. During the year ended 31 December 2020, there was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.
- (c) The Audit Committee was required to ensure that the system of internal control of the Group was in place for identifying and managing risks. The Audit Committee had reviewed the effectiveness of internal controls for the Year. Such review covered financial, operational and compliance controls and risk assessment of the Group. The Board was satisfied that the effectiveness of the internal controls of the Group had been properly reviewed by the Audit Committee.

Remuneration Committee

The Company has set up a Remuneration Committee in accordance with the relevant requirements of the CG Code. The Remuneration Committee is chaired by Mr. Lau Chi Kit, and comprising two other members, namely Mr. Yue Man Yiu Matthew and Mr. Chan Wing Tak Kevin. All the members of the Remuneration Committee are Independent Non-executive Directors. The principal responsibilities of the Remuneration Committee include formulating a remuneration policy that guides the employment of senior personnel, recommending to the Board the remuneration of members of the Board who are Independent Non-executive Directors, determining the remuneration packages of the members of the Board who are executive Directors and reviewing and approving performance-based remuneration by reference to the Company's goals, objectives and market practices and ensure no Director involved in deciding his own remuneration.

There was one meeting of the Remuneration Committee held in 2020. Details of the members attendance record in the Year are set out on page 10 of this annual report. Details of the remuneration of each Director for 2020 is set out in the Note 8 to this annual report.

CORPORATE GOVERNANCE REPORT

Roles and functions

According to the written terms of reference of the Remuneration Committee, the Remuneration Committee has adopted the model to make recommendations to the Board on the remuneration packages of individual Executive Director(s) and senior management including benefits in kind, pension rights and compensation payment comprising any compensation payable for loss or termination of their office or appointment. It also makes recommendations to the Board on the remuneration of Non-executive Directors. Its principal role is to assist the Board to oversee the policy and structure of the remuneration of the Executive Director(s) of the Company and senior management of the Group.

The Remuneration Committee is provided with sufficient resources to perform its duties. The current duties and responsibilities of the Remuneration Committee are more specifically set out in its latest terms of reference, details of which can be viewed on the website of the Company and the website of the Stock Exchange.

The following is a summary of work performed by the Remuneration Committee during the Year:

- (a) formulating and recommending the policy and structure of the remuneration of the Directors and senior management of the Group to the Board;
- (b) assessing individual performance of the Directors and senior management of the Group;
- (c) reviewing specific remuneration packages of the Directors and senior management of the Group with reference to the Board's corporate goals and objectives as well as individual performances; and
- (d) reviewing and making recommendations to the Board on compensation-related issues.

Principles of remuneration policy

The principles of the Group's remuneration policy:

- 1. were applied to all Directors and senior management of the Group for the Year and, so far as practicable, shall be applied to them for subsequent years;
- 2. were sufficiently flexible taking into account future changes in the Company's business environment and remuneration practice;
- 3. allowed remuneration arrangement to be designed to support the business strategy of the Group and to align with the interests of the Group's shareholders; and
- 4. aimed at setting appropriate reward levels to reflect the competitiveness in the market in which comparable companies and the Group had been operating during the Year so as to retain individuals with outstanding performance.

CORPORATE GOVERNANCE REPORT

Remuneration structure

Under the above remuneration policy, the remuneration package of each Executive Director and senior management of the Group during the Year was structured to include:

- (a) an appropriate rate of base compensation for the job of each Executive Director and senior management of the Group;
- (b) competitive benefit programs; and
- (c) sets of performance measures and targets for performance-related annual and long-term incentive plans based on the appropriate independent advice and/or an assessment of the interests of shareholders of the Company and taking into account an appropriate balance of risk and reward for the Directors and other participants.

The work and findings together with recommendations of the Remuneration Committee were presented to the Board after the Remuneration Committee's meetings. Minutes of the Remuneration Committee's meeting were made available to all the Directors for inspection. No Director or any of his associates was involved in deciding his own remuneration.

Nomination Committee

The Nomination Committee of the Board was established on 29 March 2012 and comprises three Independent Non-executive Directors. The Nomination Committee is chaired by Mr. Lau Chi Kit, and comprising two other members, namely Mr. Yue Man Yiu Matthew and Mr. Chan Wing Tak Kevin. The members of Nomination Committee meet formally at least once a year.

There was one meeting of Nomination Committee meeting held in 2020. Details of the members attendance record in the Year are set out on page 10 of this annual report. The following is a summary of the work performed by the Nomination Committee during the Year:

- (a) reviewing and evaluating the composition of the Board with reference to certain criteria. These criteria included qualifications required under the Listing Rules or any other relevant laws regarding characteristics and skills of the Directors, professional ethics and integrity, appropriate professional knowledge and industry experience, as well as ability to devote sufficient time to the work of the Board and its committees and to participate in all Board meetings and shareholders' meetings;
- (b) reviewing and recommending the re-appointment of the retiring Directors for re-election; and
- (c) assessing independence of the Independent Non-executive Directors.

CORPORATE GOVERNANCE REPORT

According to the written terms of reference of the Nomination Committee, the major responsibilities of the Nomination Committee include:

- (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) to assess the independence of the Independent Non-executive Directors; and
- (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

Details of the terms of reference of the Nomination Committee can be viewed on the website of the Company and the website of the Stock Exchange.

Board Diversity Policy

The Company has adopted the Board diversity policy ("Policy") in accordance with the requirements set out in code provision of the CG Code. The Company recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level is essential in achieving a sustainable and balanced development. The Company aims to build and maintain a Board with a diversity of Directors, in terms of skills, experience, gender, knowledge, expertise, culture, independence and age. All Board appointments will be based on merit while candidates will be considered against objective criteria with due regard towards the benefits of diversity on the Board. The Nomination Committee will review the Policy, as appropriate, to ensure the effectiveness of the Policy.

E. ACCOUNTABILITY AND AUDIT

Directors' responsibility for the accounts

The Directors acknowledge their responsibility for the preparation of the accounts of the Group and ensure that the accounts are in accordance with statutory requirements and applicable accounting standards. The accounts are prepared on a going concern basis, the members of the Board have selected appropriate accounting policies and apart from those new and amended accounting policies disclosed in the notes to the accounts during the year ended 31 December 2020, have applied consistently with previous financial periods. The statement of our auditor about their responsibility on the accounts is included in the Independent Auditor's Report. For the annual reports and accounts, the Company's finance department is responsible for clearing them with the external auditor and then the Audit Committee. In addition, all new accounting standards and requirements adopted by the Group have been discussed and approved by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 34 to 38 of this annual report.

CORPORATE GOVERNANCE REPORT

External auditor's remuneration

The Group's independent external auditor is Ernst & Young, Certified Public Accountants. The Company have not changed in its external auditor in any of the preceding three years. Prior to the commencement of the audit of the Group's 2020 financial statements, for the year ended 31 December 2020 the Audit Committee received written confirmation from the external auditor of its independence and objectivity. The external auditor refrained from engaging in non-assurance services except for limited tax-related services or specifically approved items. The Audit Committee reviewed the external auditor's statutory audit scope and non-audit services and approves its fees. During the year ended 31 December 2020, the remuneration paid or payable to the external auditor for audit services and non-audit services amounted to HK\$2,700,000 (2019: HK\$2,690,000) and HK\$1,500,000 (2019: 470,000), respectively.

Risk management and internal controls

The internal audit department, which is independent to the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls.

The internal control framework also provides for identification and management of risk.

The internal audit department also formulates the internal audit plan and procedures, conducts periodic independent reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks, and reports to the management on any key findings and progress of the internal audit process.

The Board, through the internal audit department, has conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2020 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such system are effective and adequate.

F. COMMUNICATION WITH SHAREHOLDERS

The AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to question Directors about the Company's performance. The detailed procedures for conducting a poll will be explained at each general meeting. Registered shareholders are notified by post of the AGM. Any registered shareholder is entitled to attend and vote at the AGM, provided that his/her/its shares have been fully paid up and recorded in the register of the members of the Company.

The Group endeavours to disclose relevant information on its activities to its shareholders in an open and timely manner, subject to applicable legal requirements. Communication between the Company and its shareholders is achieved through:

- (a) the Company's annual and interim reports which have been enhanced to present a balanced, clear and comprehensive assessment of the Group's position and prospects;
- (b) forum and notices of AGMs and other general meetings and accompanying explanatory materials;
- (c) press releases on major development of the Group;
- (d) disclosures to the Stock Exchange and relevant regulatory bodies;
- (e) response to inquiries from shareholders or media; and
- (f) the website of the Company through which the public can access, among other things, corporate announcements, press releases, annual reports, and general corporate information of the Group.

The communication channels between the Company and its shareholders above will be reviewed by the Board on a regular basis to ensure their effectiveness in maintaining an on-going dialogue with shareholders.

CORPORATE GOVERNANCE REPORT

Constructive use of AGMs

The Board and the management are committed to the constructive use of the AGM as a forum to meet with Shareholders and to hear their views and answer their questions about the Group and its business.

The Chairman and a majority of the other Directors along with key executives and the external auditor attended the 2020 AGM and addressed concerns raised by a number of Shareholders about the resolutions being proposed and the Company's business. The Directors in attendance included those who were chairing the Audit Committee, the Nomination Committee and the Remuneration Committee on the date of the meeting.

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of the Company.

(a) Convening of extraordinary general meeting on requisition by shareholders

Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(b) Procedures for putting forward proposals at a Shareholders' meeting

There are no provisions allowing Shareholders to move new resolutions at the general meetings under the Companies Law of the Cayman Islands (as amended from time to time) or the articles of association of the Company. However, Shareholders who wish to move a resolution may request the Company to convene an extraordinary general meeting following the procedures set out above.

Detailed procedures for Shareholders to propose a person for election as a Director are available on the Company's website.

(c) Enquiries to the Board

Shareholders may put forward enquiries to the Board in writing to the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the enquiries.

CORPORATE GOVERNANCE REPORT

G. DIVIDEND POLICY

The Board may declare dividends in the future after taking into account the Group's operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to the Company's constitutional documents and the Companies Law of the Cayman Islands, including the approval of the Shareholders. Future declarations of dividends may or may not be reflected from the Company's historical declarations of dividends and will be at the absolute discretion of the Board.

H. INVESTOR RELATIONS

During the Year, there was no significant change in the company's constitutional documents. The Company regards the communication with institutional investors as an important means to enhance the transparency of the Company and to collect views and feedback from institutional investors. The Group keeps Shareholders informed of its performance, operations and significant business developments by adopting a transparent and timely corporate disclosure policy which complies with the Listing Rules and provides all Shareholders equal access to such information. The Company promotes fair disclosure of information to all investors and care is taken to ensure that analyst briefings and other disclosures made by the Company comply with the Listing Rules' prohibition against selective disclosure of price sensitive information. Shareholders have specific rights to convene extraordinary general meetings under the Company's articles and association. In the Year, the Company also communicated with investors through press conferences, news release, and answering enquiries from media. Shareholders, investors and interested parties can make enquiries to the Company through the following means:

By e-mail: info@royale.com.hk

Telephone number: (852) 2636 6648

By post: Room 607, 6/F Tsim Sha Tsui Centre, West Wing

66 Mody Road

Tsim Sha Tsui East, Kowloon

Hong Kong

Attention: Public Relationship

MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. TSE Kam Pang (“Mr. Tse”), aged 66, is the Chairman of the Company. Prior to the founding of the Group in 1997, he previously held the position of the Deputy Managing Director in a public listed company in Hong Kong. He has over 30 years of experience in the international trade and China trade business. He has been appointed as a Director of subsidiaries of the Company in China and Hong Kong. He is a vice chairman of Hong Kong Furniture Association. Mr. Tse is the sole director of Crisana, Charminig Future and Leading Star, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. YANG Jun (“Mr. Yang”), aged 49, graduated from the Hubei Xianning Finance and Taxation Accounting School Finance in 1991, and graduated from Zhongnan University of Economics and Law in 2001, majoring in accounting. Mr. Yang is a qualified accountant and has over 28 years of working experience in accounting and corporate finance. Mr. Yang has been the deputy general manager of the financial asset management department of Science City Group since January 2018. Mr. Yang has been appointed as a non-executive Director on 29 August 2019. He has been re-designated from a non-executive Director to an executive Director and Chief Executive Officer with effect from 11 October 2019. Mr. Yang holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Non-Executive Directors

Mr. WU Zhongming (“Mr. Wu”), aged 38, obtained a bachelor degree in history from the Department of History of the Sun Yat-sen University in 2005, a PhD in ancient Chinese history from the Sun Yat-sen University in 2010. Mr. Wu has been an employee director of Science City Group since March 2018. Mr. Wu has been appointed as a non-executive Director of the Company since 29 August 2019. He has been an assistant to the general manager of Science City Group since August 2020. He has also served as a member of the Party Committee of Science City Group since January 2021. Mr. Wu holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. WU Dingliang (“Mr. Wu”), aged 56, graduated from Sichuan Yongchuan Finance and Trade Cadre School in 1981 with a major in accounting, and graduated through part-time education from Jiangxi University of Finance and Economics (formerly known as Jiangxi College of Finance and Economics) in 1987 with a major in accounting. He is a non-practicing member of Chinese Institute of Certified Public Accountants and has over 30 years of working experience in accounting and finance. Mr. Wu has been general manager of the planning and finance department of Science City Group since 2018. Mr. Wu has been appointed as a non-executive Director of the Company since 11 October 2019. Mr. Wu holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Ms. QIN You (“Ms. Qin”), aged 42, obtained the degree of bachelor of laws in international economic laws from the Zhongnan University of Economics and Law in 1999, and obtained the degree of master of laws in economic laws in Jinan University in 2004. Ms. Qin is a qualified corporate legal counsel and has over 20 years of working experience in the corporate legal field. Ms. Qin has been the general manager of the legal and risk control department of Science City Group since October 2019. Ms. Qin has been appointed as a non-executive Director of the Company since 29 August 2019. Ms. Qin holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

MANAGEMENT PROFILE

Mr. LIU Zhijun (“Mr. Liu”), aged 50, graduated from Guangzhou Staff Amateur University* (廣州市職工業餘大學) in 1992 with an associate degree in mechanical engineering. Mr. Liu is a practising Grade 2 Constructor and a qualified construction project management engineer and has over 23 years of working experience in real estate property. Mr. Liu has been the deputy general manager of Guangzhou Hongkong Real Estate Property Limited Company* (廣州宏康房地產有限公司) since May 2018 and the deputy general manager of Science City (Guangzhou) Urban Renewal Limited Company* (科學城(廣州)城市更新集團有限公司) since May 2019. Mr. Liu has been appointed as a non-executive Director of the Company since 29 August 2019. Mr. Liu holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Independent Non-executive Directors

Mr. LAU Chi Kit (“Mr. Lau”), aged 76, retired from The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) in December 2000 after more than 35 years of service. Among the major positions in HSBC, he was the assistant general manager and head of Personal Banking Hong Kong and assistant general manager and head of Strategic Implementation, Asia-Pacific Region. He is a fellow of the Hong Kong Institute of Bankers (“Institute”). He was the chairman of the Institute’s Executive Committee (from January 1999 to December 2000) and is currently the honorary advisor of the Institute’s Executive Committee. He served as a member on a number of committees appointed by the Government of the Hong Kong Special Administration Region, including the Advisory Council on the Environment (from October 1998 to December 2001), the Advisory Committee on Human Resources Development in the Financial Services Sector (from June 2000 to May 2001), the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption (from January 2000 to December 2003), the Environment and Conservation Fund Committee (from August 2000 to October 2006), the Innovation and Technology Fund (Environment) Projects Vetting Committee (from January 2000 to December 2004) and the Law Reform Commission’s Privacy Sub-committee (from February 1990 to March 2006). He also served as chairman of the Business Environment Council Limited (from September 1998 to December 2001). Currently, he is an executive director of Chinlink International Holdings Limited (stock code: 997), an independent non-executive director of Century Sunshine Group Holdings Limited (stock code: 509), Leoch International Technology Limited (stock code: 842) and Hin Sang Group (International) Holding Company Limited (stock code: 6893). Mr. Lau has been appointed as an independent non-executive Director of the Company since 6 September 2011.

Mr. YUE Man Yiu Matthew (“Mr. Yue”), aged 59, has been the chief financial officer of Ko Shi Wai Holdings Limited since September 2009. He has been a director of China-Link Capital Management Limited since September 2009 and was the chief financial officer of the same firm from August 2005 to August 2009. He is currently an independent non-executive director of a Hong Kong listed company, namely, Classified Group (Holdings) Limited (Stock Code: 8232). He graduated from the Chinese University of Hong Kong with a bachelor degree in business administration in 1984. He is a fellow of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. He has extensive experience in financial control, project analysis and management functions and has the related financial expertise. Mr. Yue has been appointed as an independent non-executive Director of the Company since 17 November 2011. During the last three years, Mr. Yue was an independent non-executive director of Asia Cassava Resources Holdings Limited (Stock Code: 841) and China Suntien Green Energy Corporation Limited (Stock Code: 956), all being listed public companies in Hong Kong.

* For identification purposes only

MANAGEMENT PROFILE

Mr. CHAN Wing Tak Kevin (“Mr. Chan”), aged 55, graduated from London School of Economics and Political Science, University of London in 1991 with a major in economics. He has over 20 years of experience in investment research. During 2008 to 2013, he was the Head of China and Hong Kong Financial Research at CLSA Limited. From 2013 to 2017, he was a member of Main Board and GEM Listing Committees of The Stock Exchange of Hong Kong Limited. From 2013 to 2014, he also served as a Senior Advisor (Banking) in KPMG. Since September 2016 he was an Executive Vice President of Chinese Banking Association of Hong Kong. From 2013 to 2018, he was a member of the Chinese People’s Political Consultative Conference, Guanxi Committee. Since March 2019, he is a member of Shenzhen Futian Committee. From 1 February 2020 to 31 January 2022, he is a member of the Investigation Panel A of the HKICPA. Mr. Chan has been appointed as an independent non-executive Director of the Company since 5 November 2019. From June 2020, he is a member of the Working Group on e-CNY of the Financial Services Development Council.

SENIOR MANAGEMENT

Mr. CHAN Wing Kit (“Mr. Chan”), aged 49, was appointed as Chief Financial Officer on 1 November 2019. He holds a bachelor of commerce degree from Monash University in Australia. He has over twenty years of business and financial experience in overseas and in China. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of CPA Australia. Mr. Chan was the executive director from March 2016 to August 2019. Prior to joining the Group in October 2001, he worked as an auditor with Nelson Wheeler and Ernst & Young. He was also the company secretary and financial controller of the Company from October 2001 to May 2011. Mr. Chan is also the independent non-executive director of Zhi Sheng Group Holdings Limited (stock code: 8370), a company whose shares are listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited since 17 December 2016.

Mr. CHEN Hao (“Mr. Chen”), aged 50, was appointed as Director of subsidiary of the Company in China. He is responsible for the day-to-day management, administration and manufacturing operation of the Company’s major subsidiaries in China. He has extensive experience in enterprise management mainly focusing in manufacturing. He joined the Group in 2000.

Mr. CHUI See Lai (“Mr. Chui”), aged 41, is the financial controller and Company Secretary of the Company. He is responsible for the financial management, accounting and company secretarial duties of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants and holds a bachelor degree in accountancy. He has over 10 years financial management, accounting and auditing experience in Hong Kong listed companies and international accounting firms. He joined the Group in 2017.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2020 to the shareholders of the Company.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

CHANGE OF COMPANY NAME AND LOGO

Pursuant to a special resolution passed at the annual general meeting held on 1 June 2020, the name of the Company was changed from "Royale Furniture Holdings Limited" to "Royale Home Holdings Limited" and change of name for identification purpose only in Chinese of the Company from "皇朝傢俬控股有限公司" to "皇朝家居控股有限公司". The change of Company name was approved by the Registrar of Companies in the Cayman Islands on 10 June 2020. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 17 August 2020 confirming the registration of the new name of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The logo of the Company is changed as  "oyal" with effect from 27 August 2020.

For details of the change of company name and logo, please refer to the announcements of the Company dated 23 April 2020 and 24 August 2020 and the circular of the Company dated 28 April 2020 published on the website of the Stock Exchange (<http://www.hkexnews.hk/>).

BUSINESS REVIEW

Business review comprising a fair review of the Group's business, description of the Group's principal risks and uncertainties, important events subsequent to the year end, the Group's likely future business developments and the Group's analysis using financial key performance indicators as regards profitability, revenue and gearing ratio changes, have been set out in the section headed "Management Discussion and Analysis" of this annual report. Discussions and information therein form part of this Report of the Directors.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2020 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 119.

The Board recommended the payment of a final dividend of HK4 cents per share (2019: nil per share) and a special dividend of HK6 cents per share (2019: nil per share) for the financial year.

There is no arrangement pursuant to which a shareholder of the Company has waived or agreed to waive any dividends.

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 120. This summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 28 and 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

USE OF NET PROCEEDS FROM THE SHARE SUBSCRIPTION AND CHANGE IN USE OF PROCEEDS

On 24 May 2019, the Company and Science City (Hong Kong) Investment Co. Limited ("SCHK") entered into the Subscription Agreement ("Subscription") pursuant to which the Company has conditionally agreed to issue, and the SCHK has conditionally agreed to subscribe for, in cash, 433,093,554 new shares of the Company ("Share(s)") at a price of HK\$1.02 per Share under specific mandate. On 2 August 2019, the Company completed the allotment and issuance of 433,093,554 new ordinary Shares. The net proceeds from the share subscription received by the Company were approximately HK\$440.2 million, equivalent to a net subscription price of approximately HK\$1.02 per Share.

References are made to the (i) the circular of the Company dated 8 July 2019; (ii) the 2019 annual report of the Company published on 28 April 2020 and (iii) the 2020 interim report of the Company published on 9 September 2020 (the "2020 Interim Report"). The details of the proposed use of net proceeds, change in use of proceeds and the actual use of proceeds during the year are as follows:

Proposed use of proceeds	Original	Unutilised	Revised	Amount	Unutilised	Expected timeline
	allocation	net proceeds		utilised up to	proceeds as at	
	of the net	as at	use of	31 December	31 December	
	proceeds	1 January	proceeds	2020	2020	
	(HK\$ million)					
Repaying certain loans of the Company	100.0	–	100.0	100.0	–	–
Acquisition of land	30.0	–	30.0	30.0	–	–
Construction of new production facilities	130.0	130.0	130.0	15.0	115.0	2 August 2019 to 1 August 2021
Imported machinery for new production facilities	80.0	80.0	80.0	20.0	60.0	2 August 2019 to 1 August 2021
Expenditure for establishing warehouses/new distribution spot on the Group's land in northern China	60.0	60.0	–	–	–	–
General working capital	40.2	28.0	100.2	100.2	–	–
Total	440.2	298.0	440.2	265.2	175.0	

REPORT OF THE DIRECTORS

As disclosed in the 2020 Interim Report, due to the outbreak of the COVID-19 pandemic, the market condition was adversely affected by the negative sentiment in the durable goods consumption sector. The Directors considered the market condition did not favour an expansion strategy and it was also noted that the Group has been making a substantial net loss for the period ended 30 June 2020. As a result, the Board has recommended to re-allocate the remaining unutilized net proceeds, which were originally allocated for "Expenditure for establishing warehouses/new distribution spot on the Group's land in northern China" of approximately HK\$60 million to supplement the general working capital for the daily operation of the Group. The Directors considered that this would be more beneficial to the Group as it would provide funds to meet the operation needs of the Group and provide more buffer to cope with the economic uncertainty in the future.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year under review.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 40 and note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK\$1,446,982,000.

CHARITABLE CONTRIBUTIONS

During the Year, the Group did not make any charitable contributions (2019: HK\$Nil).

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for approximately 25.8% of the total sales for the year and sales to the largest customer included therein amounted to 10.5%. Purchases from the Group's five largest suppliers accounted for approximately 62.1% of the total purchase for the Year and purchase from the Group's largest supplier included therein amounted to 30.9%.

None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. Being a furniture manufacturer in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution and discharge of waste and water into the environment. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the Year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

Save the share option scheme of the Company as disclosed herein, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2020 or subsisted at the end of the year.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

The Company provides a fair and safe workplace, promotes diversity to our staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions.

The Group understands that it is important to maintain good relationship with customers and provide the products in a way that satisfy needs and requirements of the customers. The Group has established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner.

The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's business. We reinforce business partnerships with suppliers and contractors by ongoing communication in a proactive and effective manner so as to ensure quality and timely delivery.

POSSIBLE RISKS AND UNCERTAINTIES FACING THE COMPANY

The Group's financial conditions, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties which are not known to the Group or which may not be material now but could turn out to be material in the future.

Business Risk

The business of the Group is highly dependent on the performance of the PRC furniture market. Furniture market downturn in China could adversely affect the Group's business, results of operations and financial position.

Financial Risk

The financial risk management of the Group are set out in note 39 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:

Mr. Tse Kam Pang (*Chairman*)

Mr. Yang Jun (*Chief Executive Director*)

Non-Executive Directors:

Mr. Wu Zhongming

Mr. Wu Dingliang

Ms. Qin You

Mr. Liu Zhijun

Independent Non-executive Directors:

Mr. Lau Chi Kit

Mr. Yue Man Yiu Matthew

Mr. Chan Wing Tak Kevin

In accordance with article 87 of the Company's articles of association, one-third of the Directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Details of the Directors to be retired and offered for re-election at the forthcoming annual general meeting are contained in the circular to be despatched to the shareholders of the Company.

The Company has received annual confirmations of independence from Mr. Lau Chi Kit, Mr. Yue Man Yiu Matthew and Mr. Chan Wing Tak Kevin pursuant to Rule 3.13 of the Listing Rules as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 21 to 23 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The Directors do not have subsisting service agreements with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation). Save as disclosed in note 8 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors as are specified on section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap 32).

None of the Directors proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group. Details of the remuneration of the Directors are set out in note 8 to the financial statements.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in the Hong Kong Companies Ordinance, Chapter 622 of the Laws of Hong Kong) for the benefit of the Directors of the Company is currently in force throughout the Year.

The Company has taken out and maintained Directors' liability insurance throughout the financial year ended 31 December 2020, which provides appropriate cover for the Directors. During the year ended 31 December 2020, no claims were made against the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 36 to the financial statements headed "Related party transactions" of this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Director of the Company or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2020.

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the interests and short positions of the Directors and Chief Executive Officer in the shares and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in shares and underlying shares of the Company:

Name of Director	Notes	Number of Shares and underlying Shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital (Note c)
		Directly beneficially owned	Through controlled corporation/family interests	Through jointly held by other persons (Note a)		
Mr. Tse Kam Pang ("Mr. Tse")	(b)	348,948,047	447,580,269	1,299,462,964	2,095,991,280	80.66
Mr. Yue Man Yue Matthew		3,000,000	-	-	3,000,000	0.12

Notes:

- (a) On 24 May 2019, SCHK, Mr. Tse, Leading Star Global Limited ("Leading Star"), Crisana International Inc. ("Crisana") and Charming Future Holdings Limited ("Charming Future") entered into an acting in concert arrangement. SCHK, Mr. Tse, Leading Star, Crisana and Charming Future are parties acting in concert (having the meaning ascribed to it under the Takeovers Code). As such, SCHK, Mr. Tse, Leading Star (being wholly owned by Mr. Tse), Crisana (being wholly owned by Mr. Tse) and Charming Future (being wholly owned by Mr. Tse) are deemed to be interested in 80.66% of the issued share capital of the Company.
- (b) Among the 2,095,991,280 Shares, 348,948,047 Shares (representing 13.43% of the issued share capital of the Company), were directly beneficially owned by Mr. Tse, 51,971,227 Shares were held by Leading Star, 185,840,120 Shares were held by Crisana and 209,768,922 Shares were held by Charming Future. Leading Star, Crisana and Charming Future are all companies wholly and beneficially owned by Mr. Tse. 1,299,462,964 Shares was deemed to be interested by Mr. Tse as a result of being a party acting-in-concert with SCHK. As such, Mr. Tse was deemed to be interested in the 2,095,991,280 Shares.
- (c) The percentage is calculated on the basis of 2,598,561,326 Shares in issue as at 31 December 2020.

No Directors has any non-beneficial personal equity interests in subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2020, none of the Directors had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTEREST IN COMPETING BUSINESS

None of the Directors, the controlling shareholders of the Company or any of their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interest with the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 29 to the financial statements, save as disclosed below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

No share option was outstanding as at 31 December 2020 (2019: nil).

There were no options granted during the year (2019: nil).

OTHER MATTERS RELATING TO THE BOARD

In relation to financial reporting, all Directors acknowledge their responsibilities for preparing the accounts of the Group. The Group has appropriate insurance in place to cover the liabilities of the Directors and senior executives of the Group.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2020, the following persons who were interested in 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

Name	Notes	Number of Shares and underlying Shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital (Note f)
		Directly beneficially owned	Interest held through controlled corporation	Interest held jointly with other persons (Note e)		
Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團 有限公司)	(a)	–	2,095,991,280	–	2,095,991,280	80.66
SCHK	(a)	1,299,462,964	–	796,528,316	2,095,991,280	80.66
Crisana	(b)	185,840,120	–	1,910,151,160	2,095,991,280	80.66
Charming Future	(c)	209,768,922	–	1,886,222,358	2,095,991,280	80.66
Leading Star	(d)	51,971,227	–	2,044,020,053	2,095,991,280	80.66

REPORT OF THE DIRECTORS

Notes:

- (a) SCHK is wholly owned by Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團有限公司), a company established in the PRC with limited liability on 21 August 1984. As such, Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團有限公司) was deemed to be interested in 2,095,991,280 Shares under Part XV of the SFO. The ultimate beneficial owner of Science City is the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會).
- (b) Crisana is wholly owned by Mr. Tse Kam Pang, a Director of the Company.
- (c) Charming Future is wholly owned by Mr. Tse Kam Pang, a Director of the Company.
- (d) Leading Star is wholly owned by Mr. Tse Kam Pang, a Director of the Company.
- (e) On 24 May 2019, SCHK, Mr. Tse, Leading Star, Crisana and Charming Future entered into a acting in concert arrangement. SCHK, Mr. Tse, Leading Star, Crisana and Charming Future are parties acting in concert (having the meaning ascribed to it under the Takeovers Code). As such, SCHK, Mr. Tse, Leading Star (being wholly owned by Mr. Tse), Crisana (being wholly owned by Mr. Tse) and Charming Future (being wholly owned by Mr. Tse) are deemed to be interested in 80.66% of the issued share capital of the Company.
- (f) The percentage is calculated on the basis of 2,598,561,326 Shares in issue as at 31 December 2020.

Save as disclosed above, as at 31 December 2020, no person, other than the Director and Chief Executive Officer of the Company, whose interests are set out in the section headed “Directors’ and Chief Executive Officer’s interests and short positions in shares, underlying shares and debentures” above, had any interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

PUBLIC FLOAT

Following the close of the unconditional mandatory cash general offer being made by ABCI Capital Limited on behalf of SCHK, Mr. Tse, Leading Star, Crisana and Charming Future (collectively, the “Joint Offerors”) to acquire all the Shares in issue, other than those shares already owned or agreed to be acquired by the Joint Offerors and parties acting in concert with them pursuant to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers on 29 August 2019, 398,570,046 Shares were held by the public (within the meanings of the Listing Rules), representing approximately 15.34% of the total number of issued Shares. Accordingly, less than 25% of the issued Shares (being the minimum prescribed percentage applicable to the Company) were held by the public and the Company did not satisfy the minimum public float requirement as set out under Rule 8.08(1)(a) of the Listing Rules. On 29 August 2019, an application was made by the Company to the Stock Exchange for a temporary waiver from the strict compliance with Rules 8.08(1)(a) of the Listing Rules. On 5 September 2019, the Stock Exchange had granted the waiver to the Company for a period from 29 August 2019 (i.e. closing date of the Offers) to 28 November 2019 (the “Waiver”). On 28 November 2019, an application was made by the Company to the Stock Exchange for an extension of the Waiver. The Stock Exchange had granted the Company an extension of the Waiver until 15 April 2020.

On 2 February 2020, the public float of the Company has risen to 19.22% of the issued share capital of the Company after completion of the sale of 101,000,000 Shares to an independent third parties. On 8 April 2020, an application was made by the Company to the Stock Exchange for a further extension of the Waiver. The Stock Exchange had granted the Company a further extension of the Waiver until 15 July 2020.

On 15 July 2020, a further application was made by the Company to the Stock Exchange for an extension of the Waiver. The Stock Exchange had granted the Company a further extension of the Waiver until 31 December 2020.

In January 2021, a further 66,000,000 Shares was disposed by Mr. Tse and 64,600,000 Shares was disposed by SCHK. On 15 April 2021, Crisana has disposed of an aggregate of 20,000,000 Shares. 650,170,046 Shares were held by the public, representing approximately 25.02% of the total issued share capital of the Company. The minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules was satisfied.

* For identification purposes only

REPORT OF THE DIRECTORS

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2020 was 1,313 (2019: 1,702). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2020, there were no outstanding share options.

Details of the remuneration of the Directors are set out in note 8 to the financial statements. The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2020 were within the following bands:

Bands	Number of Senior Management
Nil to HK\$1,000,000	–
HK\$1,000,001 to HK\$1,500,000	3
HK\$1,500,001 to HK\$2,000,000	–
HK\$2,000,001 to HK\$2,500,000	1
Total:	4

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in note 36 to the financial statements.

The Independent Non-executive Directors have reviewed and confirmed that the continuing connected transactions undertaken by the Group were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued unqualified their letter containing their findings and conclusions in respect of the continuing connected transactions which are subject to annual review with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

During the year, related party transactions are disclosed in note 36 to the consolidated financial statements. Save as disclosed above and in respect of which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with, other related party transactions disclosed in note 36 to the consolidated financial statements do not constitute connected transactions or continuing connected transaction which are subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company is committed to maintaining high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 8 to 20.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three Independent Non-executive Directors. The financial statements of the Group and of the Company for the year ended 31 December 2020 together with the notes attached thereto have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Listing Rules and the legal requirements, and that adequate disclosure has been made.

TAX RELIEF AND EXEMPTION

The Company is not aware of any relief from taxation available to shareholders by reason of their holding or the Company's listed securities.

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during the Year.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2020 have been audited by Ernst & Young, who will retire, and being eligible and offer themselves for re-appointment at the forthcoming annual general meeting ("AGM").

ON BEHALF OF THE BOARD

TSE Kam Pang

Chairman

Hong Kong

31 March 2021

INDEPENDENT AUDITOR'S REPORT



To the shareholders of Royale Home Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Royale Home Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 39 to 119, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Inventory provision</i></p> <p>The Group manufactures and sells furniture and is subject to changing consumer demands.</p> <p>As at 31 December 2020, the gross amount of inventories and the inventory provision balance amounted to approximately HK\$352 million and HK\$86 million. Significant management judgement was required to assess whether the carrying amount of these inventories was higher than the net realisable value. Specific factors that management considered in the estimation of the inventories provision included the aging of the balances, type of furniture, forecasted inventory usage or sales and any other available information.</p> <p>The accounting policy, the estimation uncertainty and the details of inventories provision were disclosed in notes 2.4, 3 and 19 to the consolidated financial statements.</p>	<p>We assessed the process, methods and assumptions used to develop the provision for slow-moving, excess or obsolete items and tested the aging of inventories, on a sample basis.</p> <p>We evaluated the inventory's net realisable value on a sample basis, by comparing the forecast selling price to existing contracts and recent market prices.</p> <p>We also observed the condition of inventories in stock-take to inspect obsolete and damaged inventories.</p> <p>We reviewed and assessed the adequacy of the related disclosures in the consolidated financial statements.</p>
<p><i>Fair value of investment properties</i></p> <p>The Group chooses the fair value model to subsequently measure all investment properties. As at 31 December 2020, the carrying amount of investment properties was HK\$483 million and the fair value gain on investment properties recognised during the year was HK\$2.4 million. The Group engaged an external valuation expert to perform valuation of the Group's investment properties to estimate the fair values as at 31 December 2020. The fair values of investment properties were determined principally using the discounted cash flow method by estimating the rental income derived from the existing tenancies with due provisions for the reversionary income potential of the properties. The determination of application of the valuation technique, future rental income and rental rate involved significant management judgement and estimates.</p> <p>The accounting policy, the estimation uncertainty and the details of fair value of investment properties were disclosed in notes 2.4, 3, 5 and 14 to the consolidated financial statements.</p>	<p>We assessed the objectivity, independence and competence of the external valuation expert employed by the Company.</p> <p>We assessed the related data used by the external valuation expert as inputs of the valuations by comparing to the historical data and market index.</p> <p>We also involved our internal valuation specialists to assist us in evaluating the valuation methodology and the underlying assumptions which principally included the market unit rental rate and discount rate.</p> <p>We assessed the adequacy of the disclosures of the valuations of investment properties in the consolidated financial statements.</p>

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than 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.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

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. Our report is made solely to you, as a body, 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 HKSA's 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 HKSA's, we exercise professional judgement and maintain professional scepticism 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.
- 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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We communicate with the Audit Committee 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tjen Michael.

Ernst & Young

Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

31 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
REVENUE	5	1,443,490	852,084
Cost of sales		(1,284,488)	(587,368)
Gross profit		159,002	264,716
Other income and gains	5	1,102,889	35,073
Selling and distribution expenses		(83,472)	(84,447)
Administrative expenses		(96,243)	(89,825)
Finance costs	7	(31,121)	(16,279)
(Impairment)/reversal of impairment of trade receivables and financial assets included in prepayments, deposits and other receivables	6	(1,055)	133
Share of losses of associates	6	(6,292)	(569)
Other expenses	6	(3,346)	(5,089)
PROFIT BEFORE TAX	6	1,040,362	103,713
Income tax expense	10	(334,224)	(36,521)
PROFIT FOR THE YEAR		706,138	67,192
Attributable to:			
Owners of the parent		714,780	62,976
Non-controlling interests		(8,642)	4,216
		706,138	67,192
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	12	HK27.507 cents	HK2.737 cents
Diluted		HK27.507 cents	HK2.737 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
PROFIT FOR THE YEAR		706,138	67,192
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		142,035	(27,810)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		142,035	(27,810)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Gains/(losses) on property revaluation	13	41,085	(32,966)
Income tax effect		(10,271)	8,241
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		30,814	(24,725)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		172,849	(52,535)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		878,987	14,657
Attributable to:			
Owners of the parent		883,250	11,550
Non-controlling interests		(4,263)	3,107
		878,987	14,657

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	880,617	1,006,694
Investment properties	14	483,063	442,502
Right-of-use assets	15	344,863	269,391
Goodwill	16	34,482	34,482
Intangible assets	17	8,195	11,975
Investments in associates	18	752,093	90,596
Prepayments	21	–	147,147
Total non-current assets		2,503,313	2,002,787
CURRENT ASSETS			
Inventories	19	265,850	295,544
Trade receivables	20	37,808	22,427
Prepayments, deposits and other receivables	21	1,769,874	88,118
Pledged deposits	22	–	9,787
Restricted cash	22	187	–
Cash and cash equivalents	22	236,930	440,468
Total current assets		2,310,649	856,344
CURRENT LIABILITIES			
Trade payables	23	99,445	55,349
Other payables and accruals	24	202,400	130,355
Interest-bearing bank borrowings	26	249,369	117,728
Loan from an associate	31	106,872	–
Loan from the ultimate holding company	31	178,121	–
Loan from non-controlling interests	31	2,740	–
Loan from a director	31	145,000	–
Tax payable		161,092	153,154
Total current liabilities		1,145,039	456,586
NET CURRENT ASSETS		1,165,610	399,758
TOTAL ASSETS LESS CURRENT LIABILITIES		3,668,923	2,402,545

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,668,923	2,402,545
NON-CURRENT LIABILITIES			
Medium term bonds	25	34,050	31,775
Interest-bearing bank and other borrowings	26	91,947	95,078
Loan from non-controlling interests	31	39,062	35,273
Lease liabilities	15	49,405	7,568
Deferred tax liabilities	27	405,863	70,038
Deferred government grant		45,402	44,253
Total non-current liabilities		665,729	283,985
Net assets		3,003,194	2,118,560
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	259,856	259,856
Reserves	30	2,611,135	1,717,432
Non-controlling interests		2,870,991	1,977,288
		132,203	141,272
Total equity		3,003,194	2,118,560

TSE Kam Pang
Director

YANG Jun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Notes	Attributable to owners of the parent									
		Issued share capital	Share premium account	Capital reserve**	Asset revaluation reserve [#]	Statutory reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020		259,856	1,482,883*	-	165,224*	13,140*	26,495*	29,690*	1,977,288	141,272	2,118,560
Profit for the year		-	-	-	-	-	-	714,780	714,780	(8,642)	706,138
Other comprehensive income for the year											
Gains on property revaluation, net of tax	13	-	-	-	30,814	-	-	-	30,814	-	30,814
Exchange differences related to foreign operations		-	-	-	-	-	137,656	-	137,656	4,379	142,035
Total comprehensive income for the year		-	-	-	30,814	-	137,656	714,780	883,250	(4,263)	878,987
Acquisition of non-controlling interests		-	-	(9,444)	-	-	-	-	(9,444)	(4,806)	(14,250)
Transfer from asset revaluation reserve	13	-	-	-	(64,324)	-	-	84,221	19,897	-	19,897
Appropriations of statutory reserve		-	-	-	-	102,146	-	(102,146)	-	-	-
At 31 December 2020		259,856	1,482,883*	(9,444)*	131,714*	115,286*	164,151*	726,545*	2,870,991	132,203	3,003,194

The asset revaluation reserve arose from a revaluation surplus resulting from the building revaluation on 31 December 2020.

* These reserve accounts comprise the consolidated reserves of HK\$2,611,135,000 (2019: HK\$1,717,432,000) in the consolidated statement of financial position.

** The Capital reserve mainly represents the difference between the cost of acquisition and the non-controlling interests acquired in the case of acquisition of additional non-controlling interests of subsidiaries.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the parent										
	Notes	Issued	Share	Share	Asset	Statutory	Exchange	Accumulated	Total	Non-	Total
		share	premium	option	revaluation		reserve	fluctuation		(losses)/	
capital	account	reserve	reserve	reserve	reserve	reserve	profits	interests			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2019		201,344	977,592	33,774*	195,736	11,706	53,196	(37,639)	1,435,709	107,759	1,543,468
Profit for the year		-	-	-	-	-	-	62,976	62,976	4,216	67,192
Other comprehensive loss for the year											
Loss on property revaluation, net of tax	13	-	-	-	(24,725)	-	-	-	(24,725)	-	(24,725)
Exchange differences related to foreign operations		-	-	-	-	-	(26,701)	-	(26,701)	(1,109)	(27,810)
Total comprehensive income for the year		-	-	-	(24,725)	-	(26,701)	62,976	11,550	3,107	14,657
Issue of shares, net	28	43,309	395,538	-	-	-	-	-	438,847	-	438,847
Acquisition of a subsidiary	32	-	-	-	-	-	-	-	-	30,406	30,406
Equity-settled share option expense	29	-	-	4,217	-	-	-	-	4,217	-	4,217
Transfer of share option reserve upon the forfeiture or expiry of share options	28	-	1,347	(1,347)	-	-	-	-	-	-	-
Exercise of share options	28	15,203	108,406	(36,644)	-	-	-	-	86,965	-	86,965
Transfer from asset revaluation reserve		-	-	-	(5,787)	-	-	5,787	-	-	-
Appropriations of statutory reserve		-	-	-	-	1,434	-	(1,434)	-	-	-
At 31 December 2019		259,856	1,482,883	-	165,224	13,140	26,495	29,690	1,977,288	141,272	2,118,560

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,040,362	103,713
Adjustments for:			
Finance costs	7	31,121	16,279
Share of losses of associates and a joint venture	6	6,292	569
Interest income	5	(1,535)	(562)
Gain on disposal of items of property, plant and equipment	5	–	(3)
Gain on land resumption	5	(1,062,543)	–
COVID-19-related rent concessions from lessors	15	(57)	–
Depreciation	6	58,991	77,772
Changes in fair value of investment properties	6	(2,401)	(1,248)
Depreciation of right-of-use assets	6	22,511	9,056
Amortisation of intangible assets	6	4,267	4,182
Write-down of inventories to net realisable value	6	19,823	12,380
Impairment/(reversal of impairment) of trade receivables	6	1,819	(3,281)
(Reversal of impairment)/impairment of financial assets included in prepayments, deposits and other receivables	6	(764)	3,148
Equity-settled share option expense	6	–	4,217
		117,886	226,222
Decrease/(increase) in inventories		28,078	(18,351)
(Increase)/decrease in trade receivables		(14,954)	48,801
(Increase)/decrease in prepayments, deposits and other receivables		(11,390)	20,283
Increase/(decrease) in trade payables		39,109	(47,905)
Increase in other payables and accruals		49,219	3,631
		207,948	232,681
Cash generated from operations		207,948	232,681
Income taxes paid		(3,449)	(1,804)
		204,499	230,877
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,535	562
Purchases of items of property, plant and equipment		(82,524)	(94,363)
Prepayment for right-of-use assets	21	–	(35,291)
Additions to intangible assets	17	(337)	(530)
Acquisition of a subsidiary which does not constituted business	32	–	(97,305)
Increase in interests in associates		(667,789)	(37,035)
Decrease in prepayment for an equity investment		–	94,060
Decrease/(increase) in payable for acquisition of a subsidiary		89,485	(89,485)
Payment for disbursement relating to resumption of land use right		(281,352)	–
Proceeds from disposal of items of property, plant and equipment		9,985	2,782
Decrease/(increase) in pledged deposits		9,600	(9,787)
		(921,397)	(266,392)
Net cash used in investing activities		(921,397)	(266,392)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net	28	–	525,812
New bank loans		237,494	218,399
Repayment of bank loans		(122,094)	(289,676)
Principal portion of lease payments	33(b)	(20,111)	(3,480)
Interest paid		(24,547)	(12,740)
Loan from a director		145,000	–
Repayment of loan from a director		–	(12,000)
Loan from non-controlling interests		2,671	–
Repayment of loan from non-controlling interests		–	(5,990)
Loan from an associate		187,620	–
Repayment of loan from an associate		(80,748)	–
Loan from the ultimate holding company		178,121	–
Decrease/(increase) for acquisition of non-controlling interests		8,121	(22,371)
Net cash flows from financing activities		511,527	397,954
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		440,468	78,836
Effect of foreign exchange rate changes, net		1,833	(807)
CASH AND CASH EQUIVALENTS AT END OF YEAR		236,930	440,468
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	236,930	114,855
Non-pledged time deposits with original maturity of less than three months when acquired		–	325,613
		236,930	440,468

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION

Royale Home Holdings Limited is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the manufacture and sale of furniture and trading of commodities.

The name of the Company changed from Royale Furniture Holdings Limited to Royale Home Holdings Limited on 10 June 2020 with the certificate of incorporation on change of name issued by the Register of Companies in the Cayman Islands.

In the opinion of the directors, the immediate and ultimate holding companies of the Company are Science City (Hong Kong) Investment Co., Ltd. and Science City (Guangzhou) Investment Group Co., Ltd, which are incorporated in Hong Kong and Mainland China, respectively.

Information about subsidiaries

Particulars of the Company's principal subsidiaries as of 31 December 2020 are as follows:

Name	Place of incorporation/ registration	Place of operations	Issued ordinary/ paid-up registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Chitaly (BVI) Limited	British Virgin Islands ("BVI")	Hong Kong	US\$1,000	100	-	Investment holding
Hong Kong Royal Furniture Holding Limited	Hong Kong	Hong Kong	US\$10,000	-	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Hong Kong	HK\$10,000	-	100	Investment holding
Wanlibao (Guangzhou) Furniture Limited*	People's Republic of China (the "PRC")	Mainland China	US\$5,700,000	-	100	Trading of commodities
Guangzhou Yufa Furniture Company Limited*	PRC	Mainland China	RMB500,000,000	-	100	Manufacture and sale of furniture
Hong Kong Wong Chiu Furniture Holding Limited	BVI	Macau	US\$1	-	100	Sale of furniture
Guangzhou Fuli Furniture Company Limited*	PRC	Mainland China	HK\$72,000,000	-	100	Manufacture and sale of furniture
Realink Investment Group Limited	BVI	Hong Kong	US\$1	-	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration	Place of operations	Issued ordinary/ paid-up registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Sinofull Macao Commercial offshore Limited	Macau	Macau	HK\$10,000	-	100	Sale of furniture
Beauty City Holdings Limited	BVI	Hong Kong	HK\$1	-	100	Investment holding
Jiangxi Furun Furniture Company Limited*	PRC	Mainland China	US\$15,000,000	-	100	Rental of properties
Tianjin Royal Furniture Company Limited**	PRC	Mainland China	RMB150,000,000	-	55	Rental of properties
Guangzhou Royal Furniture Company Limited*	PRC	Mainland China	RMB10,000,000	-	100	Manufacture and sale of furniture
Guangzhou Hong Mian Hong Company Limited**	PRC	Mainland China	RMB500,000	-	80	Manufacture and sale of foam
Guangzhou Zunyi Trading Company Limited*	PRC	Mainland China	RMB500,000	-	100	Dormant
Guangzhou Runyu Horticulture Company Limited**	PRC	Mainland China	RMB300,000	-	75	Dormant

* These subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

** These subsidiaries are registered as limited companies under PRC law.

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain buildings classified as property, plant and equipment which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020 (the “Current Year”). A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interests and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the Conceptual Framework for Financial Reporting 2018 and the following revised HKFRSs for the first time for the Current Year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKFRS 16	<i>COVID-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised HKFRSs are described below:

- (a) Conceptual Framework for Financial Reporting 2018 (the "Conceptual Framework") sets out a comprehensive set of concepts for financial reporting and standard setting and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("RFR"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's buildings have been reduced or waived by the lessors upon reducing the scale of production as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$57,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
HKFRS 17	<i>Insurance Contracts³</i>
Amendments to HKFRS 17	<i>Insurance Contracts^{3, 6}</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current^{3, 5}</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use²</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract²</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ²

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- *HKFRS 16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at these financial statements set out in this report are set out below:

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

The Group measures its investment properties at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- | | | |
|---------|---|---|
| Level 1 | – | based on quoted prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly |
| Level 3 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable |

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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, investment properties 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 groups 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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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, 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.

Related parties

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

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

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group 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; and the sponsoring employers of the post-employment benefit plan;
 - (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); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of buildings are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Buildings	3%–5%
Leasehold improvements	10%–33%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the cost of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents, licences and software

Purchased patents, licences and software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 2 to 10 years.

Customer relationships

Customer relationships are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 years.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	27 to 50 years
Buildings	2 to 15 years
Motor Vehicle	5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessor (Continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Leasehold land under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group 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 marketplace.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- | | | |
|---------|---|--|
| Stage 1 | – | Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs |
| Stage 2 | – | Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs |
| Stage 3 | – | Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs |

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, medium-term bonds, interest-bearing bank and other borrowings, a loan from an associate, a loan from a director and a loan from non-controlling interests and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, medium term bonds, interest-bearing bank and other borrowings, a loan from an associate, a loan from ultimate holding company a loan from a director and a loan from non-controlling interests are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognized.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads and/or, where appropriate, subcontracting charges. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) *Sale of goods*

For sale of furniture, the performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 180 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) *Sale of goods* (Continued)

For trading, the performance obligation is satisfied upon delivery of the goods and payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

Some contracts for the sale of industrial products provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

(i) **Rights of return**

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, a refund liability is recognised instead of revenue. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(ii) **Volume rebates**

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognized.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group’s subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme at the applicable rates based on the amounts stipulated by the local government organisations. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company’s memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group'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 Group'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:

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Variable consideration for volume rebates

The Group estimates variable consideration to be included in the transaction price for the sale of industrial products with volume rebates.

The Group's expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date.

The Group applied a statistical model for estimating expected volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebate entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Write-down of inventories

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and the write-down/write-back of the inventories in the period in which such estimate has been changed. During the year ended 31 December 2020, the amount of write-down of inventory provision in the statement of profit or loss was HK\$19,823,000 (2019: write-down of the inventories of HK\$12,380,000). As at 31 December 2020, the carrying amount of the write-down of the inventories was HK\$85,793,000 (2019: HK\$65,970,000).

Provision for expected credit losses on trade receivables and financial assets included in prepayments, deposits and other receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and financial assets included in prepayments, deposits and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and financial assets included in prepayments, deposits and other receivables is disclosed in note 20 and note 21 to the financial statements, respectively.

Estimation of fair value of investment properties

The fair value of the investment properties was determined by reference to valuations conducted on these properties by an independent and professionally qualified valuer using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment properties included in the consolidated statement of financial position and corresponding adjustments to the changes in fair value reported in the consolidated income statement.

As at 31 December 2020, the carrying amount of investment properties was HK\$483,063,000 (2019: HK\$442,502,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2020 was HK\$34,482,000 (2019: HK\$34,482,000). Further details are given in note 16.

Fair values of property, plant and equipment

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. As at 31 December 2020, the carrying amounts of the property, plant and equipment approximated to their fair values. For details, refer to note 13 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of home furniture, and developed a new business activity of sale and purchase of commodities such as aluminium ingots and bars in 2020. For management purposes, the Group operates in business units based on its products, and has two reportable segment as follows:

- (a) The furniture products segment, engaging in the manufacture and sale of home furniture.
- (b) The trading segment, which consists of the trading aluminium ingots and bars in this year.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2020	Manufacture and sale of furniture HK\$'000	Trading HK\$'000	Total HK\$'000
Segment revenue			
Sale to external customers	903,867	539,623	1,443,490
<i>Reconciliation:</i>			
Revenue from continuing operations			1,443,490
Segment results	158,620	382	159,002
<i>Reconciliation:</i>			
Profit/(loss) before tax from continuing operations	1,043,903	(3,541)	1,040,362
Segment assets	4,882,912	212,292	5,095,204
Elimination of intersegment receivables			(281,242)
Total assets			4,813,962
Segment liabilities	1,907,901	184,109	2,092,010
Elimination of intersegment payables			(281,242)
Total liabilities			1,810,768

In 2019, The Group was principally engaged in the manufacture and sale of home furniture. For management purposes, the Group operated in one business unit based on its products, and has one reportable segment which is the manufacture and sale of home furniture.

Information about a major customer

Revenue from continuing operations of approximately HK\$150,876,000 (2019: nil) was derived from trading segment to a single customer, which amounted to 10% or more of the Group's revenue during the year.

Geographical information

Because the majority of the Group's revenue and non-current assets were located in Mainland China, no related geographical information of non-current assets is presented.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, net of value-added tax (the "VAT"), and after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue, other income and gains is as follows:

	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers		
Sale of goods	1,443,490	852,084

Performance obligation

Sale of goods

For sales of furnitures, the performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 180 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

For trading, the performance obligation is satisfied upon delivery of the goods and payment in advance is normally required.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2020 HK\$'000	2019 HK\$'000
Amounts expected to be recognised as revenue:		
Within one year	68,855	40,811
Other income and gains		
Rental income	23,913	24,535
Interest income	1,535	562
Fair value gains on investment properties	2,401	1,248
Sale of scraps	7,267	4,631
Government subsidy	2,976	4,094
Gain on disposal of items of property, plant and equipment	-	3
Gain on land resumption*	1,062,543	-
Others	2,254	-
	1,102,889	35,073

* On 18 June 2020, Guangzhou Yufa Furniture Company Limited and Guangzhou Fuli Furniture Company Limited, two subsidiaries of the Group, entered into land resumption agreements with the local government authority. The consideration for resumption of the land use rights thereof amounted to HK\$1,599,693,000 and the transaction resulted in a gain of HK\$1,062,543,000 during the year ended 31 December 2020. For further details, please refer to the announcement of Company of the dated 11 November 2020.

NOTES TO FINANCIAL STATEMENTS

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6. PROFIT BEFORE TAX

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

	Notes	2020 HK\$'000	2019 HK\$'000
Cost of inventories sold		1,205,674	497,216
Depreciation of property, plant and equipment	13	58,991	77,772
Depreciation of right-of-use assets	15(a)	22,511	9,056
Amortisation of intangible assets*	17	4,267	4,182
Research and development costs*		5,585	4,647
Lease payments not included in the measurement of lease liabilities	15(c)	864	2,609
Auditor's remuneration		4,000	2,690
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		121,316	150,458
Equity-settled share option expense	29	–	4,217
Pension scheme contributions		3,031	7,025
		124,347	161,700
Write-down of inventories to net realisable value**		19,823	12,380
Impairment/(reversal of impairment) of trade receivable		1,819	(3,281)
(Reversal of impairment)/impairment of financial assets included in prepayments, deposits and other receivables		(764)	3,148
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties#		1,917	3,235
Fair value gains on investment properties	5	(2,401)	(1,248)
Interest income##	5	(1,535)	(562)
Share of losses of associates	18	6,292	569
Gain on disposal of items of property, plant and equipment###	5	–	(3)
Gain on land resumption##	5	(1,062,543)	–

* The amortisation of intangible assets and research and development costs for the year have been included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

** The write-down of inventories to net realisable value has been included in "Cost of sales" on the face of the consolidated statement of profit or loss.

This item has been included in "Other expenses" on the face of the consolidated statement of profit or loss.

These items have been included in "Other income and gains" on the face of the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

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7. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest on bank loans and other loans (including medium term bonds)	28,317	15,696
Interest on lease liabilities	2,804	583
	31,121	16,279

8. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 HK\$'000	2019 HK\$'000
Fees	1,800	1,704
Other emoluments:		
Salaries, allowances and benefits in kind	6,927	8,920
Performance related bonuses	450	610
Equity-settled share option expense	-	1,926
	9,177	13,160

During the year, no directors were granted share options. In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

8. DIRECTORS' REMUNERATION (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2020						
Executive directors:						
Mr. Tse Kam Pang	300	5,400	450	-	-	6,150
Mr. Yang Jun	300	509	-	-	-	809
	600	5,909	450	-	-	6,959
Non-executive directors:						
Mr. Wu Zhongming	240	509	-	-	-	749
Mr. Wu Dingliang	240	509	-	-	-	749
Mrs. Qin You*	-	-	-	-	-	-
Mr. Liu Zhijun*	-	-	-	-	-	-
	480	1,018	-	-	-	1,498
Independent non-executive directors:						
Mr. Lau Chi Kit	240	-	-	-	-	240
Mr. Yue Man Yiu, Matthew	240	-	-	-	-	240
Mr. Chan Wing Tak	240	-	-	-	-	240
	720	-	-	-	-	720
	1,800	6,927	450	-	-	9,177

NOTES TO FINANCIAL STATEMENTS

31 December 2020

8. DIRECTORS' REMUNERATION (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Equity-settled share option expense HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2019						
Executive directors:						
Mr. Tse Kam Pang	300	5,400	450	-	-	6,150
Mr. Tse Hok Kan (resigned on 29 August 2019)	200	1,600	-	-	-	1,800
Mr. Chan Wing Kit (resigned on 29 August 2019)	200	1,920	160	825	-	3,105
Mrs. Yu Yinghong (appointed on 29 August 2019, resigned on 11 October 2019)	-	-	-	-	-	-
Mr. Yang Jun (appointed on 11 October 2019)	67	-	-	-	-	67
	767	8,920	610	825	-	11,122
Non-executive directors:						
Mr. Wu Zhongming (appointed on 29 August 2019)	54	-	-	-	-	54
Mr. Wu Dingliang (appointed on 11 October 2019)	54	-	-	-	-	54
Mrs. Qin You (appointed on 29 August 2019)	-	-	-	-	-	-
Mr. Liu Zhijun (appointed on 29 August 2019)	-	-	-	-	-	-
	108	-	-	-	-	108
Independent non-executive directors:						
Dr. Donald H. Straszheim (resigned on 5 November 2019)	312	-	-	367	-	679
Mr. Lau Chi Kit	240	-	-	367	-	607
Mr. Yue Man Yiu, Matthew	240	-	-	367	-	607
Mr. Chan Wing Tak (appointed on 5 November 2019)	37	-	-	-	-	37
	829	-	-	1,101	-	1,930
	1,704	8,920	610	1,926	-	13,160

* During the year, two of directors have agreed not to receive any director's remuneration (2019: three).

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2019: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2019: two) highest paid employees who are neither a director nor chief executive of the Company for the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries, allowances and benefits in kind	5,663	2,437
Performance related bonuses	247	–
Pension scheme contributions	44	50
	5,954	2,487

The number of the non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	3	1
HK\$1,500,001 to HK\$2,000,000	–	–
HK\$2,000,001 to HK\$2,500,000	1	–
	4	2

10. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2019: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2020 HK\$'000	2019 HK\$'000
Current – Mainland China		
Charge for the year	13,716	47,127
Adjustment in respect of current tax of previous periods	(6,788)	(8,276)
Deferred (note 27)	327,296	(2,330)
Total tax charge for the year	334,224	36,521

NOTES TO FINANCIAL STATEMENTS

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10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax at the applicable rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2020		2019	
	HK\$'000	%	HK\$'000	%
Profit before tax	1,040,362		103,713	
Tax at the applicable tax rate at 25% (2019: 25%)	260,091	25.0	25,928	25.0
Lower tax rates for specific provinces or enacted by local authority	1,908	0.2	4,282	4.1
Losses attributable to associates	1,573	0.2	–	–
Adjustments in respect of current tax of previous periods	(6,788)	(0.7)	(8,276)	(8.0)
Expenses not deductible for tax	81,628	7.8	488	0.5
Tax losses not recognised	12,711	1.2	14,620	14.1
Tax losses utilised from previous periods	(16,899)	(1.6)	(521)	(0.5)
Tax charge at the Group's effective rate	334,224	32.1	36,521	35.2

The Group has aggregate tax losses arising in Hong Kong of HK\$77,400,000 (2019: HK\$68,967,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. The Group has aggregate tax losses arising in Mainland China of HK\$115,889,000 (2019: HK\$114,713,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets at 31 December 2020.

Under Decree – Law no. 58/99/M, companies in Macau incorporated under that Decree – Law (referred to as the “58/99/M Companies”) are exempted from Macau complementary tax (Macau income tax) as long as they do not sell their products to a Macau resident company. Sinofull Macao Commercial Offshore Limited (“Sinofull”), a subsidiary of the Group, is qualified as a 58/99/M Company.

11. DIVIDENDS

	2020	2019
	HK\$'000	HK\$'000
Proposed final dividend of HK 4 cents per ordinary share and a special dividend of HK 6 cents per ordinary share after the end of the reporting period (2019: nil)	259,856	–

The proposed final dividend and special dividend for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

NOTES TO FINANCIAL STATEMENTS

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12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,598,561,326 (2019: 2,301,244,517) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

The calculations of basic and diluted earnings per share are based on:

	2020	2019
	HK\$'000	HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	714,780	62,976
Number of shares		
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,598,561,326	2,301,244,517

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 31 December 2020							
At 31 December 2019 and at 1 January 2020:							
Cost or valuation	845,522	50,350	317,572	60,431	20,533	10,134	1,304,542
Accumulated depreciation	(38,654)	(23,549)	(166,577)	(52,152)	(16,916)	-	(297,848)
Net carrying amount	806,868	26,801	150,995	8,279	3,617	10,134	1,006,694
At 1 January 2020, net of accumulated depreciation	806,868	26,801	150,995	8,279	3,617	10,134	1,006,694
Additions	-	72,136	1,046	718	248	8,376	82,524
Transfer	-	16,757	-	-	-	(16,757)	-
Surplus on revaluation	41,085	-	-	-	-	-	41,085
Disposals	(246,407)	(931)	(6,558)	(1,985)	(511)	-	(256,392)
Depreciation provided during the year	(28,756)	(12,871)	(15,581)	(1,003)	(780)	-	(58,991)
Exchange realignment	56,307	3,249	5,535	375	71	160	65,697
At 31 December 2020, net of accumulated depreciation	629,097	105,141	135,437	6,384	2,645	1,913	880,617
At 31 December 2020:							
Cost or valuation	640,967	134,995	227,649	16,214	12,441	1,913	1,034,179
Accumulated depreciation	(11,870)	(29,854)	(92,212)	(9,830)	(9,796)	-	(153,562)
Net carrying amount	629,097	105,141	135,437	6,384	2,645	1,913	880,617

NOTES TO FINANCIAL STATEMENTS

31 December 2020

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 31 December 2019							
At 31 December 2018 and at 1 January 2019:							
Cost or valuation	835,507	33,854	185,132	58,685	20,122	146,854	1,280,154
Accumulated depreciation	-	(18,802)	(150,866)	(50,284)	(16,538)	-	(236,490)
Net carrying amount	835,507	15,052	34,266	8,401	3,584	146,854	1,043,664
At 1 January 2019, net of accumulated depreciation							
Additions	1,463	18,708	3,797	2,731	968	65,159	92,826
Transfer	53,855	-	147,358	-	-	(201,213)	-
Deficit on revaluation	(32,966)	-	-	-	-	-	(32,966)
Disposals	-	-	(3,897)	-	(93)	-	(3,990)
Depreciation provided during the year	(39,422)	(6,341)	(28,507)	(2,708)	(794)	-	(77,772)
Exchange realignment	(11,569)	(618)	(2,022)	(145)	(48)	(666)	(15,068)
At 31 December 2019, net of accumulated depreciation	806,868	26,801	150,995	8,279	3,617	10,134	1,006,694
At 31 December 2019:							
Cost or valuation	845,522	50,350	317,572	60,431	20,533	10,134	1,304,542
Accumulated depreciation	(38,654)	(23,549)	(166,577)	(52,152)	(16,916)	-	(297,848)
Net carrying amount	806,868	26,801	150,995	8,279	3,617	10,134	1,006,694

At 31 December 2020, the Group had pledged certain buildings amounting to HK\$584,116,000.

NOTES TO FINANCIAL STATEMENTS

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14. INVESTMENT PROPERTIES

	2020 HK\$'000	2019 HK\$'000
Carrying amount at 1 January	442,502	448,961
Additions	10,764	–
Net gain from a fair value adjustment	2,401	1,248
Exchange realignment	27,396	(7,707)
Carrying amount at 31 December	483,063	442,502

The Group's investment properties consist of two industrial properties located in Tianjin and Jiangxi Province respectively, Mainland China, which were subsequently measured at fair value. The directors of the Company have determined that the investment properties consist of one class of assets, i.e., industrial properties, based on the nature, characteristics and risk of each property. The Group's investment properties were revalued on 31 December 2020 based on the valuation by an independent valuer D&P China (HK) Limited. Each year, the Group's property manager and the chief financial officer decide to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results each year when the valuation is performed for annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 15 to the financial statements.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2020 using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Recurring fair value measurement for:				
Industrial properties	–	–	483,063	483,063

NOTES TO FINANCIAL STATEMENTS

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14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

	Fair value measurement as at 31 December 2019 using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Recurring fair value measurement for:				
Industrial properties	–	–	442,502	442,502

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2019: Nil).

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

Valuation technique	Significant unobservable inputs	Range 2020	Range 2019	
		Industrial properties	Discounted cash flow method	Estimated rental value (per sq.m. per month) Rent growth (p.a.) Long term vacancy rate Discount rate

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

A significant increase (decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the long-term vacancy rate and the discount rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long-term vacancy rate.

15. LEASES

The Group as a lessee

The Group has lease contracts for buildings and a motor vehicle for different uses in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 27 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings and motor vehicle generally have lease terms between 2 to 15 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land HK\$'000	Buildings HK\$'000	Motor Vehicle HK\$'000	Total HK\$'000
As at 1 January 2019	139,286	11,069	–	150,355
Addition	128,129	1,484	–	129,613
Depreciation charge	(5,908)	(3,148)	–	(9,056)
Exchange realignment	(1,354)	(167)	–	(1,521)
As at 31 December 2019 and 1 January 2020	260,153	9,238	–	269,391
Addition	36,544	74,942	3,420	114,906
Disposals	(28,241)	–	–	(28,241)
Depreciation charge	(5,536)	(16,456)	(519)	(22,511)
Exchange realignment	5,475	5,758	85	11,318
As at 31 December 2020	268,395	73,482	2,986	344,863

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31 December 2020

15. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities (included lease liabilities and other payables and accruals) and the movements during the year are as follows:

	2020 HK\$'000	2019 HK\$'000
Carrying amount at 1 January	9,407	11,069
New leases	78,362	1,484
Accretion of interest recognised during the year	2,804	583
Payments	(20,111)	(3,480)
COVID-19-related rent concessions from lessors	(57)	–
Exchange realignment	6,523	(249)
Carrying amount at 31 December	76,928	9,407
Analysed into:		
Current portion	27,523	1,839
Non-current portion	49,405	7,568

As disclosed in note 2.2 to the financial statements, the Group has early adopted the amendment to HKFRS 16 and applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and equipment during the year.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020	2019
Interest on lease liabilities	2,804	583
Depreciation charge of right-of-use assets	22,511	9,056
Expense relating to short-term leases and low-value assets	864	2,609
Total amount recognised in profit or loss	26,179	12,248

(d) The total cash outflows for leases are disclosed in note 33(b), respectively, to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

15. LEASES (Continued)

The Group as a lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms mainly ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2020, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2020 HK\$'000	2019 HK\$'000
Within one year	7,631	23,730
In the second to fifth years, inclusive	14,685	89,918
After five years	–	64,335
	22,316	177,983

16. GOODWILL

	2020 HK\$'000	2019 HK\$'000
Cost and net carrying amount	34,482	34,482

Impairment testing of goodwill

Goodwill acquired through business combinations is related to one of the sales of foam cash-generating units for impairment testing.

The recoverable amount of the sales of foam cash-generating unit (the "CGU") was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15.1% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%.

Assumptions were used in the value in use calculation of the sales of foam cash-generating unit for 31 December 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to the key assumptions are consistent with external information sources.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. INTANGIBLE ASSETS

	Patents, licences and software 2020 HK\$'000	Customer relationships 2020 HK\$'000	Total 2020 HK\$'000
At 1 January 2020:			
Cost	15,362	13,642	29,004
Accumulated amortisation	(12,176)	(4,853)	(17,029)
Net carrying amount	3,186	8,789	11,975
Cost at 1 January 2020, net of accumulated amortisation	3,186	8,789	11,975
Additions	337	–	337
Amortisation provided during the year	(1,475)	(2,792)	(4,267)
Exchange realignment	133	17	150
Cost at 31 December 2020, net of accumulated amortisation	2,181	6,014	8,195
At 31 December 2020:			
Cost	16,340	13,668	30,008
Accumulated amortisation	(14,159)	(7,654)	(21,813)
Net carrying amount	2,181	6,014	8,195

NOTES TO FINANCIAL STATEMENTS

31 December 2020

17. INTANGIBLE ASSETS (Continued)

	Patents, licences and software 2019 HK\$'000	Customer relationships 2019 HK\$'000	Total 2019 HK\$'000
At 1 January 2019:			
Cost	15,043	13,654	28,697
Accumulated amortisation	(10,913)	(2,089)	(13,002)
Net carrying amount	4,130	11,565	15,695
Cost at 1 January 2019, net of accumulated amortisation	4,130	11,565	15,695
Additions	530	–	530
Amortisation provided during the year	(1,416)	(2,766)	(4,182)
Exchange realignment	(58)	(10)	(68)
Cost at 31 December 2019, net of accumulated amortisation	3,186	8,789	11,975
At 31 December 2019:			
Cost	15,362	13,642	29,004
Accumulated amortisation	(12,176)	(4,853)	(17,029)
Net carrying amount	3,186	8,789	11,975

18. INVESTMENT IN ASSOCIATES

	2020 HK\$'000	2019 HK\$'000
Share of net assets	337,821	73,072
Goodwill on acquisition	52,806	17,524
	390,627	90,596
Loans to an associate	361,466	–
	752,093	90,596

NOTES TO FINANCIAL STATEMENTS

31 December 2020

18. INVESTMENT IN ASSOCIATES (Continued)

Particulars of the material associate are as follows:

Name	Paid-up registered share capital	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Guangzhou Fu Yue Design Company Limited [^] ("Fuyue Design") [*]	RMB300,000	Mainland China	50%**	Design services
Dongma (Guangzhou free trade zone) Grease Chemical Co., LTD. [^] ("Dongma") [*]	RMB12,000,000	Mainland China	25%	Chemical product manufacturing
Sky Walker Limited ("Sky Walker") [*]	USD4,242	Hong Kong	42.42%	Investment
Science City (Guangzhou) Financial Leasing Co., Ltd. [^] ("Financial Leasing") [*]	RMB300,000,000	Mainland China	20%	Financial Leasing
Guangzhou Gangke Real Estate Co., Ltd. [^] ("Gangke") [*]	RMB10,000,000	Mainland China	40%	Real Estate

Notes:

- * The financial statements of these companies for the year were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.
- [^] The English names of these companies represent the best effort made by the directors of the Company to directly translate their Chinese names as they do not register any official English names.
- ** The Group directly obtained a 50% equity interest in Fuyue Design. The Group considers that it could only exercise significant influence in the strategic financial and operating policy decisions of the company after the injection even though it directly owns 50% of the equity interest in Fuyue Design because the Group owns less than 50% of the voting rights and can only exercise significant influence over Fuyue Design.

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18. INVESTMENT IN ASSOCIATES (Continued)

The following table illustrates the summarised financial information in respect of material associates adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	Fuyue Design 2020 HK\$'000	Sky Walker 2020 HK\$'000	Gangke 2020 HK\$'000	Total 2020 HK\$'000
Current assets	14	1,221	1,035,714	1,036,949
Non-current assets	146,828	351,352	8	498,188
Current liabilities	–	531	905,518	906,049
Net assets	146,842	352,042	130,204	629,088
Reconciliation to the Group's interest in the associate:				
Proportion of the Group's ownership	50%	42.42%	40%	
Group's share of net assets of the associate, excluding goodwill	73,421	147,858	4,582	225,861
Goodwill on acquisition	18,604	–	–	18,604
Loans to an associate	–	–	361,466	361,466
Carrying amount of the investment	92,025	147,858	366,048	605,931
Revenue	–	–	–	–
Loss and total comprehensive loss for the year	(5,195)	(16,646)	(396)	(22,237)
Share of the associates' loss for the year	(2,598)	(2,869)	(158)	(5,625)

NOTES TO FINANCIAL STATEMENTS

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18. INVESTMENT IN ASSOCIATES (Continued)

	Fuyue Design 2019 HK\$'000	Total 2019 HK\$'000
Non-current assets	143,489	143,489
Net assets	143,489	143,489
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the associate, excluding goodwill	71,745	71,745
Goodwill on acquisition	17,524	17,524
Carrying amount of the investment	89,269	89,269
Revenue	-	-
Loss for the year	(438)	(438)
Total comprehensive loss for the year	(438)	(438)
Share of the associate's loss for the year	(219)	(219)

The following table illustrates the financial information of the Group's associates that are not individually material:

	2020 HK\$'000	2019 HK\$'000
Share of the associates' loss for the year	(667)	(350)
Share of the associates' total comprehensive loss	(667)	(350)
Carrying amount of the Group's investment in the associates	146,162	1,327

19. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	98,575	102,284
Work in progress	8,718	17,112
Finished goods	158,557	176,148
	265,850	295,544

NOTES TO FINANCIAL STATEMENTS

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20. TRADE RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables	47,053	29,423
Impairment	(9,245)	(6,996)
	37,808	22,427

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balance. Trade receivables are non-interest-bearing.

There are no trade receivables (2019: HK\$44,000) which are due from the ultimate holding company, which are unsecured, interest-free and repayable on demand.

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

	2020 HK\$'000	2019 HK\$'000
Within 1 month	29,425	20,627
1 to 3 months	3,983	429
3 to 6 months	4,400	1,371
	37,808	22,427

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

	2020 HK\$'000	2019 HK\$'000
At beginning of year	6,996	10,454
Impairment losses, net	1,819	(3,281)
Exchange realignment	430	(177)
At end of year	9,245	6,996

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

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20. TRADE RECEIVABLES (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2020

	Less than 6 months	Over 6 months
Expected credit loss rate	1.6%	100%
Gross carrying amount (HK\$'000)	38,424	8,629
Expected credit losses (HK\$'000)	616	8,629

As at 31 December 2019

	Less than 6 months	Over 6 months
Expected credit loss rate	0.145%	100%
Gross carrying amount (HK\$'000)	22,460	6,963
Expected credit losses (HK\$'000)	33	6,963

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Non-current assets		
Prepayment for acquisition of a subsidiary	–	89,485
Prepayment for acquisition of non-controlling interests	–	22,371
Prepayment for right-of-use assets	–	35,291
	–	147,147
Current assets		
Prepayments	19,188	58,392
Land resumption due from the government	1,689,603	–
Deposits and other receivables	66,273	35,680
	1,775,064	94,072
Impairment allowance	(5,190)	(5,954)
	1,769,874	88,118

Deposits and other receivables under current assets mainly represent rental deposits and, deposits with suppliers. As at 31 December 2020, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2020 ranged from 0.1% to 100% (2019: 0.1% to 100%).

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22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 HK\$'000	2019 HK\$'000
Cash and bank balances	237,117	114,855
Time deposit	–	335,400
	237,117	450,255
Less:		
Restricted cash	187	–
Pledged deposits	–	9,787
Cash and cash equivalents	236,930	440,468

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$160,559,000 (2019: HK\$92,014,000). The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

As at 31 December 2020, cash and bank balances amounting to HK\$187,000 have been frozen by the court, further details are included in note 34 to the financial statement.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and the Group earns interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 HK\$'000	2019 HK\$'000
Within 1 month	41,806	32,293
1 to 3 months	44,691	14,416
3 to 6 months	7,040	2,344
6 to 12 months	1,305	1,212
More than 1 year	4,603	5,084
	99,445	55,349

The trade payables are non-interest-bearing and are normally settled for a period of 3 months and extendable up to 2 years.

NOTES TO FINANCIAL STATEMENTS

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24. OTHER PAYABLES AND ACCRUALS

	2020 HK\$'000	2019 HK\$'000
Contract liabilities	68,855	40,811
Other payables	100,256	78,029
Lease liabilities	27,523	1,839
Accruals	5,766	9,676
	202,400	130,355

25. MEDIUM TERM BONDS

On 5 February 2016, the Company established a medium-term bond programme with a nominal value of HK\$10,000,000 each. As at 31 December 2020, the Company has issued the medium-term bonds (the "Bonds") with a principal amount in aggregate of HK\$700,000,000. The Bonds are non-callable until 5 February 2025 and non-puttable until 5 February 2020. Interest on the outstanding bonds will be payable annually in arrears at the nominal interest rate of 0.1% per annum first payable on 5 February 2018 and last payable on 5 February 2063 and will mature on 5 February 2064. The Bonds were amortised at the effective interest method by applying the effective interest rate ranging from 8.01% to 8.86% per annum.

The fair value of the medium-term bonds was estimated at the issuance date by discounting the expected future cash flows using an equivalent market interest rate for a similar bond taking into consideration the Group's own credit and liquidity risk.

The medium-term bonds recognised in the statement of financial position were calculated as follows:

	2020 HK\$'000	2019 HK\$'000
Carrying amount at 1 January	31,775	30,034
Accrued interest expenses	2,625	2,471
Payment for interest	(350)	(730)
Carrying amount at 31 December	34,050	31,775

NOTES TO FINANCIAL STATEMENTS

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26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective Interest rate (%)	Maturity	HK\$'000	Effective interest rate (%)	Maturity	HK\$'000
Current:						
Bank loans – secured	4.79–5.44	2021	237,494	3.52–5.45	2020	106,543
Current portion of long-term bank loans – secured	5.88	2021	11,875	5.88	2020	11,185
			249,369			117,728
Non-current:						
Bank loans – secured	5.88	2029	91,947	5.88	2029	95,078
			91,947			95,078
			341,316			212,806
				2020		2019
				HK\$'000		HK\$'000
Analysed into:						
Bank loans repayable:						
Within one year				249,369		117,728
Over one year				91,947		95,078
				341,316		212,806

Notes:

- (i) Certain of the Group's bank loans were secured by the following:
- As at 31 December 2020, the Group had pledged certain buildings and construction in progress amounting to HK\$584,116,000 (2019: HK\$546,285,000) and nil (2019: HK\$9,928,000), respectively (note 13);
 - As at 31 December 2020, the Group had pledged a right-of-use asset amounting to HK\$20,211,000 (2019: HK\$32,206,000);
 - As at 31 December 2019, the Group had pledged deposits amounting to HK\$9,787,000.
- (ii) As at 31 December 2020 and 2019, all bank loans were denominated in RMB.

NOTES TO FINANCIAL STATEMENTS

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27. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

	Revaluation of investment properties HK\$'000	Revaluation of property, plant and equipment HK\$'000	Fair value adjustments arising from acquisition of a subsidiary HK\$'000	Resumption of land use rights HK\$'000	Total HK\$'000
At 1 January 2019	11,046	65,967	3,596	–	80,609
Deferred tax credited to other comprehensive income during the year	–	(8,241)	–	–	(8,241)
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	312	(1,947)	(695)	–	(2,330)
Gross deferred tax liabilities at 31 December 2019 and 1 January 2020	11,358	55,779	2,901	–	70,038
Deferred tax credited to other comprehensive income during the year	–	(9,984)	–	–	(9,984)
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	600	(2,003)	(685)	329,384	327,296
Exchange differences	–	–	–	18,513	18,513
Gross deferred tax liabilities at 31 December 2020	11,958	43,792	2,216	347,897	405,863

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$1,039,458,000 at 31 December 2020 (2019: HK\$100,625,000).

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28. SHARE CAPITAL

	2020 HK\$'000	2019 HK\$'000
Issued and fully paid:		
2,598,561,326 (2019: 2,598,561,326) ordinary shares of HK\$0.10 each	259,856	259,856

A summary of movements in the Company's share capital is as follows:

	Notes	Number of shares in issue	Share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2019		2,013,440,619	201,344	977,592	1,178,936
Issue of shares, net of expense	(a)	433,093,554	43,309	395,538	438,847
Transfer of share option reserve upon the forfeiture or expiry of share options	(b)	152,027,153	15,203	108,406	123,609
Share options exercised	(c)	–	–	1,347	1,347
At 31 December 2019, 1 January 2020 and 31 December 2020		2,598,561,326	259,856	1,482,883	1,742,739

Notes:

- (a) During 2019, 433,093,554 shares were issued at the price of HK\$1.02 per share, resulting in the increase of HK\$43,309,000 in shares capital and increase in share premium account, after expense, of HK\$395,538,000.
- (b) During 2019, 152,027,153 share options were exercised at the subscription prices of from HK\$0.32 to HK\$0.79 per share, resulting in the issue of 152,027,153 shares for a total cash consideration, before expenses, of HK\$86,965,000. An amount of HK\$36,644,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.
- (c) During 2019, the subscription rights attaching to 3,753,631 share options were forfeited. An amount of HK\$1,347,000 was transferred from the share option reserve to share premium account upon the exercise of the share options.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 29 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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29. SHARE OPTION SCHEME

The Company operates a share option scheme in order to advance the interests of the Company and shareholders by enabling the Company to grant options to attract, retain and reward the eligible participants. The Company adopted the share option scheme (the "Scheme") which became effective on 18 May 2012 to replace the old share option scheme which expired on 25 April 2012. The Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme and under any other share option schemes of the Company pursuant to which options may be granted to directors, consultants and/or employees of any company in the Group, shall initially not exceed 10% of the relevant class of securities of the Company in issue excluding, for this purpose, shares issued on exercise of options under the Scheme and any other share option schemes of the Company. Upon the grant of options for shares up to 10% of the relevant class of securities of the Company and subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under the Scheme when aggregated with securities to be issued under any other share option schemes of the Group may be increased by the board of directors, provided that the shares to be issued upon exercise of all outstanding options do not exceed 30% of the relevant class of securities in issue.

No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of options granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the issued share capital of the Company.

The offer of a grant of share options may be accepted within eight days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

An option may be exercised in accordance with the terms of the Scheme at any time during the option period (and not more than 10 years after the date of grant). The option period will be determined by the board of directors and communicated to each grantee.

The board of directors may provide restrictions on the time during which the options may be exercised. There are no performance targets which must be achieved before any of the options can be exercised. However, the board of directors retains its discretion to accelerate the vesting of the fixed term options in the event that certain performance targets are met.

The subscription price for the Company's shares under the Scheme will be a price determined by the board of directors and notified to each grantee. The subscription price will be the highest of: (i) the nominal value of a share; and (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a trading day; and (iii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant. An option shall be deemed to have been granted and accepted by an eligible participant (as defined in the Scheme) and to have taken effect when the acceptance form as described in the Scheme is completed, signed and returned by the grantee with a remittance in favour of the Company of HK\$1 by way of consideration for the grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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29. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year ended 31 December 2019:

	2019	
	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	0.58	155,780
Granted during the year	–	–
Exercised during the year	0.57	(152,027)
Forfeited during the year	0.79	(3,753)
At 31 December	–	–

The weighted average share price at the date of exercise for share options exercised during 2019 was HK\$0.97 per share.

There were no share options outstanding as at the end of the reporting period.

No share option expense was recognised by the Group during the year ended 31 December 2020 (2019: HK\$4,217,000).

No other feature of the options granted was incorporated into the measurement of fair value.

The 152,027,153 share options exercised during 2019 resulted in the issue of 152,027,153 shares and new share capital of HK\$15,203,000 (before issue expenses), as further detailed in note 28 to the financial statements.

At the date of approval of these financial statements, the Company had no share options outstanding under the Scheme.

As at 1 June 2020, being the date of the last refreshment of the scheme mandate limit of the Scheme, the total number of the Share Option ("Options") granted by the Company was 376,687,951 Options of which 312,243,537 Options were exercised to subscribe for shares, 64,444,414 Options were cancelled/lapsed and there are no outstanding Options as at the Latest Practicable Date. None of the grantee has been granted with Options in an amount exceeding the limit of 1% of the issued share capital of the Company in the 12-month period up and including the respective dates of grant.

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30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 43 to 44 of the financial statements.

Pursuant to the PRC Company law, a portion of the profits of the Group's PRC subsidiaries has been transferred to the statutory reserve which is restricted as to use.

31. LOAN FROM AN ASSOCIATE/THE ULTIMATE HOLDING COMPANY/NON-CONTROLLING INTERESTS/A DIRECTOR

The loan from an associate is unsecured, bears interest rate range from 6% to 8% per annum and will be repayable within one year. As at the end of the reporting period, the amount of the loan was HK\$106,872,000 (2019: nil).

The loan from the ultimate holding company is unsecured, bears interest rate range from 8% to 12% per annum and will be repayable within one year. As at the end of the reporting period, the amount of the loan was HK\$178,121,000 (2019: nil).

The loan from non-controlling interests is unsecured, bears interest at a rate of 6.15% per annum. As at the end of the reporting period, the amount of the loan was HK\$41,802,000 (2019: HK\$35,273,000), in which HK\$2,740,000 (2019: nil) will be repayable within one year.

The loan from a director is unsecured, bears interest rate range from 8% to 12% per annum and will be repayable within one year. As at the end of the reporting period, the amount of the loan was HK\$145,000,000 (2019: nil).

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32. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of assets and liabilities through acquisition of a subsidiary

For the year ended 31 December 2019

On 18 December 2019, the Group acquired 75% interests in Guangzhou Runyu Horticulture Company Limited ("Runyu") from an independent third-party individual Mr. Yan Bo Sheng. Runyu is a privately-owned company incorporated under the PRC Laws. The purchase consideration for the acquisition was in the form of cash of HK\$97,316,000.

The Group has elected to measure the non-controlling interests in Runyu at the non-controlling interests' proportionate share of Runyu's identifiable net assets.

The fair values of the identifiable assets and liabilities of Runyu as at the date of acquisition were as follows:

	2019 HK\$'000
Right-of-use assets	123,591
Cash and cash equivalents	11
Total identifiable net assets at fair value	123,602
Non-controlling interests	(26,286)
Satisfied by cash	97,316

An analysis of the cash flows in respect of the acquisition of Runyu is as follows:

	2019 HK\$'000
Cash consideration	(97,316)
Cash and bank balances acquired	11
Net inflow of cash and cash equivalents included in cash flows from investing activities	(97,305)

In the opinion of the directors, the acquisition of Runyu does not constitute a business. Therefore, the transactions were determined by the directors of the Company to be acquisition of assets and liabilities through acquisition of a subsidiary rather than a business combination as defined in HKFRS 3 (Revised) *Business Combinations*.

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33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities were as follows:

	Bank loans HK\$'000	Medium term bonds HK\$'000	Loan from non- controlling interests HK\$'000	Loan from a director HK\$'000	Loan from an associate HK\$'000	Loan from the ultimate holding company HK\$'000	Lease liabilities HK\$'000
At 1 January 2020	212,806	31,775	35,273	-	-	-	9,407
Changes from financing cash flows	115,400	(350)	2,671	145,000	106,872	178,121	(20,111)
New leases	-	-	-	-	-	-	78,362
Foreign exchange movement	13,110	-	3,858	-	-	-	6,523
Interest expense	-	2,625	-	-	-	-	2,804
COVID-19-related rent concessions from lessors	-	-	-	-	-	-	(57)
At 31 December 2020	341,316	34,050	41,802	145,000	106,872	178,121	76,928

	Bank and other loans HK\$'000	Medium term bonds HK\$'000	Loan from non- controlling interests HK\$'000	Loan from a director HK\$'000	Lease liabilities HK\$'000
At 31 December 2018	289,972	30,034	41,102	12,000	-
Effect of adoption of HKFRS 16	-	-	-	-	11,069
At 1 January 2019	289,972	30,034	41,102	12,000	11,069
Changes from financing cash flows	(71,277)	(730)	(5,990)	(12,000)	(3,480)
New leases	-	-	-	-	1,484
Foreign exchange movement	(5,889)	-	(1,437)	-	(249)
Interest expense	-	2,471	1,598	-	583
At 31 December 2019	212,806	31,775	35,273	-	9,407

NOTES TO FINANCIAL STATEMENTS

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33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 HK\$'000	2019 HK\$'000
Within operating activities	864	2,609
Within financing activities	20,111	3,480
	20,975	6,089

34. CONTINGENT LIABILITIES

Certain subsidiaries of the Group are currently defendant in a lawsuit brought by an independent third-party lessee alleging that a warehouse built on the leased land by the lessee was tore down by the subsidiaries without consent of termination of the lease contract by the lessee. The total compensation claimed amounted to HK\$161,035,000. As at 31 December 2020, the bank deposit of HK\$187,000 has been frozen following a court order.

As at the report date, the arbitration has yet to be resolved. Considering the warehouse is an unauthorized construction, the directors, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of the litigation cannot be reliably estimated.

35. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 HK\$'000	2019 HK\$'000
Contracted, but not provided for:		
Acquisition of equity investment	619,978	6,711
	619,978	6,711

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36. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties, namely Science City Guangzhou Investment Group Co. Ltd (“Science City”), the then affiliates and other affiliates during the year:

	Notes	2020 HK\$'000	2019 HK\$'000
Science City and the then affiliates:			
Sales of products		43,267	910
Purchases of consultation services from the ultimate holding company		447	261
Purchases of consultation services from associates		2,387	–
Rental expense		234	–
Loan from the ultimate holding company	31	178,121	–
Loan from an associate	31	106,872	–
Interest expense	31	2,678	–
		334,006	1,171
Other affiliates:			
Sales of products to associates		425	–
Purchases of raw materials from associates		998	–
Loan from non-controlling interests		2,740	–
Interest expense to non-controlling interests		1,595	1,598
		5,758	1,598

NOTES TO FINANCIAL STATEMENTS

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36. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

	2020 HK\$'000	2019 HK\$'000
Prepayments and receivables due from related parties:		
Associates	–	39
Non-controlling interests	–	22,371
	–	22,410
Trade receivables due from related parties:		
Ultimate holding company	–	44
Payables due to related parties:		
Associates	672	–

(c) Compensation of key management personnel of the Group

	2020 HK\$'000	2019 HK\$'000
Short term employee benefits	12,869	14,076
Equity-settled share option benefits	–	825
Pension scheme contributions	45	68
Total compensation paid to key management personnel	12,914	14,969

Further details of directors' emoluments are included in note 8 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2020	Financial assets at amortised cost HK\$'000	Total HK\$'000
Trade receivables	37,808	37,808
Financial assets included in prepayments, deposits and other receivables	1,750,686	1,750,686
Cash and cash equivalents	236,930	236,930
Restricted cash	187	187
	2,025,611	2,025,611
2019	Financial assets at amortised cost HK\$'000	Total HK\$'000
Trade receivables	22,427	22,427
Financial assets included in prepayments, deposits and other receivables	35,680	35,680
Cash and cash equivalents	440,468	440,468
Pledged deposits	9,787	9,787
	508,362	508,362

NOTES TO FINANCIAL STATEMENTS

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37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	2020	2019
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK\$'000	HK\$'000
Trade payables	99,445	55,349
Financial liabilities included in other payables and accruals	101,028	85,162
Medium term bonds	34,050	31,775
Interest-bearing bank and other borrowings	341,316	212,806
Loan from an associate	106,872	–
Loan from the ultimate holding company	178,121	–
Loan from non-controlling interests	41,802	35,273
Loan from a director	145,000	–
Lease liabilities	49,405	7,568
	1,097,039	427,933

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents including restricted cash, the pledge of the Group's deposits, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, due from a joint venture, financial liabilities included in other payables and accruals, and the current portion of interest-bearing bank borrowings, a loan from an associate, a loan from the ultimate holding company, a loan from non-controlling interests and a loan from a director approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledge of the Group's deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank loans and other borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank, medium term bonds and a loan from non-controlling interests and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for the interest-bearing bank and other borrowings as at 31 December 2020 were assessed to be insignificant.

The carrying amounts of the Group's financial assets and financial liabilities approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

The Group does not have written risk management policies and guidelines. However, management meets periodically to analyse and formulate measures to manage the Group's exposure to financial risks. Generally, the Group employs a conservative strategy regarding its risk management.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2020			
RMB	25	(230)	–
RMB	(25)	230	–
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK\$'000	Increase/ (decrease) in equity* HK\$'000
2019			
RMB	25	(238)	–
RMB	(25)	238	–

* Excluding retained profits

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(ii) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 1.1% (2019: 3.1%) of the Group's sales are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% (2019: 100%) of costs are denominated in the units' functional currencies. The Group does not use any forward currency contracts to eliminate the foreign currency exposures and the Group does not enter into any hedge derivatives.

(iii) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed across different sectors.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and financial assets included in prepayments, deposits and other receivables are disclosed in notes 20 and 21 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2020			
	On demand HK\$'000	Less than one year HK\$'000	Over one year HK\$'000	Total HK\$'000
Trade payables	–	99,445	–	99,445
Other payables and accruals	–	102,626	–	102,626
Medium term bonds	510	700	732,840	734,050
Interest-bearing bank borrowings	–	269,217	89,995	359,212
Loan from an associate	–	107,458	–	107,458
Loan from the ultimate holding company	–	180,334	–	180,334
Loan from non-controlling interests	–	2,821	39,499	42,320
Loan from a director	–	152,163	–	152,163
Lease liabilities	–	–	50,913	50,913
	510	914,764	913,247	1,828,521

	2019			
	On demand HK\$'000	Less than one year HK\$'000	Over one year HK\$'000	Total HK\$'000
Trade payables	–	55,349	–	55,349
Other payables and accruals	–	86,392	–	86,392
Medium term bonds	160	700	730,100	730,960
Interest-bearing bank and other borrowings	–	121,655	95,539	217,194
Loan from non-controlling interests	–	–	35,273	35,273
Lease liabilities	–	–	11,551	11,551
	160	264,096	872,463	1,136,719

NOTES TO FINANCIAL STATEMENTS

31 December 2020

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(v) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 2019.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes trade payables, other payables and accruals, medium term bonds, interest-bearing bank borrowings, a loan from an associate, a loan from the ultimate holding company, a loan from non-controlling interests and a loan from a director, less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2020 HK\$'000	2019 HK\$'000
Trade payables	99,445	55,349
Other payables and accruals	202,400	130,355
Medium term bonds	34,050	31,775
Interest-bearing bank borrowings	341,316	212,806
Loan from an associate	106,872	–
Loan from the ultimate holding company	178,121	–
Loan from non-controlling interests	41,802	35,273
Loan from a director	145,000	–
Less: Cash and cash equivalents	(236,930)	(440,468)
Net debt	912,076	25,090
Equity attributable to owners of the parent	2,870,991	1,977,288
Capital and net debt	3,783,067	2,002,378
Gearing ratio	24%	1%

NOTES TO FINANCIAL STATEMENTS

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40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,159,997	1,159,988
CURRENT ASSETS		
Due from subsidiaries	582,094	589,714
Prepayments	467	477
Cash and cash equivalents	434	1,871
Total current assets	582,995	592,062
CURRENT LIABILITIES		
Other payables and accruals	2,104	1,614
Total current liabilities	2,104	1,614
NET CURRENT ASSETS	580,891	590,448
TOTAL ASSETS LESS CURRENT LIABILITIES	1,740,888	1,750,436
NON-CURRENT LIABILITIES		
Medium term bonds	34,050	31,775
Total non-current liabilities	34,050	31,775
Net assets	1,706,838	1,718,661
EQUITY		
Share capital	259,856	259,856
Reserves	1,446,982	1,458,805
Total equity	1,706,838	1,718,661

NOTES TO FINANCIAL STATEMENTS

31 December 2020

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account*	Contributed surplus*	Share option reserve**	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	977,592	45,144	33,774	(58,425)	998,085
Loss and total comprehensive loss for the year	-	-	-	(10,797)	(10,797)
Equity-settled share option expense	-	-	4,217	-	4,217
Issue of shares	395,538	-	-	-	395,538
Transfer of share option reserve upon the forfeiture or expiry of share options	1,347	-	(1,347)	-	-
Share options exercised	108,406	-	(36,644)	-	71,762
At 31 December 2019	1,482,883	45,144	-	(69,222)	1,458,805
Loss and total comprehensive loss for the year	-	-	-	(11,823)	(11,823)
At 31 December 2020	1,482,883	45,144	-	(81,045)	1,446,982

* The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation before the listing of the Company on the Main Board of the Stock Exchange of Hong Kong Limited, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, a company may make distributions to its members out of the contributed surplus under certain circumstances, and the funds in the Company's share premium account are distributable to the equity shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

** The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2021.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below:

RESULTS

	2020 HK\$'000	Year ended 31 December			
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
REVENUE	1,443,490	852,084	834,149	848,925	727,638
Gross profit	159,002	264,716	267,205	249,623	204,993
PROFIT BEFORE TAX	1,040,362	103,713	88,878	61,809	22,824
Income tax (expense)/credit	(334,224)	(36,521)	(22,423)	(6,068)	11,669
PROFIT FOR THE YEAR	706,138	67,192	66,455	55,741	34,493
Attributable to:					
Owners of the parent	714,780	62,976	52,646	46,877	43,204
Non-controlling interests	(8,642)	4,216	13,809	8,864	(8,711)
	706,138	67,192	66,455	55,741	34,493

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	2020 HK\$'000	As at 31 December			
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
TOTAL ASSETS	4,813,962	2,859,131	2,391,418	2,313,321	2,037,009
TOTAL LIABILITIES	(1,810,768)	(740,571)	(847,950)	(849,416)	(838,550)
NON-CONTROLLING INTERESTS	(132,203)	(141,272)	(107,759)	(93,727)	(73,392)
	2,870,991	1,977,288	1,435,709	1,370,178	1,125,067