大自然家居
Nature

ANNUAL REPORT 2018

Nature Home Holding Company Limited
大自然家居控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 2083

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Se Hok Pan *(Chairman and President)*
Ms. Un Son I
Mr. She Jian Bin

Non-executive Directors

Mr. Liang Zhihua
Mr. Teoh Chun Ming

Independent non-executive Directors

Professor Li Kwok Cheung, Arthur
Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

Audit Committee

Mr. Chan Siu Wing, Raymond *(Chairman)*
Mr. Teoh Chun Ming
Mr. Ho King Fung, Eric

Remuneration Committee

Professor Li Kwok Cheung, Arthur *(Chairman)*
Mr. Teoh Chun Ming
Mr. Ho King Fung, Eric

Nomination Committee

Mr. Se Hok Pan *(Chairman)*
Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

Corporate Governance Committee

Mr. Se Hok Pan *(Chairman)*
Mr. Ho King Fung, Eric
Mr. Teoh Chun Ming

Executive Committee

Mr. Se Hok Pan *(Chairman)*
Ms. Un Son I

Company Secretary

Mr. Lai Kwok Keung, Alex

Authorised Representatives

Mr. Se Hok Pan
Mr. Lai Kwok Keung, Alex

Auditors

KPMG

Principal Bankers

Industrial and Commercial Bank of China
Shunde Rural Commercial Bank
China Merchants Bank

Registered Office

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

Principal Place of Business in Hong Kong

Suite 2601, 26/F,
Tower 2, The Gateway, Harbour City
Tsim Sha Tsui, Kowloon
Hong Kong

CORPORATE INFORMATION (CONTINUED)

Head Office in the PRC

1 Zhi Cheng Road
Daling Street
Shunde, Foshan City
Guangdong Province
the PRC

Office in Macau

Alameda Dr. Carlos D'Assumpcao
No. 249, 13 Andar, L&M13 Edif.
China Civic Plaza
Macau

Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Website

www.nature-home.com.hk

Stock Code

2083

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the year ended 31 December 2018 (the "Year"), the household furnishing material industry in the People's Republic of China ("PRC") faced enormous challenges, as the China's economy was impacted by the international trade dispute and the real estate market was also impacted by macro-economic conditions and the relevant regulation policies on real estate market in the PRC. Despite of these, Nature Home Holding Company Limited (the "Company") and its subsidiaries (collectively the "Group", "we" or "us") continued to address market complexities by the main strategy of focusing on our brand and products in the Year. During the Year, the Group launched new personalized flooring products and wooden door products jointly with renowned designers, and committed to improving and promoting such new products as kitchen and bathroom floorings, underfloor heating floorings, and water-based paint wooden doors. In addition, the Group also continued to improve its internal management system so as to enhance operating efficiency. By doing so, the Group achieved satisfactory growth in overall revenue, with the overall turnover increasing by 14.4% from approximately RMB2,550,646,000 in 2017 to approximately RMB2,918,016,000 for the Year.

1. *Flooring Products*

For the Year, the Group continued to achieve strong performance in its core flooring business, with the total revenue in respect of flooring products of the Group increasing by 13.1% from approximately RMB2,111,073,000 in last year to approximately RMB2,388,340,000 for the Year. Furthermore, total sales volumes of flooring products consecutively reached a record high of approximately 40,000,000 square meters, representing an increase of 14.3% as compared to last year. Among which, total sales volumes of laminated flooring products also reached a record high of approximately 22,000,000 square meter.

The business of manufacturing and sale of flooring products

Benefited from project delivery cycle, the Group's revenue from manufacturing and sale of flooring products for the Year increased by 14.4% to approximately RMB2,150,657,000 as compared to the corresponding period of last year. In respect of its flooring sales network, the Group has established an extensive sales network in the PRC. The Group is currently a major distributor in the PRC of a number of renowned foreign brands of flooring products. As at 31 December 2018, the total number of flooring stores was 3,583 (31 December 2017: 3,604), of which, there were 3,401 "Nature" stores (31 December 2017: 3,401), and 182 foreign imported brand stores (31 December 2017: 203). The Group currently owns five production plants for flooring products, which are mainly engaged in the manufacturing of laminated floorings and engineered floorings. In addition, the Group is now constructing three new plants to produce kitchen and bathroom floorings and engineered floorings, so as to address the fast-growing needs of flooring products in the future.

Provision of trademark and distribution network for flooring products

The Group's flooring products under the "Nature" brand are manufactured by its self-owned production plants and through its exclusive authorised manufacturers. Such authorised manufacturers solely manufacture our branded flooring products and sell these products to the distributors within our distribution network in an exclusive and direct manner, for which we charge them trademark and distribution network usage fees. As the sales of solid wood and engineered flooring products manufactured by such authorised manufactures increased during the Year, the revenue generated from trademark and distribution network usage fees increased by 3.1% to approximately RMB237,683,000 from approximately RMB230,443,000 in last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. *Customised Home Decoration Products*

The customised home decoration products of the Group mainly comprise of wooden doors, wardrobes and cabinets. Generally, the Group will manufacture the customised products based on the customers' requirements upon receipt of purchase orders. The business of customised home decoration products continued to improve during the Year, with the total revenue increasing by 20.5% from approximately RMB439,573,000 in last year to approximately RMB529,676,000 for the Year.

The business of manufacturing and sale of wooden doors

With respect to wooden doors business, the Group launched new water-based paint wooden doors as the key promotion products for the wooden doors business for the Year. As compared with traditional paint, the water-based paint is a kind of coating that takes water as its diluent, and is free of organic solvent, non-toxic and non-irritating. The Group recorded improving performance and achieved rapid growth in the wooden door business during the Year with the revenue increasing by 52.9% to approximately RMB253,649,000 as compared to last year. As at 31 December 2018, the number of the Group's stores for wooden doors was 583 (31 December 2017: 547) in total. The Group currently owns three wooden door production plants. The new wooden door production plant located in Shunde District, Foshan City, Guangdong Province officially commenced production at the end of 2018. Due to the outstanding performance and the precise positioning of the water-based paint wooden door products, the operation results of wooden door retailing business have turned from loss into profit.

The business of manufacturing and sale of wardrobes and cabinets

With respect to the business of wardrobes and cabinets, the Group increased the proportion of sales to commercial customers during the Year. The revenue dropped by 2.4% to approximately RMB172,976,000 due to the project delivery cycle. As at 31 December 2018, the Group owned a total of 106 (31 December 2017: 148) wardrobe and cabinet stores. The Group currently owns two production plants for wardrobe and cabinet products.

Previously, the Group had been the exclusive distributor of "Wellmann", a wardrobe brand in Germany, in the PRC. During the Year, the Group successfully acquired the brand and the global trademark of "Wellmann", marked the Group's layout and expansion in foreign brand industry chain.

Provision of trademarks and distribution network for customised products

Since the Year, the Group has authorised its independent manufacturers to produce "Nature" brand customised products. These authorised manufacturers will directly sell those customised products to the distributors within the distribution network of the Group, with trademark and distribution network usage fees payable to the Group. During the Year, the revenue from the trademark and distribution network usage fees was approximately RMB3,790,000.

The business of manufacturing and sale of wall papers

For the business of wall papers, revenue for the Year was approximately RMB35,054,000. As the business of wall papers recorded unsatisfactory performance, the Group has conducted business rectification during the Year. The Group has no longer produced wall paper products on its own. In the future, we will engage independent manufacturers to produce wall paper products for sale.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Prospect

Focusing on products and services

In recent years, as the consumption power of the Chinese people was further enhanced and the new merging technologies evolved rapidly, the household furnishing materials industry of China showed dramatic changes in market channels, client demand, integration of cross-sector products, causing an aggravated "Matthew Effect" in the household furnishing materials industry. We expect that the next few years will be a critical period for forming the future landscape of the industry. The Group believes that products and services will be the key to winning in the household furnishing materials industry. Therefore, we will continue to focus on products to cope with the challenges in the future, and developing and launching a new series of personalised products and innovative kitchen and bathroom floorings and wall panel products. In addition, we take healthy and environmental protection as well as quality and safety as our philosophy in developing new products. We will launch new products using dry pressing method, such as solid wood underfloor heating floorings, solid wood sports floorings, and three-layered floorings. We will remain upholding the philosophy of "Take Environment Responsibility and Promote a Healthy Life Style" for continuously bringing new products to customers.

Optimising and expanding channels

For sales channels, we will continue to optimise and expand sales channels, improve services to small and medium customers from industrial and commercial sectors and enhance the development of home decoration services, providing customers with one-stop home decoration services covering design, construction, home decoration and home appliance configuration, as a platform and channel to directly promote the sales of our home decoration products. Meanwhile, we will also continue our business rectification work in order to reorganise the distribution channels, production lines and products that are failed in efficiency.

Enormous home decoration product market in China

As there are uncertainties in international trade disputes, we anticipate that the home decoration product market in China will still be influenced by various uncertainties. However, we are of the view that the proportion of affordable housing and hardbound housing in the real estate market of the PRC will further increase in the future, the policies on existing homes will promote a dramatic growth in the demand for refurbishment and the consumption power of China will be further enhanced. Therefore, we consider that the home decoration market in China is still at the primary stage of its golden era. Moreover, with strong brand and solid sales network foundation as well as the continuous growth in businesses, we remain optimistic about the development in the future, especially our mid- to long-term development.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

New headquarters building for embarking a new journey

During the Year, the construction of the Group's headquarters building located in Shunde District, Foshan City, Guangdong Province was formally completed. On 23 November 2018, the Group formally relocated to the new headquarters building, embarking a new journey with a new position. The new headquarters of Nature Home is located at the "Wisdom Valley of the South" (南方智谷) of Guangdong-Hong Kong-Macao Greater Bay Area. As a representative globalised enterprise transformed from "Manufacturing" to "Smart Manufacturing", Nature Home will, following the development trend of Guangdong-Hong Kong-Macao Greater Bay Area, take a lead in the home decoration industry towards a new journey by combining multiple advantages in technology innovation, talent gathering, traffic hub, etc.

Continuously taking brand as our foundation

The Group's flagship brand "Nature" has been recognized by consumers as an image of quality and safe products and represents healthy life and environmental protection. Since the starting of our household product strategy of providing integrated green home decoration products, we have formed a strategic layout that various green home decoration product brands, including Nature floorings, Nature wooden doors, etc., running together with "Nature" as a leading brand. In the future, we will further expand the categories of products, develop and launch new products for gaining market shares, and maintain our leading position in flooring market, in order to create more values for shareholders.

Financial Review

Revenue

During the year ended 31 December 2018, the Group changed the structure of its internal financial reporting from by business channel to by type of products, which resulted in a change to the composition of its reportable segments. For the year ended 31 December 2018, we generate revenue from two business segments: (1) manufacturing and sale of flooring products; and (2) manufacturing and sale of customised home decoration products.

"Manufacturing and sale of flooring products" represents the revenue generated from (i) sales of self-produced flooring products; (ii) sales of trading flooring products; and (iii) fee income from flooring products manufactured by authorised manufacturers which sell flooring products under the Group's trademarks and distribution network.

"Manufacturing and sale of customised home decoration products" represents the revenue generated from (i) sales of self-produced home decoration products other than flooring products, including wooden doors, wardrobes, cabinets and wall papers; (ii) sales of trading customised home decoration products; and (iii) fee income from customised home decoration products manufactured by authorised manufacturers which sell customised home decoration products under the Group's trademarks and distribution network.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Set forth below is the revenues generated from each business segment for the years indicated:

	For the year ended 31 December				
	2018		2017		Revenue
		% of total		% of total	Growth
Revenue	**RMB'000**	**revenue**	RMB'000	revenue	rate %
Manufacturing and sale of flooring products					
— sales of goods	**2,150,657**	**73.7**	1,880,630	73.7	14.4
— provision of trademark and distribution network	**237,683**	**8.1**	230,443	9.1	3.1
	2,388,340	**81.8**	2,111,073	82.8	13.1
Manufacturing and sale of customised home decoration products					
— sales of goods	**525,886**	**18.1**	439,573	17.2	19.6
— provision of trademark and distribution network	**3,790**	**0.1**	—	—	—
	529,676	**18.2**	439,573	17.2	20.5
Total	**2,918,016**	**100.0**	2,550,646	100.0	14.4

For the year ended 31 December 2018, the overall revenue increased by 14.4% to approximately RMB2,918,016,000 compared to approximately RMB2,550,646,000 for the year ended 31 December 2017.

Revenue from the segment of manufacturing and sale of flooring products increased by 13.1% to approximately RMB2,388,340,000 for the Year compared to approximately RMB2,111,073,000 for the year ended 31 December 2017. It was mainly attributable to the growth of the sales of self-produced flooring products, especially in the project division.

Revenue from the segment of manufacturing and sale of customised home decoration products increased by 20.5% to approximately RMB529,676,000 for the Year compared to approximately RMB439,573,000 for the year ended 31 December 2017. It was mainly attributable to the strong growth of the sales of wooden door products.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit

Set forth below is the gross profit generated from each business segment for the years indicated:

	For the year ended 31 December				
	2018		2017		Growth rate
Gross Profit	**RMB'000**	**GP%**	RMB'000	GP%	%
Manufacturing and sale of flooring products					
— sales of goods	**630,642**	**29.3**	523,498	27.8	20.5
— provision of trademark and distribution network	**230,558**	**97.0**	224,952	97.6	2.5
	861,200	**36.1**	748,450	35.5	15.1
Manufacturing and sale of customised home decoration products					
— sales of goods	**25,773**	**4.9**	28,233	6.4	(8.7)
— provision of trademark and distribution network	**3,676**	**97.0**	—	—	—
	29,449	**5.6**	28,233	6.4	4.3
Total	**890,649**	**30.5**	776,683	30.5	14.7
EBITDA	**299,047**	**10.2**	227,787	8.9	31.3

For the year ended 31 December 2018, the overall gross profit increased by 14.7% to approximately RMB890,649,000 compared to approximately RMB776,683,000 for the year ended 31 December 2017 and the gross profit margin remained at 30.5% which was in line with the increase in overall revenue.

The segment of manufacturing and sale of flooring products contributed a gross profit of approximately RMB861,200,000 for the Year, representing an increase of 15.1%, compared to approximately RMB748,450,000 for the year ended 31 December 2017. It was attributable to the increase in revenue and the gross profit margin. The gross profit margin increased to 36.1% compared to 35.5% for the year ended 31 December 2017.

The segment of manufacturing and sale of customised home decoration products contributed a gross profit of approximately RMB29,449,000 for the Year, representing an increase of 4.3%, compared to approximately RMB28,233,000 for the year ended 31 December 2017. It was attributable to the net effect of the increase in revenue and the decrease in gross profit margin. The gross profit margin was 5.6% for the year ended 31 December 2018 compared to 6.4% for the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EBITDA

For the year ended 31 December 2018, the EBITDA increased by 31.3% to approximately RMB299,047,000 compared to approximately RMB227,787,000 for the year ended 31 December 2017 and the EBITDA margin increased to 10.2% from 8.9% for the year ended 31 December 2017.

EBITDA is defined as profit before net finance costs, income tax, depreciation and amortisation.

Other Income

Other income consists primarily of rental income from operating leases and government grants which are subject to the discretion of the relevant authorities. Other income decreased by 14.6% to approximately RMB25,425,000 for the Year, compared to approximately RMB29,785,000 for the year ended 31 December 2017. It was mainly due to the decrease in rental income for the year.

Distribution Costs

Distribution costs consist primarily of advertising and promotion expenses, transportation and storage fees, staff costs, travelling expenses, decoration allowance to distributors and other miscellaneous expenses.

Distribution costs was approximately RMB368,037,000 for the Year, representing an increase of approximately 5.2%, compared to approximately RMB349,743,000 for the year ended 31 December 2017. It was primarily due to the net effect of (i) increase in advertising and promotion, and transportation expenses resulted from increase in sales; and (ii) decrease in decoration allowance to distributors.

The percentage of distribution costs to revenue decreased to 12.6% compared to 13.7% for the year ended 31 December 2017.

Administrative Expenses

Administrative expenses consist primarily of staff costs, audit, legal and consulting fees, depreciation and amortization expenses, operating lease charges, travelling expenses and other miscellaneous expenses.

Administrative expenses was approximately RMB301,545,000 for the Year, representing an increase of approximately 15.0%, compared to approximately RMB262,225,000 for the year ended 31 December 2017. It was primarily due to the increase in staff costs and loss allowance for trade receivables.

The percentage of administrative expenses to revenue was 10.3% for the Year compared to 10.3% for the year ended 31 December 2017.

Other Operating Expenses

Other operating expenses decreased by 29.1% to approximately RMB36,257,000 for the Year, compared to approximately RMB51,172,000 for the year ended 31 December 2017. It was mainly due to the net effect of (i) impairment losses of other property, plant and equipment resulted from closure of wall paper plant in 2018; and (ii) fair value change of equity investments recognised in other comprehensive income resulted from the new accounting standard coming into effect (see note 1(c)(i)).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Net Finance Costs

Net finance costs represent the difference between finance income and finance costs. Finance income consists primarily of interest income on bank deposits and certain customers. Finance costs consist primarily of interest expenses on bank and other loans and net foreign exchange loss. Net finance costs increased to approximately RMB27,343,000 for the Year from approximately RMB6,661,000 for the year ended 31 December 2017.

Finance income increased by 145.6% to approximately RMB56,030,000 for the Year compared to approximately RMB22,815,000 for the year ended 31 December 2017. It was primarily due to (i) increase in interest income from project customers; and (ii) decrease in foreign exchange gain.

Finance costs increased by 182.9% to approximately RMB83,373,000 for the Year as compared to approximately RMB29,476,000 for the year ended 31 December 2017. It was mainly due to (i) increase in interest expenses resulted from factoring arrangement; and (ii) increase in net foreign exchange loss.

Income Tax

Income tax represents the combination of our current income tax and deferred income tax.

Income tax was approximately RMB37,845,000 for the Year compared to approximately RMB83,201,000 for the year ended 31 December 2017, which was the net effect of the current income tax of approximately RMB54,887,000 and the net deferred tax income of approximately RMB17,042,000. The increase in deferred tax income was mainly due to reversal of withholding tax on realization.

Profit Attributable to Equity Shareholders of the Company

Resulting from the factors mentioned above, the profit attributable to equity shareholders of the Company was approximately RMB156,785,000 for the Year, compared to the profit of approximately RMB68,182,000 for the year ended 31 December 2017.

Liquidity

Cash Flow

The Group meets its working capital and other capital requirements principally with the following: (i) cash generated from operations; and (ii) proceeds from loans and borrowings. During the Year, the Group generated net cash inflow of approximately RMB620,121,000 from operating activities (year ended 31 December 2017: RMB122,134,000) and made a net repayment of bank and other loans of approximately RMB80,652,000 (year ended 31 December 2017: RMB126,747,000).

Net Current Assets and Working Capital Sufficiency

As at 31 December 2018, net current assets was approximately RMB1,078,005,000, representing a decrease of 5.0%, compared to approximately RMB1,134,778,000 as at 31 December 2017. The current ratios as at 31 December 2018 and 31 December 2017 were 1.6 and 1.7, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Cash Conversion Cycle

	Turnover days		
	As at 31 December		Change
	2018	2017	(days)
Trade and bills receivables and contract assets	**140**	163	(23)
Inventories	**73**	82	(9)
Trade and bills payables	**(136)**	(123)	(13)
Net	**77**	122	(45)

As at 31 December 2018, trade and bills receivables and contract assets (excluding long-term receivables) turnover days decreased by 23 days to 140 days. It was mainly due to significant decrease in receivables from property developers as at 31 December 2018 resulted from the change in settlement arrangement.

As at 31 December 2018, inventories turnover days decreased by 9 days to 73 days.

As at 31 December 2018, trade and bills payables turnover days increased by 13 days to 136 days. It was mainly due to increase in usage of bills for settlements in order to enhance working capital.

Financial Resources

The following table presents our adjusted gearing ratio of the Group as at the dates indicated.

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Bills payables	**498,071**	200,900
Bank and other loans: current	**593,311**	665,361
non-current	**107,092**	103,900
Sub-total	**1,198,474**	970,161
Less: Cash and cash equivalents	**823,843**	749,862
Pledged and restricted deposits	**379,765**	241,921
Adjusted net assets	**(5,134)**	(21,622)
Total equity	**2,269,349**	2,180,679
Adjusted gearing percentage	**(0.2%)**	(1.0%)

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Our adjusted gearing percentage, which are derived by dividing adjusted net assets by total equity of the Group, were negative 0.2% and negative 1.0% as at 31 December 2018 and 31 December 2017, respectively.

Adjusted net assets is defined as total debts which include bills payables and interest-bearing loans, less cash and cash equivalents and pledged and restricted deposits.

Bank and Other Loans

(a) At 31 December 2018, the bank and other loans were repayable as follows:

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year or on demand	**593,311**	665,361
After 2 years but within 5 years	**107,092**	103,900
	700,403	769,261

At 31 December 2018, the bank and other loans were secured as follows:

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Bank loans (i)		
— Secured	**546,982**	712,595
— Unsecured	**55,515**	56,666
Sub-total	**602,497**	769,261
Other loans — secured (ii)	**97,906**	—
	700,403	769,261

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(i) At 31 December 2018, the Group has secured loans and borrowings amounting to approximately RMB546,982,000 (31 December 2017: RMB712,595,000), of which:

— approximately RMB107,092,000 (31 December 2017: RMB123,400,000) of these secured loans were secured by assets of the Group and guaranteed by the third parties on the joint and several guarantees;

— approximately RMB439,890,000 (31 December 2017: RMB589,195,000) of the other secured loans (the "collateral loans") were solely secured by assets of the Group;

These third-party guarantors are minority shareholders of a subsidiary of the Company.

(ii) At 31 December 2018, the Group has secured other loans amounting to approximately RMB97,906,000 (31 December 2017: Nil), of which:

— RMB49,206,000 (31 December 2017: Nil) was borrowed from a financial leasing company and secured by other property, plant and equipment with net book value of approximately RMB23,994,000; and

— RMB48,700,000 (31 December 2017: Nil) was borrowed from a commercial factoring company and secured by a commercial bills receivable which were included as "trade receivables" with net book value of approximately RMB48,700,000.

(iii) The pledged assets of the Group are as following:

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Restricted deposits	**116,000**	116,000
Other property, plant and equipment	**58,586**	149,008
Lease prepayments	**74,619**	75,821
Investment properties	**174,343**	—
Trade and bills receivables	**208,273**	481,309
	631,821	822,138

(iv) Parts of the Group's banking facilities, amounted to approximately RMB671,240,000 (31 December 2017: RMB610,502,000) are subject to the fulfilment of covenants relating to certain of the subsidiaries' balance sheet ratios, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 31 December 2018 and 31 December 2017, none of the covenants relating to drawn down facilities had been breached.

(v) The unutilised banking facilities as at 31 December 2018 amounted to approximately RMB289,346,000 (31 December 2017: RMB281,717,000).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(b) The following table details the interest rate profile of the Group's total borrowings at the end of the reporting period:

	At 31 December 2018		At 31 December 2017	
	Effective interest rate	**Carrying amount**	Effective interest rate	Carrying amount
	%	**RMB'000**	%	RMB'000
Variable rate instruments				
Bank loans	**4.69**	**283,753**	4.23	305,452
Fixed rate instruments				
Bank loans	**6.20**	**318,744**	5.48	463,809
Other loans	**8.80**	**97,906**	—	—
Total borrowings		**700,403**		769,261
Fixed rate borrowings as a percentage of total borrowings		**59%**		60%

Capital Expenditures

Capital expenditures amounted to approximately RMB192,721,000 for the Year (year ended 31 December 2017: RMB128,447,000). It primarily related to purchases of property, plant and equipment.

Commitments and Contingent Liabilities

(a) Capital Commitments

Capital commitments outstanding at the end of reporting period not provided for in the consolidated financial statements were as follows:

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Contracted for	**14,122**	41,732

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(b) Operating Lease Commitments

At the end of the reporting period, the total future minimum lease payments under operating leases are as follows:

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	**27,098**	20,232
After 1 year but within 3 years	**26,969**	13,976
After 3 years but within 5 years	**9,179**	1,993
After 5 years	**3,144**	3,640
	66,390	39,841

The Group leases a number of manufacturing facilities under operating leases. These leases typically run for an initial period of half a year to twenty years, with an option to renew the lease when all terms are negotiated. None of the leases included contingent rentals.

Foreign Currency Risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the entity to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi ("RMB"), United States Dollars ("USD"), Macau Pataca ("MOP"), Peruvian Nuevo Sol ("PEN"), Euro ("EUR") and British Pounds ("GBP"). On the other hand, our bank and other loans, cash and cash equivalents are primarily in RMB, USD, EUR and Hong Kong Dollars ("HKD"). The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Employees

As at 31 December 2018, the Group had 3,067 employees (at 31 December 2017: 3,124). Relevant staff cost was approximately RMB338,593,000 (including share award scheme expenses of approximately RMB5,693,000) for the Year compared to approximately RMB297,838,000 (including share award scheme expenses of approximately RMB9,841,000) for the year ended 31 December 2017. The Group will regularly review remuneration and benefits of its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, employee provident fund schemes, share option schemes and share award scheme.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Material Acquisitions and Disposals of Subsidiaries, Associated Companies or Joint Ventures

The Group did not have any material acquisition or disposal of subsidiaries, associated companies or joint ventures for the year ended 31 December 2018.

Subsequent Events

Lease Agreement

On 29 March 2019, Zhongshan Nature Gerui New Material Company Limited (中山市大自然格瑞新型材料有限公司, "Nature Gerui") (as lessee) entered into a lease agreement (the "Lease Agreement") with Foshan Shunde Dajia Property Management Company Limited (佛山市順德區大嘉物業管理有限公司, "Dajia Property Management") (as lessor) in respect of the lease of the properties, being the land and properties located next to No. 163, Qiyong Road, Dayong Town, Zhongshan, Guangdong Province, the PRC (the "Properties") with a total leasing area of approximately 26,200 square meters.

The Properties are used by Nature Gerui for its production and operation activities. The Lease Agreement is for a term of three (3) years commencing from 1 April 2019 and expiring on 31 March 2022 (both days inclusive) and the monthly rent payable by Nature Gerui under the Lease Agreement is RMB324,155.

Nature Gerui is a non wholly-owned subsidiary of the Company. Dajia Property Management is a company indirectly owned as to 60.2% by Mr. Se Hok Pan and 39.8% by Ms. Un Son I, respectively. Mr. Se Hok Pan is an executive Director and the Chairman, President and a controlling shareholder of the Company. Ms. Un Son I is an executive Director, a controlling shareholder of the Company and the spouse of Mr. Se Hok Pan. Hence, each of Mr. Se Hok Pan, Ms. Un Son I and Dajia Property Management is a connected person of the Company, the transaction contemplated under the Lease Agreement constitutes a connected transaction of the Company under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The transaction contemplated under the Lease Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For details of the Lease Agreement, please refer to the announcement of the Company dated 29 March 2018 in relation to the Lease Agreement and Trademarks Licensing Agreement (the "Announcement").

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Trademarks Licensing Agreement

On 29 March 2019, Nature Home (China) Limited (大自然家居(中國)有限公司, "Nature Home China") entered into a trademarks licensing agreement (the "Trademarks Licensing Agreement") with Foshan Shunde Youzong Home Company Limited (佛山市順德區優眾家居有限公司, "Youzong Home"), pursuant to which Youzong Home is granted a usage right (the "Usage Right") to use the trademarks related to "Nature" brand registered in the PRC under class 19 and held by the Group in the PRC in connection with the production, distribution and sale of the wood baseboards that are produced and sold by Youzong Home pursuant to the Trademarks Licensing Agreement (the "Licensed Products").

Under the Trademarks Licensing Agreement, the usage fee equivalent to 5% of the net sale value of the Licensed Products being sold is payable by Youzong Home to Nature Home China or its affiliated companies for the grant of the Usage Right. The Trademarks Licensing Agreement shall be for a period of twenty one months (21) months commencing from 1 April 2019 and expiring on 31 December 2020 (both days inclusive).

The annual caps for the Usage Fee payable by Youzong Home to Nature Home China under the Trademarks Licensing Agreement for (i) the period commencing from 1 April 2019 and expiring on 31 December 2019; and (ii) for the financial year ending 31 December 2020 are proposed to be RMB5,000,000 and RMB7,500,000, respectively.

Nature Home China is a wholly-owned subsidiary of the Company. Youzong Home is indirectly owned by Dajia Property Management as to 75%. Dajia Property Management is in turn indirectly owned as to 60.2% by Mr. Se Hok Pan and 39.8% by Ms. Un Son I, respectively. Mr. Se Hok Pan is an executive Director and the Chairman, President and a controlling shareholder of the Company. Ms. Un Son I is an executive Director, a controlling shareholder of the Company and the spouse of Mr. Se Hok Pan. Hence, each of Mr. Se Hok Pan, Ms. Un Son I and Youzong Home is a connected person of the Company and the transaction contemplated under the Trademarks Licensing Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

The transaction contemplated under the Trademarks Licensing Agreement is subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For details of the Trademarks Licensing Agreement, please refer to the Announcement.

Save as disclosed above, no other significant events took place subsequent to 31 December 2018.

Future Plans for Material Investments

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2018.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Se Hok Pan (佘學彬), age 59, is the Chairman and the President of the Company and was appointed a Director on 27 July 2007 and the President of the Company on 1 February 2018. Mr. Se is a co-founder of the Group. Mr. Se is responsible for formulating overall strategies, planning and business development of the Company, managing and supervising the financial management functions and human resources of the Company and is instrumental to our growth and business expansion since our establishment in 2004. Mr. Se began his career in the flooring products industry in 1995 and has over 20 years of experience in the flooring products industry. Mr. Se holds important positions in influential industry associations. He is currently the vice president of China Forestry Industry Association (中國林業產業協會), and one of the drafters of the China National Standards for Solid Wood Flooring (中國實木地板國家標準) which came into effect in 2009. Mr. Se is also a member of the Gansu Provincial Committee of Chinese People's Political Consultative Conference (中國人民政治協商會議甘肅省委員會) and the vice president of the Industry and Commerce Association of Macau (澳門工商聯會). From 1995 to 2001, Mr. Se served as a general manager at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城). From July 2001 to September 2004, Mr. Se served as a president at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Mr. Se has received numerous high profile awards such as the "Robert A. Mundell World Executive Awards (2004)", "China Forestry Industry Annual Person (2009)" (中國林業產業年度人物) as recognized by China National Forest Products Association (中國林產工業協會) and China Forestry Industry Association (中國林業產業協會) and "The Most Influential Figures in the 15-Year Development of China's Flooring Industry (2010)" (中國地板行業輝煌十五年最具影響力人物獎). Mr. Se is the spouse of Ms. Un Son I, the younger brother of Mr. She Jian Bin and the brother-in-law of Mr. Liang Zhihua. Mr. Se is a director of Freewings Development Co., Ltd., the controlling shareholder of the Company.

Ms. Un Son I (袁順意), age 53, is a Vice President of the Company and the General Manager of the Supply Chain Management Department and the Internal Audit Department of the Group. Ms. Un was appointed a Director on 27 July 2007. Ms. Un is a co-founder of the Group. Ms. Un is responsible for networking and development of relationship with suppliers, procurement control, logistics management and asset management and control to ensure the supply chain operates efficiently. She is also responsible for the overall management of internal audit of the Group. Ms. Un has over 20 years of experience in the flooring products industry. Ms. Un is a member of China-ASEAN Organization (中國東盟協會) and vice president of the Industry and Commerce Association of Macau (澳門工商聯會). From 1995 to 2001, Ms. Un served as a deputy general manager and a procurement manager at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城). From July 2001 to September 2004, Ms. Un was a director of president office, a director of human resources and a director of the procurement center at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Ms. Un was awarded as one of the "100 Outstanding Female Entrepreneurs of China" (中國百名傑出女企業家). Ms. Un is the spouse of Mr. Se Hok Pan and the sister-in-law of Mr. She Jian Bin and Mr. Liang Zhihua. Ms. Un is a director of Freewings Development Co., Ltd., a controlling shareholder of the Company.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. She Jian Bin (佘建彬), age 61, was appointed a Director on 8 May 2008. Mr. She is responsible for the participation of the Group's marketing activities. Mr. She has approximately 30 years of experience in the timber industry and the flooring products industry. Mr. She was a purchasing manager of wood at P.T. Sumber Laris Jaya Manufacturer Timber Industry from 1988 to 1994 and worked at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城) for its production, sales and distribution management from 1995 to 2001. During the period between July 2001 and September 2004, Mr. She served as a director of the sales center at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Mr. She has received "15 Prosperous Years of the China Flooring Industry — Promotion of Industry Development Award" (中國地板行業輝煌十五年傑出行業建設推動獎) in 2010. Mr. She joined the Group in 2004 and has since held various managerial positions in sales and distribution. Mr. She is the elder brother of Mr. Se Hok Pan and the brother-in-law of Ms. Un Son I and Mr. Liang Zhihua.

Non-executive Directors

Mr. Liang Zhihua (梁志華), age 55, was appointed an executive Director and the President of the Company on 1 January 2014 and ceased to be the President of the Company on 1 February 2018. Mr. Liang was re-designated as a non-executive Director with effect from 28 March 2019. Mr. Liang is also a director of certain operating subsidiaries of the Group. Mr. Liang joined the Group in 2006 and has since held various managerial positions in the general affairs, human resources and production departments as well as the President's Office of the Group. He has over ten years of experience in the flooring products industry. Mr. Liang is the brother-in-law of Mr. She Jian Bin, Mr. Se Hok Pan and Ms. Un Son I.

Mr. Teoh Chun Ming (張振明), age 49, is a non-executive Director. Mr. Teoh joined the Group in 2008 and was appointed as the Chief Financial Officer and the Company Secretary on 1 September 2008 and 26 March 2009, respectively. Mr. Teoh was also the Authorised Representative of the Company for the purpose of the Listing Rules and the Companies Ordinance. Mr. Teoh held the positions of Chief Financial Officer and Company Secretary until his appointment as a non-executive Director on 1 July 2012. Mr. Teoh is also the investor relations officer of the Company. Mr. Tech was an independent non-executive director of EPI (Holdings) Limited (Stock Code: 689), a company listed on the Stock Exchange, from January 2014 to October 2016 and is currently the chief financial officer and company secretary of Joyer Auto HK Company Limited and an independent non-executive director of WE Solutions Limited (formerly known as O Luxe Holdings Limited, Stock Code: 860), a company listed on the Stock Exchange. Mr. Teoh has over 20 years of accounting and finance experience. Prior to joining the Group, Mr. Teoh held senior positions in accounting and finance in various companies listed on the Stock Exchange. Mr. Teoh obtained a master's degree in professional accounting from the Hong Kong Polytechnic University in 2005. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur (李國章), age 74, was appointed as an independent non-executive Director on 4 May 2011. Professor Li is currently the deputy chairman and a non-executive director of The Bank of East Asia, Limited (Stock Code: 23) and an independent non-executive director of Shangri-La Asia Limited (Stock Code: 69), both being companies listed on the Stock Exchange, and a non-executive director of BioDiem Ltd. in Australia, a company which was delisted from the Australian Securities Exchange in November 2013. Professor Li was appointed a Member of the Executive Council of Hong Kong Special Administrative Region ("HKSAR"), the Chairman of the Council for Sustainable Development of HKSAR and the Chairman of the Council of the University of Hong Kong on 1 July 2012, 1 March 2015 and 1 January 2016 respectively. Professor Li was an independent non-executive director of The Wharf (Holdings) Limited (Stock Code: 4), a company listed on the Stock Exchange, from 1 July 2012 to 16 August 2013, a non-executive director of AFFIN Holdings Berhad (symbol: 5185), a company listed on Bursa Malaysia, from 21 May 2008 to 31 December 2014, and a director of CaixaBank, S.A. (symbol: CABK), a company listed on the Spanish Stock Exchange, from November 2014 to December 2015. Professor Li is also a member of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會). Professor Li served as Professor of Surgery (Founding Chair) in the Department of Surgery of The Chinese University of Hong Kong from 1982 to 2005. In addition, Professor Li was the Dean of the Faculty of Medicine of The Chinese University of Hong Kong from 1992 to 1996 and the Vice-Chancellor of the university from 1996 to 2002. Professor Li was a non-executive director of Glaxo Wellcome plc. from 1997 to 2000. In 2002, Professor Li became Secretary for Education and Manpower as well as a member of the Executive Council of the Hong Kong Special Administrative Region Government and his term ended in June 2007. Prior to 2002, Professor Li was a non-executive director of The Bank of East Asia, Limited, China Mobile Limited, Henderson Cyber Limited and The Wharf (Holdings) Limited. During the same period of time, Professor Li was also the non-executive chairman of Corus and Regal Hotels plc. Professor Li resigned from all these positions in 2002 when he assumed his role as Secretary for Education and Manpower in Hong Kong. Professor Li obtained his medical degree from University of Cambridge in 1969.

Mr. Chan Siu Wing, Raymond (陳兆榮), age 54, was appointed as an independent non-executive Director with effect from 4 May 2011. Mr. Chan is currently an independent non-executive director of Quali-Smart Holdings Limited (Stock Code: 1348) and Hong Kong Finance Group Limited (Stock Code: 1273), both being companies listed on the Main Board of the Stock Exchange. Mr. Chan also holds the position of independent non-executive director of Phoenitron Holdings Limited (formerly known as Cardlink Technology Group Limited) (Stock Code: 8066), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chan has over 29 years of experience in the field of accounting, taxation, finance and trust. Mr. Chan holds a Bachelor of Economics degree from the University of Sydney. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a founding member of the Macau Society of Certified Practising Accountants.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Ho King Fung, Eric (何敬豐), age 42, was appointed as an independent non-executive Director on 4 May 2011. Mr. Ho is a solicitor of the Hong Kong Special Administrative Region and the chairman and executive director of Ample Hope Limited. In Macau, Mr. Ho is also the chairman of P&W Money Changer Limited and Jing Yang Company Limited. Mr. Ho was appointed as an executive director and co-chairman of WE Solutions Limited (formerly known as O Luxe Holdings Limited, Stock Code: 860), a company listed on the Stock Exchange, on 1 November 2016 and was re-designated as the Chairman of WE Solutions Limited on 24 November 2017. Mr. Ho joined JP Morgan in 2000 as an analyst and worked as a trainee solicitor at Linklaters between 2003 and 2005 and as an associate between 2005 and 2006. Between 2007 and 2010, Mr. Ho worked at Deutsche Bank AG, Hong Kong Branch and his last position held was vice president and head of Hong Kong and Macau Origination. Mr. Ho was a non-executive director of United Energy Group Limited (Stock Code: 467), a company listed on the Stock Exchange, between 2011 and 2012, the non-executive chairman of EPI (Holdings) Limited (Stock Code: 689) from 2013 to 2016 and a non-executive director of AGTech Holdings Limited (Stock Code: 8279) from 2013 to 2016. United Energy Group Limited, EPI (Holdings) Limited and AGTech Holdings Limited are companies listed on the Stock Exchange. He is a committee member of the Chinese People's Political Consultative Conference of Beijing (中國人民政治協商會議北京市委員會) and the president of Money Exchangers' Association of Macao. Mr. Ho was also awarded China's Top 10 Economic Talents (十大中華經濟英才) in 2009. Mr. Ho graduated from the University of New South Wales, Australia with Bachelor of Commerce (Finance) and Bachelor of Laws degrees.

Senior Management

Mr. Shen Xiaodi (沈小笛), age 54, is the Chief Operating Officer of the Company. Mr. Shen joined the Group in September 2017. Mr. Shen is responsible for the day-to-day management of the Group's business operation as well as arranging and formulating the Group's business plans. Prior to that, Mr. Shen assumed a number of senior managerial positions, including a vice president of a high-tech enterprise in the PRC; an executive director of BaWang International (Group) Holding Limited (a company listed on the Stock Exchange, stock code: 1338) and the vice general manager of an asset management company. Mr. Shen possesses over 10 years of experience in manufacturing, supply chain and marketing management as well as in strategy planning and implementation. Mr. Shen graduated from Xi'an Jiaotong University in 1986. Mr. Shen obtained a doctoral degree from the Automatization Institute of the Chinese Academy of Sciences in 1993 and obtained his qualification as an associate researcher in the Applied Mathematics Institute of the Chinese Academy of Sciences in 1995.

Mr. Lai Kwok Keung, Alex (黎國強), aged 49, is the Chief Financial Officer and Company Secretary of the Company. Mr. Lai joined the Group in 2016. Mr. Lai is responsible for developing the financial strategies of the Group. Mr. Lai is also participate in the formulation of major investment plans of the Group, provides financial advice for the Group and oversees the Group's company secretarial matters. Mr. Lai has over 20 years of accounting and finance experience. Mr. Lai held senior positions in accounting, finance, company secretary and audit in various companies. Prior to joining the Group, he was the Chief Financial Officer and Company Secretary of a property development company. Mr. Lai was a senior internal audit manager at companies listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange and a senior manager at an international accounting firm. Mr. Lai graduated with a bachelor's degree in Business Administration from The University of Hong Kong in 1993. Mr. Lai is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

CORPORATE GOVERNANCE REPORT

The Company is committed to achieving high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound governance policies and measures. The Board will continue to review and monitor the corporate governance of the Company with reference to the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") so as to maintain a high standard of corporate governance of the Company.

During the year ended 31 December 2018, except for a deviation from the code provision A.2.1 which requires that the roles of chairman and chief executive should not be performed by the same individual, the Company has complied with the applicable code provisions of the Code.

With effect from 1 February 2018, Mr. Liang Zhihua ceased to be the President of the Company and Mr. Se Hok Pan was appointed the President of the Company. Mr. Se is the Chairman and an executive Director of the Company. Following the appointment of Mr. Se as the President of the Company, the roles of Chairman and President of the Company are performed by Mr. Se and Mr. Se is responsible for formulating overall strategic planning and business development of the Group and effective functioning of the Board as well as day-to-day management of the Group's operation and overseeing the Group's business. As such, since the appointment of Mr. Se as the President of the Company on 1 February 2018, the Company has deviated from the code provision A.2.1 under the Code which requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Se is a co-founder of the Group and was appointed as a Director of the Company on 27 July 2007. Mr. Se is instrumental to the Group's growth and business expansion since its establishment in 2004. The Company believes that the combination of the roles of Chairman and President can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to seize business development opportunities efficiently. The Company believes that through the supervision of the Board and its independent non-executive Directors, sufficient safeguards are in place to ensure balance of powers within the Board so that the interests of the shareholders of the Company are adequately and fairly represented.

Board of Directors

The Board is charged with promoting the success of the Company by directing and supervising its affairs. The Board has general powers for the management and conduct of the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Company, who will implement the strategy and direction as determined by the Board.

During the Year and up to the date of this report, the Board comprises:

Executive Directors

Mr. Se Hok Pan *(Chairman and President)* (Note 1)
Ms. Un Son I
Mr. She Jian Bin

CORPORATE GOVERNANCE REPORT (CONTINUED)

Non-executive Directors

Mr. Homer Sun (Note 3)
Mr. Liang Zhihua (Notes 1 & 2)
Mr. Teoh Chun Ming

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur
Mr. Zhang Sen Lin (Note 4)
Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

Alternate Director

Mr. Law Wing Cheung, Ryan (Note 3)
(alternate Director to Mr. Homer Sun)

Notes:

(1) Mr. Liang Zhihua ceased to be the President with effect from 1 February 2018. Mr. Se Hok Pan was appointed as the President on 1 February 2018.

(2) Mr. Liang Zhihua was an executive Director during the year ended 31 December 2018 and was re-designated as a non-executive Director with effect from 28 March 2019.

(3) Mr. Homer Sun resigned as a non-executive Director with effect from 7 May 2018. Following the Resignation of Mr. Sun, Mr. Law Wing Cheung, Ryan has ceased to be an alternate Director to Mr. Sun with effect from 7 May 2018.

(4) As announced by the Company on 22 March 2018, Mr. Zhang Sen Lin passed away on 20 March 2018.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company.

The biographies of the Directors which include relationships between Board members are set out on pages 19 to 22 of this annual report.

Each of Mr. Se Hok Pan, Ms. Un Son I and Mr. She Jian Bin, all being executive Directors, entered into a service contract with the Company for a fixed period of three years from 1 April 2018. Mr. Liang Zhihua, a non-executive Director, entered into a service contract with the Company for a fixed period of three years from 1 February 2018. Each of the independent non-executive Directors, namely Professor Li Kwok Cheung, Arthur, Mr. Chan Siu Wing, Raymond and Mr. Ho King Fung, Eric was appointed under a formal letter of appointment with the Company for a fixed term of three years commencing on 4 May 2017. Mr. Teoh Chun Ming (a non-executive Director) was appointed under a formal letter of appointment with the Company for a term of three years commencing on 1 July 2018. Notwithstanding the above, all Directors, including the non-executive Directors, are subject to retirement by rotation at least once every three years in accordance with the Listing Rules and the articles of association of the Company. A retiring Director is eligible for re-election.

The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. Details of the remuneration of the Directors for the year ended 31 December 2018 are set out in note 7 to the financial statements.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The number of independent non-executive Directors during the year ended 31 December 2018 meets the minimum requirement of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board.

The Company has received a written confirmation of independence from each of the independent non-executive Directors, and considers them to be independent.

Directors have access to the services of the Company Secretary to ensure that the Board procedures are followed. The Company Secretary of the Company is Mr. Lai Kwok Keung, Alex. Mr. Lai is also the Chief Financial Officer of the Group.

Directors' Attendance Records

Board meetings are held at least four times a year at approximately quarterly intervals and on other occasions when necessary. Details of Directors' attendance at the meetings of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee held during the year ended 31 December 2018 are set out in the following table:

	Number of meetings attended/held during the year ended 31 December 2018				
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Corporate Governance Committee**
Executive Directors					
Mr. Se Hok Pan *(Chairman and President)* (Note 1)	4/4	—	—	1/1	1/1
Mr. Liang Zhihua (Notes 1 & 2)	3/4	—	—	—	—
Ms. Un Son I	4/4	—	—	—	—
Mr. She Jian Bin	4/4	—	—	—	—
Non-executive Directors					
Mr. Homer Sun	1/1 (Note 3)	—	—	—	—
Mr. Teoh Chun Ming	4/4	2/2	1/1	—	1/1
Independent non-executive Directors					
Professor Li Kwok Cheung, Arthur	2/4	—	1/1	—	—
Mr. Zhang Sen Lin (Note 4)	—	—	—	—	—
Mr. Chan Siu Wing, Raymond	4/4	2/2	—	1/1	—
Mr. Ho King Fung, Eric	4/4	2/2	1/1	1/1	1/1

CORPORATE GOVERNANCE REPORT (CONTINUED)

Notes:

(1) Mr. Liang Zhihua ceased to be the President with effect from 1 February 2018. Mr. Se Hok Pan was appointed as the President on 1 February 2018.

(2) Mr. Liang Zhihua was an executive Director during the Year and was re-designated as a non-executive Director with effect from 28 March 2019.

(3) Mr. Homer Sun resigned as a non-executive Director with effect from 7 May 2018. The Board meeting held during which Mr. Homer Sun was a Director was attended by his alternate, Mr. Law Wing Cheung, Ryan.

(4) As announced by the Company on 22 March 2018, Mr. Zhang Sen Lin passed away on 20 March 2018.

In 2018, the Company convened and held one shareholders' general meeting, being the 2018 annual general meeting of the Company (the "2018 AGM") held on 29 June 2018. Mr. Se Hok Pan, Ms. Un Son I and Mr. Chan Siu Wing, Raymond attended the 2018 AGM.

Directors' Induction and Professional Development

On appointment to the Board, each Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly updated and apprised of the amendments to or updates on the relevant laws, rules, regulations and guidelines, particularly the effects of such new or amended laws, rules, regulations and guidelines on directors specifically, and the Company and the Group generally. On an ongoing basis, Directors are encouraged to keep up-to-date on all matters relevant to the Group and to attend briefings, seminars and relevant training courses as appropriate.

The Directors are requested to provide the Company with their respective training record pursuant to the new requirement of the Code on continuous professional development. During the year ended 31 December 2018, all Directors have participated in appropriate continuous professional development activities by way of attending training sessions, conferences and seminars or reading materials relevant to the Company's business, directors' duties and responsibilities, corporate governance and recent amendments to the Listing Rules.

Board Committees

The Company currently has five principal Board committees, which are the Audit Committee, the Remuneration Committee, the Nomination Committee, the Corporate Governance Committee and the Executive Committee. The Audit Committee, the Remuneration Committee and the Executive Committee were established on 3 May 2011, while the Nomination Committee and the Corporate Governance Committee were established on 28 November 2011.

Each of the Board committees operates under its terms of reference. The terms of reference of the Board committees are available on the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Audit Committee

Membership

The Audit Committee currently has three members, namely Mr. Chan Siu Wing, Raymond (Chairman) and Mr. Ho King Fung, Eric, both are independent non-executive Directors and Mr. Teoh Chun Ming, a non-executive Director. The Audit Committee comprises a majority of independent non-executive Directors.

Mr. Chan Siu Wing, Raymond, who is a certified public accountant of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the Australian Society of Certified Practising Accountants, and a founding member of the Macau Society of Certified Practising Accountants, has the appropriate professional qualifications to lead and chair the Audit Committee.

Responsibilities and work done

The primary responsibilities of the Audit Committee are to assist the Board in providing an independent view of the Company's financial controls, internal control and risk management systems, to review and monitor the effectiveness of the audit process and to perform other duties and responsibilities as assigned by the Board.

The works performed by the Audit Committee during year ended 31 December 2018 are as follows:

- reviewed the annual report and the annual results announcement of the Company for the year ended 31 December 2017;
- reviewed the interim report and the interim results announcement of the Company for the six months ended 30 June 2018;
- reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function;
- reviewed the risk management and internal control systems of the Group; and
- reviewed the effectiveness of the Company's internal audit function.

Remuneration Committee

Membership

The Remuneration Committee currently has three members, namely Professor Li Kwok Cheung, Arthur (Chairman) and Mr. Ho King Fung, Eric, both are independent non-executive Directors and Mr. Teoh Chun Ming, a non-executive Director. The Remuneration Committee comprises a majority of independent non-executive Directors.

Responsibilities and work done

The Remuneration Committee has adopted the model described in code provision B.1.2(c)(ii) of the Code in its terms of reference. It will make recommendations to the Board on the remuneration packages for individual executive Directors and senior management, with the Board retaining the final authority to approve such remuneration packages. The other principal responsibilities of the Remuneration Committee include (i) making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) making recommendations to the Board on the remuneration of the non-executive Directors; and (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The work performed by the Remuneration Committee during the year ended 31 December 2018 is as follows:

— reviewed and made recommendations on the remuneration package of the Directors and senior management of the Company.

For the year ended 31 December 2018, the remuneration payable to 2 senior management (excluding Directors) fell within the following bands:

HKD1,000,001 to HKD1,500,000:	1
HKD2,500,001 to HKD3,000,000:	1

Further details of the remuneration of the Directors and the five highest paid individual are set out in notes 7 and 8 to the financial statements.

Nomination Committee

Membership

The Nomination Committee currently has three members, namely Mr. Se Hok Pan (Chairman), Mr. Chan Siu Wing, Raymond and Mr. Ho King Fung, Eric. A majority of the members of the Nomination Committee, namely Mr. Chan Siu Wing, Raymond and Mr. Ho King Fung, Eric, are independent non-executive Directors. Mr. Se Hok Pan, the chairman of the Nomination Committee, is the Chairman and President and an executive Director of the Company.

Responsibilities and work done

The Nomination Committee is responsible for reviewing and assessing the composition of the Board and the independence of the independent non-executive Directors and making recommendations to the Board on appointment or re-appointment of Directors. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, and length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. As there was no new Director being appointed during the year ended 31 December 2018, the Board has not dealt with or considered nomination of director during the year.

The works performed by the Nomination Committee during the year ended 31 December 2018 are as follows:

— reviewed the structure, size and composition of the Board;

— assessed the independence of independent non-executive Directors of the Company.

Corporate Governance Committee

Membership

The Corporate Governance Committee currently has three members, namely Mr. Se Hok Pan (Chairman), Mr. Ho King Fung, Eric and Mr. Teoh Chun Ming. Mr. Se Hok Pan is the Chairman and an executive Director of the Company. Mr. Ho King Fung, Eric is an independent non-executive Director and Mr. Teoh Chun Ming is a non-executive Director of the Company.

Responsibilities and work done

The primary responsibilities of the Corporate Governance Committee include, among other things, developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board, and reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the Code.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The works performed by the Corporate Governance Committee during the year ended 31 December 2018 are as follows:

— reviewed and monitored the training and continuous professional development of Directors and senior management;

— reviewed the Company's compliance with the Code; and

— reviewed the corporate governance report in the 2017 annual report.

Executive Committee

Membership

The Executive Committee currently has two executive Directors, namely Mr. Se Hok Pan (Chairman and President) and Ms. Un Son I.

Responsibilities and work done

The principal responsibilities of the Executive Committee include (i) implementing the business plan and company strategies as approved by the Board and developing specific implementation plan; and (ii) monitoring and overseeing the implementation of the budget as approved by the Board. During the year ended 31 December 2018, the Executive Committee has duly performed its responsibilities and contributed to the business development of the Group.

Risk Management and Internal Controls

The Board acknowledges its responsibility for the Group's risk management and internal control systems and reviewing their effectiveness to safeguard the Group's assets and the interests of shareholders, customers and employees. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. The internal audit department of the Group (the "Internal Audit Department") and the Audit Committee assist the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Group's risk management and internal control systems have been developed with the following principles, features and processes:

(1) Identify significant risks in the Group's operation environment;

(2) Evaluate the impacts of those risks on the Group's business and the likelihood of occurrence;

(3) Determine the risk management strategies and internal control processes to prevent, avoid or mitigate the risks; and

(4) Perform ongoing monitor, review and revise the strategies and processes in case of any significant change of situation, ensuring effective communication to the Audit Committee and the Board on all findings and the effectiveness of the systems regularly.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board, as supported by the Audit Committee as well as the Internal Audit Department, reviews the Group's risk management and internal control systems annually. The review includes major financial, operational and compliance controls, as well as risk management functions of different systems. The review also covered the resources, staff qualifications and experiences, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

The Board had conducted its annual review of the risk management and internal control systems during the Year and assessed their effectiveness. The Board considers them effective and adequate.

Internal Audit Functions and Effectiveness of Risk Management and Internal Control Systems

The Audit Committee is aware of the fact that an independent and adequately resourced internal audit function is essential to assist in obtaining the assurance it requires regarding the effectiveness of the system of internal controls. The Group has established an Internal Audit Department led by Ms. Un Son I, an executive Director, to carry out the analysis and independent review of the adequacy and effectiveness of the risk management and internal control systems on an ongoing basis. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and resolved material internal defects in accordance with the internal policies and would cover other review and investigation work as may be required. The Internal Control Department provided its findings and recommendations for improvement to the Audit Committee and the Board periodically.

Dissemination of Inside Information

The Group regulates the handling and dissemination of inside information according to internal procedures and policy so as to ensure inside information remains confidential until the disclosure and publication of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

The Board is responsible for approving the policy on disclosure of inside information which aims at providing guiding principles, practices and procedures to assist employees and officers of the Group in (i) relaying inside information to the Board to enable it to make timely decisions on disclosure, if necessary; and (ii) communicating with the Group's stakeholders, in ways which are in compliance with the Securities and Futures Ordinance (the "SFO") and the Listing Rules.

An employee who becomes aware of a matter or event that he/she considers to be material or inside information shall report to his division/department head who will assess the sensitivity of the relevant information and, if considered appropriate, escalate and report to the Board and/or the Company Secretary.

Upon being notified, the Board and/or the Company Secretary will assess the likely impact of any unexpected and significant event that may impact the share price and/or trading volume and decides whether the relevant information is considered inside information and needs to be disclosed as soon as reasonably practicable pursuant to the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

The Group strictly prohibits unauthorized use of confidential or inside information and has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the Executive Directors, Company Secretary and authorised persons are authorized to communicate with parties outside the Group.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Model Code for Securities Transactions by Directors

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the year ended 31 December 2018.

External Auditors

KPMG are appointed as the external auditors of the Company upon the recommendation of the Audit Committee.

For the year ended 31 December 2018, the fee paid to KPMG for the audit and interim review of the financial statements of the Group was approximately RMB3.7 million.

During the Year, there were no non-audit services provided by KPMG.

Accountability and Audit

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the reporting period. A statement from the auditors about their reporting responsibilities on the financial statements is set out on pages 50 to 55 of this report. In preparing the financial statements for the year ended 31 December 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

Dividend Policy

The Board has approved and adopted a dividend policy on 28 March 2019 (the "Dividend Policy"). It is the policy of the Board, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

The Board shall consider the following factors before declaring or recommending any dividends:

a. the Company's actual and expected financial performance;

b. the Group's liquidity position;

c. retained earnings and distributable reserves of the Company and each of the members of the Group;

d. the level of the Group's debts to equity ratio, return on equity and the relevant financial ratios;

e. any restrictions on payment of dividends that may be imposed by the Group's lenders;

CORPORATE GOVERNANCE REPORT (CONTINUED)

f. the Group's expected working capital requirements and future expansion plans;

g. general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

h. any other factors that the Board deem appropriate.

The shareholders of the Company may not expect any dividends under the following circumstances:

a. during the growth phase of the Group or during significant expansion or undertaking of any acquisitions or joint ventures requiring higher allocation of capital;

b. whenever the Company proposes or plans to utilize surplus cash to repurchase the shares of the Company; or

c. inadequacy of profits or if the Company incurs losses.

The declaration, recommendation and payment of any dividends are also subject to compliance with applicable laws, regulations and the memorandum and articles of association of the Company. The Board will continually review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

Shareholders

The Company is incorporated in the Cayman Islands. Pursuant to the articles of association of the Company, any one or more shareholders 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 may, by written requisition to the Board or the Company Secretary, require an extraordinary general meeting to be convened by the Board for the transaction of any business specified in such requisition. The written requisition shall be deposited at the Company's principal place of business at Suite 2601, 26/F., Tower 2, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong, marked for the attention of the Company Secretary. The general meeting shall be held within two months after the deposit of such requisition. If within twenty-one 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.

Pursuant to Article 85 of the articles of association of the Company, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at any general meeting (including the annual general meeting), the shareholder should lodge a written notice at the registered office or the head office of the Company in the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days. Such written notice must be accompanied by a notice signed by the person to be proposed of his willingness to be elected as a Director.

Enquiries may be put to the Board by contacting the Company's Investor Relations Department through shareholders' hotline (852) 2858 6665, email at info@nature-hk.hk or directly by raising the questions at an annual general meeting or extraordinary general meeting.

The Board recognizes the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. During the year ended 31 December 2018, the Company convened and held the 2018 AGM on 29 June 2018. The Chairman of the Board as well as Chairmen of the Audit, Remuneration, Nomination and Corporate Governance Committees (or their duly appointed delegates) together with the external auditor were present to answer shareholders' questions. An annual general meeting circular which sets out relevant information of the proposed resolutions was distributed to all shareholders at least 20 clear business days before the annual general meeting. For the 2018 AGM, the Chairman of the meeting demanded that all resolutions proposed at the meeting to be passed by poll. The procedures for conducting a poll were explained at the meeting. A total of six ordinary resolutions, including considering the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2017 and approving the re-election of Directors, the re-appointment of the external auditors of the Company and the granting of general mandates to the Directors to repurchase and to issue shares of the Company were passed at the 2018 AGM. The results of the poll were published on the websites of the Company and the Stock Exchange.

During the year ended 31 December 2018, there has not been any change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the websites of the Company and the Stock Exchange.

Environmental Policies and Performance

The Group fulfils its social responsibilities of protecting the environment by undertaking to promote social environmental protection in our business routines and activities. We give due consideration to environmental protection and conservation and incorporates environmentally friendly practices and measures into our daily course of business.

In accordance with Rule 13.91 of the Listing Rules, the Company will publish an Environmental, Social and Governance ("ESG") Report on the website of the Company within three months after the publication of this annual report in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") is pleased to present its report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group"), for the year ended 31 December 2018.

Principal Activities

The Company is an investment holding company. The principal activities of the Group are the manufacturing and sale of home decoration products and provision of trademarks and distribution network. The principal activities of the Company's major subsidiaries are set out in note 14 to the financial statements.

Business Review

General

For the review of the business of the Group, the key financial performance indicators of the Group, an indication of likely future development in the Group's business and particulars of important events affecting the Group that have occurred since the end of the financial year, please refer to the section headed "Management Discussion and Analysis" on pages 4 to 18 of this report.

Principal risks and uncertainties facing the Group

The Group's principal business activities are mainly affected by the volatility and uncertainty of macro-economic conditions in Mainland China. The Group is also exposed to a variety of financial risks.

The financial risks of the Group include credit risk, liquidity risk, interest rate risk, currency risk, commodity price risk and equity price risk. These financial risks, and the related risk management policies and practices used by the Group are discussed in note 29 headed "Financial Risk Management and Fair Values" to the consolidated financial statements of this annual report.

Environmental policies and performance

In the aspect of environmental protection and sustainable development, the Group is committed to providing high quality and safe products to consumers, and has been organizing different environmental protection activities such as tree planting campaign. We believe that environmental protection is the basis for sustainable development of the Group. In the future, the Group will continue to fulfill its social responsibilities and make its contribution to environmental protection.

The Group continues to update the requirements of the relevant environmental laws and regulations applicable to it to ensure compliance. The Group does not produce material waste nor emit material quantities of pollutants during its production process. During the year under review, the Group has complied with the relevant environmental laws and regulations applicable to it in all material respects, including permit requirements.

REPORT OF THE DIRECTORS (CONTINUED)

Compliance with Laws and Regulations

The Group continues to update the requirements of the relevant laws and regulations in various countries, particularly in the PRC and Hong Kong, applicable to it to ensure compliance. Substantially a majority of the Group's assets are located in the PRC and the Group's revenue is mainly derived from operations in the PRC. During the year ended 31 December 2018, the Group complied with the relevant laws and regulations in various countries applicable to it in all material respects.

Account of the Group's key relationships

(i) Employees

The Group offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business.

(ii) Customers

We have successfully positioned our brand with consumers to represent high product quality and product safety as well as health and environmental awareness, which also reflect our core values. We are dedicated to provide green home decoration solutions and services to our customers. The Group regards the safety of our products, high quality of service and interest of customers as our top priorities.

(iii) Distributors

The Group branded products are sold primarily to retail consumers in Mainland China through an extensive nationwide distribution network of exclusive distributors and retail stores. Our nationwide distribution network comprised over 4,300 retail stores. Our distribution network is closely managed and supported by our sales team with extensive experience in the industry. The Group recognizes the importance of building up a close and long-term business relationship with our distributors.

Final Dividend

The Board did not recommend any payment of final dividend for the year ended 31 December 2018.

Share Capital

Details of the Company's share capital are set out in note 27 to the financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

Purchase, Sale or Redemption of Securities

For the year ended 31 December 2018, the Company repurchased a total 30,856,000 shares of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK$48,534,399 pursuant to the share repurchase mandates approved by the shareholders of the Company at the annual general meetings held on 31 May 2017 and 29 June 2018, respectively, for enhancing its net asset value and earnings per share. Details of the repurchases are summarised as follows:

Date of repurchase	Price per share Highest HK$	Lowest HK$	Number of ordinary shares of USD0.001 each	Total consideration HK$
14 May 2018	1.49	1.43	1,000,000	1,479,810
15 May 2018	1.49	1.48	500,000	744,650
17 May 2018	1.51	1.50	1,000,000	1,507,000
18 May 2018	1.49	1.48	1,000,000	1,488,700
24 May 2018	1.49	1.48	1,000,000	1,490,000
30 May 2018	1.46	1.46	1,000,000	1,460,000
31 May 2018	1.49	1.47	1,000,000	1,481,500
5 June 2018	1.49	1.49	1,000,000	1,490,000
6 June 2018	1.50	1.48	1,000,000	1,488,600
13 June 2018	1.68	1.55	1,396,000	2,284,833
14 June 2018	1.71	1.65	2,000,000	3,371,800
19 June 2018	1.68	1.64	500,000	836,800
28 June 2018	1.65	1.60	460,000	750,076
9 July 2018	1.62	1.59	1,000,000	1,604,710
13 July 2018	1.60	1.58	1,000,000	1,589,640
16 July 2018	1.59	1.59	500,000	795,000
17 July 2018	1.62	1.61	500,000	806,000
18 July 2018	1.63	1.62	500,000	813,000
19 July 2018	1.61	1.60	500,000	803,500
20 July 2018	1.61	1.59	500,000	798,900
23 July 2018	1.62	1.61	500,000	806,000
24 July 2018	1.66	1.63	500,000	820,500
25 July 2018	1.68	1.66	500,000	834,420
3 September 2018	1.60	1.58	2,000,000	3,185,310
4 September 2018	1.59	1.58	2,000,000	3,168,680
5 September 2018	1.59	1.58	2,000,000	3,160,500
7 September 2018	1.58	1.57	2,000,000	3,144,500
10 September 2018	1.58	1.56	2,000,000	3,152,000
12 October 2018	1.62	1.53	2,000,000	3,177,970
Total:			30,856,000	48,534,399

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

REPORT OF THE DIRECTORS (CONTINUED)

Directors

The Directors of the Company during the year were:

Executive Directors

Mr. Se Hok Pan *(Chairman and President)* (Note 1)
Ms. Un Son I
Mr. She Jian Bin
Mr. Liang Zhihua (Notes 1 & 2)

Non-executive Directors

Mr. Homer Sun (Note 3)
Mr. Teoh Chun Ming

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur
Mr. Zhang Sen Lin (Note 4)
Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

Alternate Director

Mr. Law Wing Cheung, Ryan (Note 3)
(alternate Director to Mr. Homer Sun)

Notes:

(1) Mr. Liang Zhihua ceased to be the President with effect from 1 February 2018. Mr. Se Hok Pan was appointed as the President on 1 February 2018.

(2) Mr. Liang Zhihua was an executive Director during the Year and was re-designated as a non-executive Director with effect from 28 March 2019.

(3) Mr. Homer Sun resigned as a non-executive Director with effect from 7 May 2018. Following the resignation of Mr. Sun, Mr. Law Wing Cheung, Ryan has ceased to be an alternate Director to Mr. Sun with effect from 7 May 2018.

(4) As announced by the Company on 22 March 2018, Mr. Zhang Sen Lin passed away on 20 March 2018.

In accordance with Article 84 of the articles of association of the Company, Mr. She Jian Bin, Mr. Liang Zhihua and Mr. Chan Siu Wing, Raymond shall retire by rotation at the forthcoming annual general meeting of the Company and they, being eligible, offer themselves for re-election.

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

The Company has received an annual confirmation from each of the independent non-executive Directors as regards their independence to the Company, and considers them to be independent.

REPORT OF THE DIRECTORS (CONTINUED)

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2018, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the 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 notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

	Number of shares held			
Name of Director	**Personal Interest**	**Corporate Interest**	**Total**	**Percentage of shareholding** (Note 1)
Mr. Se Hok Pan *(Chairman and President)* (Note 5)	20,000,000 1,500,000 (Note 2) 21,500,000	678,768,000 (Note 3)	700,268,000	48.72%
Ms. Un Son I	1,500,000 (Note 2)	678,768,000 (Note 3)	680,268,000	47.33%
Mr. She Jian Bin	1,500,000 (Note 2) 1,500,000 (Note 4) 3,000,000	Nil	3,000,000	0.21%
Mr. Liang Zhihua (Note 5)	22,000,000 (Note 2) 2,500,000 (Note 4) 24,500,000	Nil	24,500,000	1.70%
Mr. Teoh Chun Ming	3,000,000 (Note 2)	Nil	3,000,000	0.21%
Professor Li Kwok Cheung, Arthur	1,000,000 (Note 2)	Nil	1,000,000	0.07%
Mr. Chan Siu Wing, Raymond	1,000,000 (Note 2)	Nil	1,000,000	0.07%
Mr. Ho King Fung, Eric	1,000,000 (Note 2)	Nil	1,000,000	0.07%

REPORT OF THE DIRECTORS (CONTINUED)

Notes:

(1) Based on 1,437,381,990 shares of the Company in issue as at 31 December 2018.

(2) These interests represent the options granted to the Directors pursuant to the terms of the share option schemes adopted by the Company, which entitle the Directors to subscribe for shares of the Company. Details of such options are disclosed under the paragraph headed "Share Option Schemes" below.

(3) 678,768,000 shares are owned by Freewings Development Co., Ltd. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 60.19% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively.

(4) These interests represent the award shares granted to the Directors pursuant to the terms of the share award scheme adopted by the Company. Details of such award shares are disclosed under the paragraph headed "Share Award Scheme" below.

(5) Mr. Liang Zhihua ceased to be the President with effect from 1 February 2018. Mr. Se Hok Pan was appointed as the President on 1 February 2018.

(6) All interests stated are long positions in the ordinary shares of the Company.

Equity-linked Agreements

Other than the Pre-IPO Share Option Scheme, the Share Option Scheme and the Share Award Scheme as disclosed below, no equity-linked agreements were entered into by the Company during the year.

Share Option Schemes

Details of the Company's share option schemes are set out in note 25 to the financial statements.

Pre-IPO Share Option Scheme

On 16 December 2008, a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. The rules of the Pre-IPO Share Option Scheme were subsequently amended pursuant to a written resolution passed by our then shareholders on 30 June 2010 and a written resolution of the Board on 26 April 2011. The purpose of the Pre-IPO Share Option Scheme is to incentivize and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. Eligible persons of the Pre-IPO Share Option Scheme include all employees (full-time or part-time) of the Company or any of its subsidiaries or investee companies.

As at 31 December 2018, the maximum number of shares that may be issued pursuant to the options granted and outstanding under the Pre-IPO Share Option Scheme is 12,000,000 shares, representing approximately 0.83% of the issued share capital of the Company as at the date of this report.

REPORT OF THE DIRECTORS (CONTINUED)

Subject to the satisfactory performance of the participants of the Pre-IPO Share Option Scheme, the options granted to each of the participants shall be vested in accordance with the following schedule:

For options granted on 17 December 2008 (Note)

Vesting period	Maximum cumulative percentage of options vested
30 December 2008	10%
30 December 2009	20%
30 December of the year of the Listing Date (Being 26 May 2011)	40%
30 December of the year 12 months from the Listing Date	70%
30 December of the year 24 months from the Listing Date	100%

For options granted on 1 July 2010

Vesting period	Maximum cumulative percentage of options vested
30 December 2010	20%
30 December of the year of the Listing Date	40%
30 December of the year 12 months from the Listing Date	70%
30 December of the year 24 months from the Listing Date	100%

Each option granted under the Pre-IPO Share Option Scheme has a ten-year exercise period provided that none of the options (whether they are vested or not) shall be exercisable before the expiry of 18 months from the Listing Date.

Note: All options granted on 17 December 2018 have expired and lapsed on 17 December 2018.

REPORT OF THE DIRECTORS (CONTINUED)

The exercise price per share for options granted under the Pre-IPO Share Option Scheme was determined by the Board with reference to the then fair market price per share as determined by an independent valuer appointed by the Company, which shall be subject to adjustment in the event of any alteration to the capital structure of the Company. The consideration payable for the acceptance of each grant of options under the Pre-IPO Share Option Scheme was HK$1.00 (or the equivalent amount in RMB). Details of the share options movements during the year ended 31 December 2018 under the Pre-IPO Share Option Scheme are as follows:

Category of participants	Date of Grant	Exercise period	Exercise price per share	No. of Shares involved in the options outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	No. of Shares involved in the options outstanding at period end
Director of the Company							
Liang Zhihua	17/12/2008	17/12/2008–16/12/2018	HK$2.35	576,780	—	576,780	—
	1/7/2010	1/7/2010–30/6/2020	HK$3.38	7,000,000	—	—	7,000,000
Teoh Chun Ming	17/12/2008	17/12/2008–16/12/2018	HK$2.35	1,677,900	—	1,677,900	—
	1/7/2010	1/7/2010–30/6/2020	HK$3.38	1,500,000	—	—	1,500,000
Former Director of the Company							
Nam Cheung Ming	17/12/2008	17/12/2008–16/12/2018	HK$2.35	1,887,640	—	1,887,640	—
Employees							
Employees	17/12/2008	17/12/2008–16/12/2018	HK$2.35	6,917,100	—	6,917,100	—
	1/7/2010	1/7/2010–30/6/2020	HK$3.38	3,500,000	—	—	3,500,000
Total				23,059,420	—	11,059,420	12,000,000

No option under the Pre-IPO Share Option Scheme has been granted or cancelled during the year ended 31 December 2018. No further option has been or will be granted under the Pre-IPO Share Option Scheme after the listing of the Company.

REPORT OF THE DIRECTORS (CONTINUED)

Share Option Scheme

The Company has also adopted a share option scheme on 3 May 2011 (the "Share Option Scheme"), the purpose of which is to incentivize and reward eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. The rules of the Share Option Scheme were subsequently amended pursuant to a resolution of the Board on 28 November 2011. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Listing Date, after which period no further options will be granted but the provisions of the Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto. Eligible persons under the Share Option Scheme include, among others, employees, Directors, customers, business or joint venture partners, advisors, consultant, contractor, suppliers, agents or service providers of the Group and their respective full-time employees.

The maximum number of shares which may be issued upon exercise of all options that are or may be granted under the Share Option Scheme and the Pre-IPO Share Option Scheme equals to 10% of the shares in issue as at the Listing Date. Options lapsed or cancelled in accordance with the terms of the Pre-IPO Share Option Scheme or the Share Option Scheme will not be counted for the purpose of calculating this 10% limit.

As at 31 December 2018, the total number of shares which may be issued on the exercise of options granted or to be granted under the Share Option Scheme is 124,323,809, representing approximately 8.65% of the issued share capital of the Company as at the date of this report. In addition, no options shall be granted under the Share Option Scheme to any eligible person which, if exercised, would result in such eligible person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer, exceeds 1% of the shares in issue at such date.

An option granted under the Share Option Scheme shall be subject to such terms and conditions (if any) as may be determined by the Board at the date of offer and specified in the offer. Such terms and conditions may include a minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised.

The exercise price in respect of any option granted under the Share Option Scheme shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

(i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of offer;

(ii) the average closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and

(iii) the nominal value of the shares.

An amount of HK$1.00 is payable upon acceptance of the grant of options.

REPORT OF THE DIRECTORS (CONTINUED)

Details of the share options movements during the year ended 31 December 2018 under the Share Option Scheme are as follows:

Category of participants	Date of Grant	No. of shares involved in the options outstanding at the beginning of the year	Exercised during the year	Lapsed during the year	Granted during the year	No. of shares involved in the options outstanding at year end
Directors						
Se Hok Pan (also the President)	4 January 2012	1,500,000	—	—	—	1,500,000
Un Son I	4 January 2012	1,500,000	—	—	—	1,500,000
She Jian Bin	4 January 2012	1,500,000	—	—	—	1,500,000
Liang Zhihua	4 January 2012	15,000,000	—	—	—	15,000,000
Teoh Chun Ming	4 January 2012	1,500,000	—	—	—	1,500,000
Li Kwok Cheung, Arthur	4 January 2012	1,000,000	—	—	—	1,000,000
Zhang Sen Lin (Note 1)	4 January 2012	1,000,000	—	1,000,000	—	—
Chan Siu Wing, Raymond	4 January 2012	1,000,000	—	—	—	1,000,000
Ho King Fung, Eric	4 January 2012	1,000,000	—	—	—	1,000,000
Employees						
Employees	4 January 2012	43,000,000	—	2,200,000	—	40,800,000
	8 October 2013	15,400,000	—	1,800,000	—	13,600,000
Total		83,400,000	—	5,000,000	—	78,400,000

Notes:

(1) As announced by the Company on 22 March 2018, Mr. Zhang Sen Lin passed away on 20 March 2018.

(2) For options granted on 4 January 2012, they shall be vested and become exercisable upon the third anniversary of the date of grant. Vested options shall be exercisable until the expiry of a ten-year period from the date of grant. Grantees of such options are entitled to exercise the options at an exercise price of HK$1.45 per share.

(3) For options granted on 8 October 2013, they shall be vested and become exercisable upon the third anniversary of the date of grant. Vested options shall be exercisable until the expiry of a ten-year period from the date of grant. Grantees of such options are entitled to exercise the options at an exercise price of HK$1.61 per share.

REPORT OF THE DIRECTORS (CONTINUED)

During the year ended 31 December 2018, no option has been granted under the Share Option Scheme. Save as disclosed above, no option has been cancelled or lapsed during the year ended 31 December 2018.

Share Award Scheme

On 25 April 2016, the Board resolved to adopt a share award scheme (the "Share Award Scheme") as a means to recognise the contribution of and provide incentives to the key management personnel including Directors, senior management and core employees of the Group. The Share Award Scheme shall be valid and effective for a period of 4 years commencing from 25 April 2016 and is administrated by the Board and the trustee of the Share Award Scheme (the "Trustee").

The shares to be awarded under the Share Award Scheme shall be acquired by the Trustee from the open market out of cash contributed by the Group and shall be held in trust for the relevant selected participants until such shares are vested with the relevant selected participants in accordance with the provisions of the Share Award Scheme. The Trustee shall not exercise the voting rights in respect of any shares held under the trust.

The Board shall not make any further award of award shares which will result in the aggregate number of award shares awarded by the Board throughout the duration of the Share Award Scheme to exceed 5% of the total number of issued shares of the Company from time to time and shall not award more than 1% of the total number of issued shares of the Company to each of the selected participants from time to time.

The Board may, from time to time, in its absolute discretion select the selected participants after taking into various factors as they deem appropriate and determine the number of award shares to be awarded to each of the selected participants at nil consideration.

Further details of the principal terms of the Share Award Scheme are set out in the announcement of the Company dated 25 April 2016.

The Award Shares are held on trust for the selected participants by the Trustee which shall, at the option of selected participants, (i) transfer the Award Shares to the selected participants at nil consideration, or (ii) sell the Award Shares and pay the proceeds from selling in cash to the selected participant, as the case may be, upon satisfaction of such vesting criteria and conditions as determined by the Board.

REPORT OF THE DIRECTORS (CONTINUED)

Details of the Award Shares outstanding and movements during the year ended 31 December 2018 under the Share Award Scheme are set out as follows:

			Number of Award Shares				
Category of participant	**Date of Grant**	**Vesting Date**	**Outstanding at the beginning of the period**	**Granted during the period**	**Lapsed during the period**	**Vested during the period**	**Outstanding at the end of the period**
Directors of the Company							
She Jian Bin	25 April 2016	31 March 2019 (Note)	1,500,000	—	—	—	1,500,000
Liang Zhihua	25 April 2016	31 March 2019 (Note)	2,500,000	—	—	—	2,500,000
Employees							
Employees	25 April 2016	(i) 50% on 31 March 2018; and (ii) 50% on 31 March 2019	22,790,000	—	—	11,395,000	11,395,000
Total			26,790,000	—	—	11,395,000	15,395,000

Note: On 30 March 2018, the Company entered into a revised award letter with each of Mr. Liang Zhihua and Mr. She Jian Bin, pursuant to which the Company and each of Mr. Liang and Mr. She have agreed to amend the vesting schedule of their respective award shares such that 100% of the award shares shall be vested on 31 March 2019. For details, please refer to the announcement of the Company dated 2 April 2018.

No Award Shares have been granted under the Share Award Scheme during the Year. Save as disclosed above, no Award Shares has been cancelled or lapsed during the year ended 31 December 2018.

Rights to Acquire the Company's Securities

Save as disclosed under the sections "Share Option Schemes" and "Share Award Scheme" above, at no time during the Year or at the end of the Year was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS (CONTINUED)

Related Party Transactions

Details of related party transactions of the Group during the Year are set out in note 31(b) to the financial statements. Each of the related party transactions during the Year constitutes a connected transaction but is fully exempted and not subject to any of the disclosure requirements under Chapter 14A of the Listing Rules.

Directors' Interests in Transactions, Arrangements and Contracts of Significance

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company and/or any of its connected entity had a material interest, whether directly or indirectly, and no contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholder or any of its subsidiaries, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

As at the date of this report, none of the Directors and directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a Director and/or its subsidiaries and their respective associates, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

Permitted Indemnity Provision

Pursuant to the Articles of Association of the Company, the Directors, secretary and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain in the execution of their duty. The Company has taken out and maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover for certain legal actions brought against its directors and officers.

REPORT OF THE DIRECTORS (CONTINUED)

Substantial Shareholders

As at 31 December 2018, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity and nature of interest	Number of shares held	Percentage of shares in issue (Note 1)
Freewings Development Co., Ltd.	Beneficial owner	678,768,000 (Note 2)	47.22%
Team One Investments Limited	Interest in controlled corporations	678,768,000 (Note 2)	47.22%
Trader World Limited	Interest in controlled corporations	678,768,000 (Note 2)	47.22%
DeHua TB New Decoration Material Co., Ltd	Beneficial owner	269,999,990	18.78%
Weng Hou Investment Company Limited	Beneficial owner	76,300,000	5.31%

Notes:

(1) Based on 1,437,381,990 shares of the Company in issue as at 31 December 2018.

(2) Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 60.19% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively. Mr. Se Hok Pan and Ms. Un Son I are directors of Freewings Development Co. Ltd..

(3) All interests stated are long positions in the ordinary shares of the Company.

Save as disclosed above, the Directors are not aware that there is any party who, as at 31 December 2018, had interests or short positions in the shares and underlying 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 or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 162 of this annual report.

REPORT OF THE DIRECTORS (CONTINUED)

Bank Loans

Particulars of bank loans of the Group as at 31 December 2018 are set out in note 24 to the financial statements.

Major Customers and Suppliers

The percentage of revenue attributable to the Group's five largest customers was less than 30% of the Group's total revenue for the year ended 31 December 2018. Purchases of raw materials attributable to the Group's five largest suppliers amounted to less than 30% of the Group's total cost of sales for the year ended 31 December 2018.

Emolument Policy

The Company is well aware of the importance of incentivising and retaining its employees. The Group offers competitive remuneration packages to its employees, including salaries and bonuses to qualified employees, as well as a long-term incentive scheme in the form of share option schemes and share award scheme for eligible employees, details of which are set out under the paragraphs headed "Share Option Schemes" and "Share Award Scheme" above.

Employee Retirement Benefits

During the year ended 31 December 2018, the Company has complied, in all material respects, with relevant PRC labour laws and regulations, including contributing to employee retirement benefit schemes, medical and social security insurance schemes and housing provident fund. In Hong Kong, the Company has participated in a mandatory provident fund scheme for its employees in Hong Kong in accordance with applicable Hong Kong laws and regulations.

Donation

During the year ended 31 December 2018, the Group made a charitable donation amounting to approximately RMB1,651,000.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the latest practicable date prior to the issue of this report, the Company has maintained the prescribed public float under the Listing Rules.

REPORT OF THE DIRECTORS (CONTINUED)

Audit Committee

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited financial statements of the Group for the financial year ended 31 December 2018.

Auditors

The consolidated financial statements for the year ended 31 December 2018 have been audited by KPMG who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

On behalf of the Board

Se Hok Pan
Chairman

Hong Kong, 28 March 2019

INDEPENDENT AUDITOR'S REPORT

KPMG

To the shareholders of Nature Home Holding Company Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Nature Home Holding Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 56 to 161, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other 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 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (Continued)

Trade receivables

Refer to note 29(a) to the consolidated financial statements and the accounting policies on page 78.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2018, the Group's gross trade receivables totalled RMB1,083 million, against which a loss allowance of RMB120 million was recorded. The Group's trade receivables mainly arose from the sale of home decoration products to property developers and distributors in China as well as distributors overseas. Management measured the loss allowance at an amount equal to lifetime expected credit loss, based on ageing of the receivables and loss rate, which was calculated using historical default data. According to the experience of the Group, the loss patterns for different customer groups are significantly different and therefore, the receivables from property developers, domestic distributors and overseas distributors are separately grouped for the purpose for measurement of loss allowance. We identified loss allowance of trade receivables as a key audit matter because the receivables and loss allowance are material to the Group and because the recognition of expected credit losses is inherently subjective and requires the exercise of significant management judgement.	Our audit procedures to assess loss allowance of trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, debt collection and estimation of expected credit losses; • obtaining an understanding on the key data and assumptions of the expected credit loss model adopted by the management, including the basis of the grouping of the trade receivables based on customer group, ageing of the receivables and loss rate, the historical default data, and the assumptions involved in management's estimated loss rate; • assessing, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate customer group and ageing category by comparing individual items with the underlying sales invoices; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such estimates for each customer group, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and • inspecting, on a sample basis, cash receipts from customers subsequent to the financial year end relating to trade receivables balances at 31 December 2018.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (Continued)

Valuation of inventories

Refer to note 16 to the consolidated financial statements and the accounting policies on page 85.

The Key Audit Matter	How the matter was addressed in our audit
Inventories, which comprise wooden flooring materials, wardrobes and cabinets and related raw materials, are carried at the lower of cost and net realisable value in the consolidated financial statements. The net carrying value of inventories at 31 December 2018 was RMB424 million. Sales of inventories can be volatile due to customer demand changing, competitors pricing their products aggressively and the introduction of new products and technology. The Group typically sells slow moving inventories at a markdown from the original price to improve the Group's liquidity position. Accordingly, the future selling prices of some items of inventory may fall below their carrying value at the reporting date. We identified the valuation of inventories as a key audit matter because management is required to exercise significant judgement in determining an appropriate level of provision for inventories which involves predicting the future sales of inventories and the markdowns necessary to sell slow moving inventories on a discounted basis. Both of these factors can be inherently uncertain.	Our audit procedures to assess the valuation of inventories included the following: • assessing the Group's inventory provisioning policy with reference to the requirements of the prevailing accounting standards; • assessing whether the provision for inventories at the end of the financial period was calculated in a manner consistent with the Group's inventory provisioning policy by recalculating the provision for inventories based on the percentages and other parameters in the Group's inventory provisioning policy; • assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing category by comparing the individual items selected with goods receipt notes and/or production records; • assessing, on a sample basis, whether inventories were sold at prices above their carrying values subsequent to the year end by comparing the cost of each individual item selected with actual selling prices (less distribution costs) achieved after the financial year end; and • assessing the historical accuracy of management's process for calculating the provision for inventories by examining the utilisation or release of the provision recorded at the end of the previous financial year during the current year.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

The directors are responsible for the other information. The other information comprises all 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 are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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 Denise S.N. Leung.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Revenue	3	**2,918,016**	2,550,646
Cost of sales		**(2,027,367)**	(1,773,963)
Gross profit		**890,649**	776,683
Other income	4(a)	**25,425**	29,785
Distribution costs		**(368,037)**	(349,743)
Administrative expenses		**(301,545)**	(262,225)
Other operating expenses	4(b)	**(36,257)**	(51,172)
Profit from operations		**210,235**	143,328
Finance income	5(a)	**56,030**	22,815
Finance costs	5(a)	**(83,373)**	(29,476)
Net finance costs		**(27,343)**	(6,661)
Profit before taxation	5	**182,892**	136,667
Income tax	6(a)	**(37,845)**	(83,201)
Profit for the year		**145,047**	53,466
Attributable to:			
Equity shareholders of the Company		**156,785**	68,182
Non-controlling interests		**(11,738)**	(14,716)
Profit for the year		**145,047**	53,466
Earnings per share (RMB):			
Basic and diluted	9	**0.109**	0.047

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 64 to 161 form part of these financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 28(j).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note (i)) RMB'000
Profit for the year		**145,047**	53,466
Other comprehensive income for the year (after tax and reclassification adjustments)	10		
Items that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income ("FVOCI") — net movement in fair value reserve (non-recycling)		**(15,960)**	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities not using RMB as functional currency		**(1,519)**	(23,805)
Exchange differences reclassified to profit or loss upon disposal and deconsolidation of subsidiaries		**—**	1,961
Available-for-sale securities:			
— net movement in the fair value reserve (recycling) (ii)		**—**	2,087
Other comprehensive income for the year		**(17,479)**	(19,757)
Total comprehensive income for the year		**127,568**	33,709
Attributable to:			
Equity shareholders of the Company		**138,598**	48,408
Non-controlling interests		**(11,030)**	(14,699)
Total comprehensive income for the year		**127,568**	33,709

Notes:

(i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to fair value reserve (non-recycling) and will not be reclassified to profit or loss in any future periods. See note 1(c)(i).

The notes on pages 64 to 161 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Non-current assets			
Investment properties	11	**185,174**	61,337
Other property, plant and equipment	11	**780,847**	809,240
		966,021	870,577
Intangible assets	12	**14,410**	14,633
Lease prepayments	13	**140,856**	170,948
Interests in associates		**1,666**	1,569
Other financial assets	15	**84,038**	75,376
Deposits, prepayments and other receivables	19	**26,629**	21,411
Long-term receivables	18(b)	**40,411**	—
Deferred tax assets	26(b)	**36,311**	30,490
		1,310,342	1,185,004
Current assets			
Inventories	16	**424,483**	389,089
Trade and bills receivables	18(a)	**1,007,158**	1,180,388
Current portion of long-term receivables	18(b)	**30,347**	—
Contract assets	17	**42,589**	—
Deposits, prepayments and other receivables	19	**267,932**	255,262
Restricted deposits	20	**379,765**	241,921
Cash and cash equivalents	21	**823,843**	749,862
		2,976,117	2,816,522
Current liabilities			
Trade and bills payables	22	**897,245**	609,164
Contract liabilities	17	**86,759**	—
Deposits received, accruals and other payables	23	**304,138**	384,584
Bank and other loans	24	**593,311**	665,361
Current taxation	26(a)	**16,659**	22,635
		1,898,112	1,681,744
Net current assets		**1,078,005**	1,134,778
Total assets less current liabilities		**2,388,347**	2,319,782

The notes on pages 64 to 161 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Non-current liabilities			
Bank and other loans	24	**107,092**	103,900
Deferred tax liabilities	26(b)	**11,906**	35,203
		118,998	139,103
NET ASSETS		**2,269,349**	2,180,679
CAPITAL AND RESERVES			
Share capital	27	**9,391**	9,596
Reserves		**2,203,108**	2,105,760
Total equity attributable to equity shareholders of the Company		**2,212,499**	2,115,356
Non-controlling interests		**56,850**	65,323
TOTAL EQUITY		**2,269,349**	2,180,679

Approved and authorised for issue by the board of directors on 28 March 2019.

Se Hok Pan
Executive Director

Un Son I
Executive Director

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 64 to 161 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company													
	Share capital RMB'000 (Note 27)	Share premium RMB'000 (Note 28(d))	Share held for the Share Award Scheme RMB'000 (Note 25(b)(i))	Other treasury Shares RMB'000	Capital redemption reserve RMB'000 (Note 28(e))	Statutory surplus reserve RMB'000 (Note 28(a))	Exchange reserve RMB'000 (Note 28(b))	Fair value reserve (recycling) RMB'000 (Note 28(f))	Fair value reserve (non-recycling) RMB'000 (Note 28(g))	Other reserves RMB'000 (Note 28(c))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2017	9,596	960,406	(28,887)	(2,382)	84	198,901	(11,036)	16,542	—	83,312	888,820	2,115,356	65,323	2,180,679
Impact on initial application of IFRS 9	—	—	—	—	—	—	—	(16,542)	16,542	—	(5,551)	(5,551)	(16)	(5,567)
Adjusted at 1 January 2018	9,596	960,406	(28,887)	(2,382)	84	198,901	(11,036)	—	16,542	83,312	883,269	2,109,805	65,307	2,175,112
Changes in equity for 2018														
Profit for the year	—	—	—	—	—	—	—	—	—	—	156,785	156,785	(11,738)	145,047
Other comprehensive income	—	—	—	—	—	—	(2,227)	—	(15,960)	—	—	(18,187)	708	(17,479)
Total comprehensive income	—	—	—	—	—	—	(2,227)	—	(15,960)	—	156,785	138,598	(11,030)	127,568
Capital injection from non-controlling interest shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	2,528	2,528
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	—	(1,829)	(1,829)	1,320	(509)
Liquidation of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	(1,275)	(1,275)
Transfer to statutory surplus reserve	—	—	—	—	—	16,932	—	—	—	—	(16,932)	—	—	—
Share options forfeited during the year (note 25(a))	—	—	—	—	—	—	—	—	—	(11,209)	11,209	—	—	—
Equity settled Share Award Scheme (note 25(b))	—	(1,722)	12,054	—	—	—	—	—	—	(4,639)	—	5,693	—	5,693
Disposal of financial assets	—	—	—	—	—	—	—	—	—	—	1,268	1,268	—	1,268
Purchase and cancel of own shares	(205)	(40,831)	—	—	—	—	—	—	—	—	—	(41,036)	—	(41,036)
As at 31 December 2018	9,391	917,853	(16,833)	(2,382)	84	215,833	(13,263)	—	582	67,464	1,033,770	2,212,499	56,850	2,269,349

The notes on pages 64 to 161 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2018
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company													
	Share capital RMB'000 (Note 27)	Share premium RMB'000 (Note 28(d))	Share held for the Share Award Scheme RMB'000 (Note 25(b)(i))	Other treasury Shares RMB'000	Capital redemption reserve RMB'000 (Note 28(e))	Statutory surplus reserve RMB'000 (Note 28(a))	Exchange reserve RMB'000 (Note 28(b))	Fair value reserve (recycling) RMB'000 (Note 28(f))	Fair value reserve (non-recycling) RMB'000 (Note 28(g))	Other reserves RMB'000 (Note 28(c))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	9,596	960,406	(31,269)	—	84	190,536	10,825	14,455	—	76,383	826,091	2,057,107	25,932	2,083,039
Changes in equity for 2017														
Profit for the year	—	—	—	—	—	—	—	—	—	—	68,182	68,182	(14,716)	53,466
Other comprehensive income	—	—	—	—	—	—	(21,861)	2,087	—	—	—	(19,774)	17	(19,757)
Total comprehensive income	—	—	—	—	—	—	(21,861)	2,087	—	—	68,182	48,408	(14,699)	33,709
Capital injection from non-controlling interest shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	53,277	53,277
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	—	950	950
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	(137)	(137)
Transfer to statutory surplus reserve	—	—	—	—	—	8,365	—	—	—	—	(8,365)	—	—	—
Share options forfeited during the year (note 25(a))	—	—	—	—	—	—	—	—	—	(2,912)	2,912	—	—	—
Shares transferred to other treasury shares upon share award forfeiture	—	—	2,382	(2,382)	—	—	—	—	—	—	—	—	—	—
Equity settled Share Award Scheme (note 25(b))	—	—	—	—	—	—	—	—	—	9,841	—	9,841	—	9,841
As at 31 December 2017	9,596	960,406	(28,887)	(2,382)	84	198,901	(11,036)	16,542	—	83,312	888,820	2,115,356	65,323	2,180,679

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Operating activities			
Cash generated from operations	21(b)	**686,384**	188,474
Tax paid:			
— The People's Republic of China (the "PRC") income tax paid	26(a)	**(66,263)**	(66,201)
— Non-PRC income tax paid	26(a)	**—**	(139)
Net cash generated from operating activities		**620,121**	122,134
Investing activities			
Payment for acquisition of non-current assets		**(193,187)**	(126,392)
Proceeds from disposal of property, plant and equipment and intangible assets		**1,012**	13,047
Payment for acquisition of			
— available-for-sale unlisted securities		**—**	(10,995)
— securities classified as fair value through profit or loss		**—**	(7,850)
— securities classified as FVOCI		**(29,540)**	—
Proceeds from sale of:			
— available-for-sale securities		**—**	2,763
— financial assets at FVOCI		**1,268**	—
Net cash outflow from acquisition of a subsidiary		**—**	(27,013)
Net cash inflow from disposal of subsidiaries		**—**	640
Payment for acquisition of interests in associates		**(1,388)**	(1,925)
Interest received		**9,794**	9,378
Capitalised interest paid	5(a)	**(2,750)**	(5,574)
Net cash used in investing activities		**(214,791)**	(153,921)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Financing activities			
Proceeds from bank and other loans	21(c)	**656,187**	547,968
Repayment of bank and other loans	21(c)	**(736,839)**	(421,221)
Proceeds from maturity of restricted deposit		**12,863**	122,067
Payment for restricted deposit		**(150,707)**	(107,677)
Interest paid	5(a)/21(c)	**(76,642)**	(29,476)
Purchase of own shares		**(41,036)**	—
Proceeds from capital injection of non-controlling interests		**2,528**	53,277
Net cash (used in)/generated from financing activities		**(333,646)**	164,938
Net increase in cash and cash equivalents		**71,684**	133,151
Cash and cash equivalents at 1 January		**749,862**	618,703
Effect of foreign exchange rate changes		**2,297**	(1,992)
Cash and cash equivalents at 31 December	21(a)	**823,843**	749,862

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 64 to 161 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by Nature Home Holding Company Limited (the "Company") and its subsidiaries (together the "Group") is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries and the Group's interests in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- equity investments (see note 1(f)); and
- derivative financial instruments (see note 1(g)).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, Prepayment features with negative compensation which have been adopted at the same time as IFRS 9.

(i) IFRS 9, *Financial instruments,* including the amendments to IFRS 9, *Prepayment features with negative compensation*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(c) *Changes in accounting policies (Continued)*

(i) IFRS 9, *Financial instruments,* including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

The following table summarises the impact of transition to IFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
Retained earnings	
Recognition of additional expected credit losses on:	
— financial assets measured at amortised cost	(7,070)
— contract assets	(291)
Related tax	1,810
Net decrease in retained earnings at 1 January 2018	(5,551)
Fair value reserve (recycling)	
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at fair value through other comprehensive income ("FVOCI")	(16,542)
Fair value reserve (non-recycling)	
Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI and increase in fair value reserve (non-recycling) at 1 January 2018	16,542
Non-controlling interests	
Recognition of additional expected credit losses on financial assets measured at amortised cost and decrease in non-controlling interests at 1 January 2018	(16)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at fair value through profit or loss ("FVPL"). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(c) *Changes in accounting policies (Continued)*

(i) IFRS 9, *Financial instruments,* including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

a. Classification of financial assets and financial liabilities (Continued)

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 January 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets carried at amortised cost				
Trade and bills receivables (note (i))	1,180,388	(29,059)	(7,086)	1,144,243
Contract assets (note (i))	—	29,059	(291)	28,768
	1,180,388	—	(7,377)	1,173,011
Financial assets measured at FVOCI (non-recyclable)				
Equity securities (note (ii))	—	75,376	—	75,376
Financial assets classified as available-for-sale under IAS 39 (notes (ii))	75,376	(75,376)	—	—

Notes:

(i) Trade and bills receivables of RMB29,059,000 were reclassified to contract assets at 1 January 2018 as a result of the initial application of IFRS 15 (see note 1(c)).

(ii) Under IAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under IFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated all its investment classified as "available-for-sale" at FVOCI (non-recycling), as the investments are held for strategic purposes.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in notes 1(f),(g),(l)(i),(o) and (p).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(c) *Changes in accounting policies (Continued)*

(i) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

b. Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

— trade receivables; and

— contract assets as defined in IFRS 15 (see note 1(n)).

For further details on the Group's accounting policy for accounting for credit losses, see note 1(l)(i).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under IAS 39	98,806
Additional credit loss recognised at 1 January 2018 on:	
— Trade receivables	7,086
— Contract assets recognised on adoption of IFRS 15	291
Loss allowance at 1 January 2018 under IFRS 9	106,183

c. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(c) *Changes in accounting policies (Continued)*

(i) IFRS 9, *Financial instruments,* including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

c. Transition (Continued)

— The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

  — the determination of the business model within which a financial asset is held; and

  — the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue,* which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts,* which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

There was no impact of transition to IFRS 15 on retained earnings at 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(c) *Changes in accounting policies (Continued)*

(ii) IFRS 15, *Revenue from contracts with customers* (Continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods and this change in accounting policy had no material impact on opening balances as at 1 January 2018.

b. Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

Where payment schemes include a significant financing component, the transaction price is adjusted to separately account for this component. In the case of payments in advance, such adjustment results in interest expense being accrued by the Group to reflect the effect of the financing benefit obtained by the Group from the customers during the period between the payment date and the completion date of legal assignment. The interest is expensed as accrued unless it is eligible to be capitalised under IAS 23, *Borrowing costs*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(c) *Changes in accounting policies (Continued)*

(ii) IFRS 15, *Revenue from contracts with customers* (Continued)

b. Significant financing component (Continued)

This change in accounting policy had no material impact on opening balances as at 1 January 2018.

c. Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to manufacturing and sale of home decoration products contract were presented in the statement of financial position under "trade receivables" or "advanced payments and deposits received from customers", respectively, and the revenue was recognised for the reasons explained in paragraph a. above.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

a. "Trade and bills receivables" amounting to RMB29,059,000 which were previously included in trade debtors and bills receivables are now included under contract assets; and

b. "Advanced payments and deposits received from customers" amounting to RMB74,027,000, which was previously included in deposits received, accruals and other payables are now included under contract liabilities.

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

In the Company's statement of financial position, and investment in a subsidiary is stated at cost less impairment losses (see note 1(l)(ii)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(e) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(l)(ii)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(f) Investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 29(g). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(v)(v)).

— FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(f) Investments in debt and equity securities (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(v)(iv).

(B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments which did not fall into any of the above categories were classified as available for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognised in profit or loss in accordance with the policies set out in notes 1(v)(iv) and 1(v)(v), respectively. Foreign exchange gains and losses arising from debt securities were also recognised in profit or loss. When the investments were derecognised or impaired (see note 1(l)(i) — policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity was reclassified to profit or loss.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(h) Investment properties

Investment properties are properties held to earn rental income and/or for capital appreciation. Investment properties are accounted for using the cost model and stated in the statement of financial position at cost less accumulated depreciation, amortisation and impairment losses (see note 1(l)(ii)). The cost of investment property, less its estimated residual value and accumulated impairment losses, is depreciated or amortised using the straight-line method over its estimated useful life. Land in Peru is not depreciated. Rental income from investment properties is accounted for as described in note 1(v)(iii).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(h) Investment properties (Continued)

The estimated useful lives of investment properties are as follows:

- Land use right 40–45 years
- Buildings 25–30 years

(i) Other property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(l)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values, if any, using the straight-line basis over their estimated useful lives, and is recognised in profit or loss.

The estimated useful lives of property, plant and equipment are as follows:

- Buildings and plant 20–30 years
- Machinery and equipment 5–10 years
- Motor vehicles 5 years
- Office equipment and furniture 3–5 years
- Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 3 years from the date of completion, and the unexpired terms of the lease.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Construction in progress represents property, plant and equipment items which are under construction or machinery pending for installation, which is stated at cost less impairment losses (see note 1(l)(ii)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(i) Other property, plant and equipment (Continued)

Cost comprises direct costs of construction during the construction period. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are substantially complete. No depreciation is provided in respect of construction in progress.

(j) Intangible assets

Intangible assets that are acquired by the Group and have finite useful lives are stated at cost less accumulated amortisation and impairment losses (see note 1(l)(ii)).

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated brands, is recognised in profit or loss as incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

• Patents	7–10 years
• Computer software	5–10 years

Both the period and the method of amortisation are reviewed annually.

(k) Leased assets

(i) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC government authorities. Land use rights are stated at cost less accumulated amortisation and impairment losses (see note 1(l)(ii)). Amortisation is recognised in profit or loss on a straight-line basis over the respective period of rights which are 34 to 50 years.

(ii) Leased assets other than lease prepayments

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

— Classification of assets leased to the group

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(k) Leased assets (Continued)

(ii) Leased assets other than lease prepayments (Continued)

— Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(h)) or is held for development for sale.

(l) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates);

— contract assets as defined in IFRS 15 (see note 1(n)); and

— lease receivables.

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

— variable-rate financial assets: current effective interest rate;

— lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 1 year past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(l) *Credit losses and impairment of assets (Continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

— For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(l) *Credit losses and impairment of assets (Continued)*

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

— For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investment properties;
- lease prepayments;
- intangible assets;
- interests in associates; and
- investments in subsidiaries in the Company's statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(l) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- **Calculation of recoverable amount**

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- **Recognition of impairment losses**

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill, if any, allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

- **Reversals of impairment losses**

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(l)(i)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(m) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 1(v)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECLs) in accordance with the policy set out in note 1(l)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(o)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(v)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(o)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(v)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(n) Contract assets and contract liabilities (Continued)

Policy prior to 1 January 2018

In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented as the "trade receivables" (as an asset) or the "advanced payment and deposit received from customers" (as a liability), as applicable, under "trade and bills receivables" or "deposit received, accruals and other payables" respectively on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "trade and bills receivable". Amounts received before the related work was performed were presented as "advances received" under "deposit received, accruals and other payables". These balances have been reclassified on 1 January 2018 as shown in note 17 (see note 1(c)(ii)).

(o) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(n)).

Receivables are stated at amortised cost using the effective interest method, less allowance for credit losses (see note 1(l)(i)).

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECLs) in accordance with the policy set out in note 1(l)(i).

(q) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(s) *Employee benefits*

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in other reserves within equity. The fair value is measured at grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to other reserves. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to other reserves) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in other reserves until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(t) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(t) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    - the same taxable entity; or

    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(u) Provisions and contingent liabilities

Provision are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, 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 with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(v) Revenue and other income (Continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Sales of the Group's home decoration products are recognised as follows:

— Made-to-order manufacturing and installation arrangements

The Group classifies contracts as made-to-order manufacturing and installation arrangements when the Group manufactures the products in accordance with the customer's specification and provide installation service to customers and gives a practical expedient under the contract the Group has the right to be paid for work done to date based on the installation completion percentage if the customer were to cancel the contract before the order was fully completed.

Revenue arising from made-to-order manufacturing and installation arrangements, and a corresponding contract asset (see note 1(n)), are recognised progressively over time using the an appropriate proportion of the total transaction price under the contract, i.e. based on the completion of installation. The contract asset (either partially or in full) is reclassified to receivables when the entitlement to payment for that amount has become unconditional (see note 1(o)).

— Sales of other home decoration products

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods promised under the contract on a relative stand-alone selling price basis.

Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods and this change in accounting policy had no material impact on opening balances as at 1 January 2018.

(ii) Trademark and distribution network usage fees

Revenue from provision of trademark and distribution network usage is accrued in accordance with the terms of the relevant agreements with reference to the sales volume and sales amount of the manufacturers of the home decoration products.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Contingent rentals are recognised as income in the accounting period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(v) Revenue and other income (Continued)

(iv) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vi) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Renminbi ("RMB") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Significant Accounting Judgements and Estimates

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Notes 25 and 29 contain information about the assumptions and risk factors relating to valuation of fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation

Investment properties, other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(b) Impairments

In considering the impairment losses that may be required for certain property, plant and equipment, intangible assets, lease prepayments, investment properties, interests in associates and investments in subsidiaries in the Company's statement of financial position, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable and supportable assumptions and projections of items such as revenue and operating costs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

2 Significant Accounting Judgements and Estimates (Continued)

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycle. Management reassess these estimates at each reporting period end date.

(d) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for unused tax losses and deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(e) Loss allowance for trade receivables and contract assets

The Group estimates the loss allowances for trade receivables and contract assets by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and contract assets, thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of trade receivables and contract assets during their expected lives.

3 Revenue and Segment Reporting

(a) Revenue

The principal activities of the Group are manufacturing and sale of home decoration products and provision of trademark and distribution network. Further details regarding the Group's principal activities are disclosed in note 3(c).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and Segment Reporting (Continued)

(b) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of customers is as follows:

	2018 RMB'000	2017 (Note) RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service line		
— Manufacturing and sale of flooring products		
— Sale of goods	**2,150,657**	1,880,630
— provision of trademark and distribution network	**237,683**	230,443
— Manufacturing and sale of customised home decoration products		
— Sale of goods	**525,886**	439,573
— provision of trademark and distribution network	**3,790**	—
	2,918,016	2,550,646

Note: The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11 (see note 1(c)(ii)).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in note 3(c)(i) and (c)(iii).

The Group's customer base is diversified and includes only one (2017: one) customer with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2018. In 2018, revenue from sales of home decoration products to this customer amounted to approximately RMB328,874,000 (2017: RMB397,692,000) and arose only in PRC by geographical region in which the home decoration products division is active. Details of concentrations of credit risk arising from this customer are set out in note 29(a).

IFRS 15 requires to disclose certain information for transaction price allocated to the remaining performance obligations as at reporting date. Concurrently, IFRS 15 also offering a practical expedient to not disclose those information if the performance obligation is part of a contract that has an original expected duration of one year or less. Therefore, the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of home decoration products that had an original expected.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and Segment Reporting (Continued)

(c) Segment reporting

The Group manages its business by different lines of businesses (flooring products and customised home decoration products) and geographical locations. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment.

During the year, the Group changed the structure of its internal financial reporting to the executive directors from by business channel to by type of products, which resulted in a change to the composition of its reportable segments. Comparative figures for the operating segment information disclosed in this note have been restated to conform to the current year's presentation.

The Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Manufacturing and sale of flooring products: this segment manufactures and sells flooring products and generates fee income from products manufactured by authorised manufacturers which sell flooring products under the Group's trademarks and distribution network.

- Manufacturing and sale of customised home decoration products: this segment manufactures and sells other home decoration products, including wooden doors, wardrobes, cabinets and wall papers, provides home decoration services and generates fee income from other home decoration products manufactured by authorised manufacturers which sell products under the Group's trademarks and distribution network.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of cash and cash equivalents, restricted deposits, interests in associates, other non-current financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade creditors, accruals and bills payables attributable to the individual segments managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the provision, depreciation or amortisation of assets, and impairment of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is gross profit. The Group's senior executive management is provided with segment information concerning segment revenue and gross profit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and Segment Reporting (Continued)

(c) *Segment reporting (Continued)*

(i) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

	Manufacturing and sale of flooring products		Manufacturing and sale of customized home decoration products		Total	
	2018	2017 (Note)	**2018**	2017 (Note)	**2018**	2017 (Note)
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Sales of goods :disaggregated by timing or revenue recognition						
Point in time	**2,018,551**	1,797,334	**311,259**	308,992	**2,329,810**	2,106,326
Over time	**132,106**	83,296	**214,627**	130,581	**346,733**	213,877
Subtotal of sales of goods	**2,150,657**	1,880,630	**525,886**	439,573	**2,676,543**	2,320,203
Provision of trademark and distribution network	**237,683**	230,443	**3,790**	—	**241,473**	230,443
Revenue from external customers	**2,388,340**	2,111,073	**529,676**	439,573	**2,918,016**	2,550,646
Inter-segment revenue	**1,080**	2,188	**10,437**	15,735	**11,517**	17,923
Reportable segment revenue	**2,389,420**	2,113,261	**540,113**	455,308	**2,929,533**	2,568,569
Reportable segment gross profit	**861,200**	748,450	**29,449**	28,233	**890,649**	776,683
Interest income	**55,633**	12,831	**397**	379	**56,030**	13,210
Interest expense	**(70,621)**	(21,049)	**(6,021)**	(8,427)	**(76,642)**	(29,476)
Depreciation and amortisation for the year	**(58,758)**	(55,599)	**(30,054)**	(28,860)	**(88,812)**	(84,459)
Impairment losses recognised for property, plant and equipment during the year	**(1,505)**	—	**(15,051)**	—	**(16,556)**	—
Net impairment losses recognised for trade receivables and contract assets during the year	**(16,334)**	(19,532)	**(8,659)**	(9,111)	**(24,993)**	(28,643)
Net impairment losses recognised for deposits, prepayments and other receivables during the year	**(7,425)**	—	**(5,182)**	—	**(12,607)**	—
Reportable segment assets	**2,983,073**	2,899,272	**667,210**	693,915	**3,650,283**	3,593,187
Additions to non-current segment assets during the year	**142,973**	90,143	**20,238**	27,509	**163,211**	117,652
Reportable segment liabilities	**2,105,902**	1,860,313	**296,332**	511,528	**2,402,234**	2,371,841

Note: The Group has initially applied IFRS 15 using cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11 (see note 1(c)(ii)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and Segment Reporting (Continued)

(c) *Segment reporting* *(Continued)*

(ii) Reconciliations of reportable segment revenues, assets and liabilities

	2018 **RMB'000**	2017 RMB'000
Revenue		
Reportable segment revenue	**2,929,533**	2,568,569
Elimination of inter-segment revenue	**(11,517)**	(17,923)
Consolidated revenue	**2,918,016**	2,550,646
Assets		
Reportable segment assets	**3,650,283**	3,593,187
Elimination of inter-segment balances	**(261,076)**	(393,516)
Elimination of receivables from corporate headquarters	**(659,692)**	(529,249)
	2,729,515	2,670,422
Cash and cash equivalents	**823,843**	749,862
Restricted deposits	**379,765**	241,921
Interests in associates	**1,666**	1,569
Other non-current financial assets	**84,038**	75,376
Deferred tax assets	**36,311**	30,490
Unallocated head office and corporate assets	**231,321**	231,886
Consolidated total assets	**4,286,459**	4,001,526

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and Segment Reporting (Continued)

(c) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenues, assets and liabilities (Continued)

	2018 RMB'000	2017 RMB'000
Liabilities		
Reportable segment liabilities	**2,402,234**	2,371,841
Elimination of inter-segment balances	**(72,188)**	(393,059)
Elimination of payables to corporate headquarters	**(1,090,068)**	(1,035,422)
	1,239,978	943,360
Bank and other loans	**700,403**	769,261
Current taxation	**16,659**	22,635
Deferred tax liabilities	**11,906**	35,203
Unallocated head office and corporate liabilities	**48,164**	50,388
Consolidated total liabilities	**2,017,110**	1,820,847

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, other property, plant and equipment, intangible assets, lease prepayments and interests in associates ("specified non-current assets"). The geographical location of customers is based on the location of customers. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of investment properties, other property, plant and equipment and lease prepayments and, the location of the operation to which they are allocated, in the case of intangible assets and interests in associates.

	Revenue from external customers		Specified non-current assets	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
The PRC, Hong Kong and Macau	**2,836,014**	2,467,804	**1,075,175**	1,004,653
Peru	**1,144**	1,681	**46,075**	51,732
USA	**80,858**	81,161	**1,703**	1,342
	2,918,016	2,550,646	**1,122,953**	1,057,727

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

4 Other Income/Other Operating Expenses

(a) Other income

	2018 RMB'000	2017 RMB'000
Government grants (i)	**10,682**	12,075
Rental income from operating leases		
— investment properties	**2,884**	873
— machineries	**7,006**	12,145
	9,890	13,018
Others	**4,853**	4,692
	25,425	29,785

(i) Government grants mainly represented unconditional cash awards granted by the government authorities in the PRC.

(b) Other operating expenses

	2018 RMB'000	2017 RMB'000
Impairment of available-for-sale securities	**—**	22,158
Net unrealised loss of share call options investment	**—**	2,057
Change in fair value of financial assets through profit or loss	**—**	20,273
Share of profits less losses of associates	**1,292**	375
Net loss on disposal of property, plant and equipment	**1,292**	3,331
Impairment loss of other property, plant and equipment (note 11(c))	**16,556**	—
Loss of debt restructuring (note 18(b))	**7,911**	—
Donations	**1,651**	1,257
Stock damages	**3,149**	—
Others	**4,406**	1,721
	36,257	51,172

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

5 Profit before taxation

Profit before taxation is arrived at after (crediting)/charging:

(a) Finance income and finance costs

	2018 **RMB'000**	2017 RMB'000
Interest income on bank deposit and others	**(56,030)**	(13,210)
Net foreign exchange gain	**—**	(9,605)
Finance income	**(56,030)**	(22,815)
Interest expense on bank loan and others	**79,392**	35,050
Less: interest expense capitalised (i)	**(2,750)**	(5,574)
Net interest expense	**76,642**	29,476
Net foreign exchange loss	**6,731**	—
Finance costs	**83,373**	29,476

(i) The borrowing costs have been capitalised at a rate ranging from 5.880% to 5.890% per annum in 2018 (2017: 5.880% to 6.370%).

(b) Staff costs

	2018 **RMB'000**	2017 RMB'000
Salaries, wages and other benefits	**318,335**	273,887
Contributions to defined contribution retirement plan	**14,565**	14,110
Equity settled share-based payment expenses (note 25)	**5,693**	9,841
	338,593	297,838

The employees of the companies in the PRC participate in a defined contribution retirement scheme operated by the local government authorities whereby the Group is required to contribute to the scheme at rate of 12% to 20% of the eligible employees' monthly salary.

The local government authorities are responsible for the entire pension obligations payable to the retired employees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

5 Profit before taxation (Continued)

(b) Staff costs (Continued)

Contributions to the Mandatory Provident Fund ("MPF") are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD30,000.

In accordance with the general regime of The Social Security System, which enrolls Macau SAR residents in, employees and employers are required to make obligatory contribution to the Social Security Fund. The current contribution amounts for long-term employee are MOP90 per month (the employer's portion: MOP60; the employee's portion: MOP30), paid on a quarterly basis, i.e. for the preceding quarter paid in January, April, July and October.

(c) Other items

	Note	2018 RMB'000	2017 (Note) RMB'000
Cost of inventories*	16	**2,020,128**	1,768,472
Impairment losses recognised			
— Trade and bills receivables and contract assets		**24,993**	28,643
— Deposits, prepayments and other receivables	19	**12,607**	—
— Other property, plant and equipment	11(c)	**16,556**	—
Depreciation	11(a)	**81,584**	78,680
Amortisation			
— lease prepayments	13	**3,789**	2,880
— intangible assets	12	**3,439**	2,899
Operating lease charges: minimum lease payments		**21,143**	23,427
Auditors' remuneration			
— audit services		**4,406**	4,143
— other services		**—**	300
Research and development costs (other than depreciation and amortisation)		**18,291**	14,154

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

* For the year ended 31 December 2018, cost of inventories includes RMB191,382,000 (2017: RMB175,183,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, amounts of which are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

6 Income tax in the consolidated statement of profit or loss

(a) Income tax in the consolidated statement of profit or loss represents:

	2018 RMB'000	2017 RMB'000
Current tax		
Provision for income tax (note 26(a))	**60,110**	63,843
(Over-provision)/under-provision in respect of prior years	**(5,223)**	596
	54,887	64,439
Deferred tax		
Origination and reversal of temporary differences	**(3,988)**	(6,238)
(Reverse)/provision of withholding tax on retained profits (note 26(b))	**(13,054)**	25,000
	(17,042)	18,762
	37,845	83,201

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 RMB'000	2017 RMB'000
Profit before taxation	**182,892**	136,667
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned	**62,100**	50,713
Effect of tax concessions (vii) (viii)	**(31,535)**	(13,772)
Tax effect of:		
— non-deductible expenses	**1,873**	2,576
— non-taxable income	**(915)**	(784)
— current-year losses for which no deferred tax asset is recognised	**26,244**	19,626
Effect of previous tax loss		
— not recognised in prior years but utilised in current year	**(1,645)**	(754)
(Over-provision)/under-provision in respect of prior years (viii)	**(5,223)**	596
(Reverse)/provision of dividend withholding tax (note 26(b))	**(13,054)**	25,000
Income tax expense	**37,845**	83,201

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
(Expressed in Renminbi unless otherwise indicated)

6 Income tax in the consolidated statement of profit or loss (Continued)

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) The Group's subsidiaries incorporated in the USA were subject to federal income tax at 21% (2017: 15% to 35%) and state income tax for the year ended 31 December 2018. The applicable federal tax rate changed due to tax reform in the USA during the year.

(iii) The Group's subsidiaries incorporated in Hong Kong were subject to Hong Kong Profits Tax rate of 16.5%, except that the first HKD2 million estimated assessable profits calculated at 8.25%, for the year ended 31 December 2018 (2017: 16.5%).

(iv) The Group's subsidiaries incorporated in Macau were subject to Macau Complementary Tax. The provision for Macau Complementary Tax for the years ended 31 December 2018 and 2017 is calculated at the rate of 12%, of which assessable profits of the first MOP300,000 is exempted from tax.

(v) The Group's subsidiaries incorporated in Peru were subject to income tax rates from 5% to 29.5% for the year ended 31 December 2018 (2017: 5% to 29.5%).

(vi) The statutory income tax rate applicable to the Group's subsidiaries in the PRC is 25% for the years ended 31 December 2018 and 2017.

(vii) Guangxi Baijing Flooring Co., Ltd ("Guangxi Baijing") is recognised as qualified enterprise located in the western region of the PRC. Guangxi Baijing enjoys preferential enterprise income tax rate of 15% from 2016 to 2020, pursuant to CaiShui [2011] No. 58. In addition, 40% of income tax that has to pay to local taxation bureau is exempted as agreed by the local taxation bureau. The effective PRC income tax rate applicable to Guangxi Baijing is 9%.

(viii) Nature (Zhongshan) Wood Industry Co., Ltd. ("Nature Zhongshan") was qualified as a High and New Technology Enterprise ("HNTE") in 2016 and apply for preferential corporate income tax rate of 15% in 2018, which is before the annual tax filling of 2017. According to the approval from relevant tax authority, the preferential tax rate is also applicable to taxable income for the year end 31 December 2017. Thus Nature Zhongshan reversed the over-provision of taxation RMB4,587,000 subsequently in 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

7 Directors' Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries allowances, and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement contribution scheme RMB'000	Sub-total RMB'000	Equity settled share-based payment RMB'000 (note (i))	2018 Total RMB'000
Chairman							
Mr. Se Hok Pan	—	3,118	—	—	3,118	—	3,118
Executive directors							
Ms. Un Son I	—	2,345	—	—	2,345	—	2,345
Mr. She Jian Bin	—	931	—	—	931	202	1,133
Mr. Liang Zhihua	176	—	—	4	180	336	516
Non-executive directors							
Mr. Teoh Chun Ming	175	—	—	—	175	—	175
Independent non-executive directors							
Professor Li Kwok Cheung, Arthur	175	—	—	—	175	—	175
Mr. Chan Siu Wing, Raymond	175	—	—	—	175	—	175
Mr. Ho King Fung, Eric	175	—	—	—	175	—	175
	876	6,394	—	4	7,274	538	7,812

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

7 Directors' Emoluments (Continued)

	Directors' fees RMB'000	Salaries allowances, and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement contribution scheme RMB'000	Sub-total RMB'000	Equity settled share-based payment RMB'000 (note (i))	2017 Total RMB'000
Chairman							
Mr. Se Hok Pan	—	520	2,464	—	2,984	—	2,984
Executive directors							
Ms. Un Son I	—	451	1,794	—	2,245	—	2,245
Mr. She Jian Bin	—	509	386	5	900	584	1,484
Mr. Liang Zhihua	—	243	773	4	1,020	973	1,993
Non-executive directors							
Mr. Homer Sun	—	—	—	—	—	—	—
Mr. Teoh Chun Ming	167	—	—	—	167	—	167
Independent non-executive directors							
Professor Li Kwok Cheung, Arthur	167	—	—	—	167	—	167
Mr. Zhang Sen Lin	167	—	—	—	167	—	167
Mr. Chan Siu Wing, Raymond	167	—	—	—	167	—	167
Mr. Ho King Fung, Eric	167	—	—	—	167	—	167
	835	1,723	5,417	9	7,984	1,557	9,541

Note:

(i) These represent the estimated value of share options and share award granted to the directors under the Company's Share Option Scheme and Share Award Scheme. The value of these share options and share award are measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(s)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Schemes" and "Share Award Scheme" in the directors' report and note 25.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

8 Individual with highest emoluments

Of the five individuals with the highest emoluments, two (2017: four) are directors whose emoluments are disclosed in note 7. The emoluments in respect of the other three individuals (2017: one) are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries and other emoluments	**5,125**	1,195
Retirement contributions scheme	**48**	15
	5,173	1,210

The emoluments of the three individuals (2017: one) with the highest emoluments are within the following bands:

	Number of individuals	
Hong Kong Dollar ("HKD")	**2018**	2017
1,000,001–1,500,000	**2**	1
2,500,001–3,000,000	**1**	—

9 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of RMB156,785,000 (2017: RMB68,182,000) and the weighted average of 1,434,311,000 ordinary shares (2017: 1,439,238,000) in issue, calculated as follows:

Weighted average number of ordinary shares

	2018 **'000**	2017 '000
Issued ordinary shares at 1 January	**1,468,238**	1,468,238
Effect of purchase of shares	**(31,717)**	(26,790)
Other treasury shares	**(2,210)**	(2,210)
Weighted average number of ordinary shares at 31 December	**1,434,311**	1,439,238

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

9 Earnings per share (Continued)

(b) Diluted earnings per share

For the years ended 31 December 2018 and 2017, the effect of the Company's outstanding share options was anti-dilutive. Therefore, diluted earnings per share were the same as the basic earnings per share.

10 Other comprehensive income

Tax effects relating to each component of other comprehensive income

	2018			2017		
	Before-tax amount RMB'000	**Tax expense RMB'000**	**Net-of tax amount RMB'000**	Before-tax amount RMB'000	Tax expense RMB'000	Net-of tax amount RMB'000
Exchange differences on translation of financial statements of entities not using RMB as functional currency	**(1,519)**	**—**	**(1,519)**	(23,805)	—	(23,805)
Exchange differences reclassified to profit or loss upon disposal of subsidiaries	**—**	**—**	**—**	1,961	—	1,961
Net changes related to exchange differences	**(1,519)**	**—**	**(1,519)**	(21,844)	—	(21,844)
Equity investments at FVOCI: net movement in fair value reserve (non-recycling)	**(20,826)**	**4,866**	**(15,960)**	—	—	—
Available-for-sale securities: net movement in fair value reserve (recycling)	**—**	**—**	**—**	2,783	(696)	2,087
Other comprehensive income	**(22,345)**	**4,866**	**(17,479)**	(19,061)	(696)	(19,757)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

11 Investment properties, other property, plant and equipment

(a) Reconciliation of carrying amount

	Land, buildings and plant RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
Cost:									
At 1 January 2017	351,006	12,436	552,536	19,152	25,056	128,778	1,088,964	76,702	1,165,666
Exchange adjustments	(2)	(245)	(1,574)	(303)	(123)	—	(2,247)	—	(2,247)
Additions	3,012	3,195	9,457	635	1,367	82,359	100,025	—	100,025
Additions through acquisition of a subsidiary	—	4,371	15,386	276	1,230	187	21,450	—	21,450
Transfer from construction in progress	255	—	15,047	200	421	(15,923)	—	—	—
Disposals	(2,080)	(1,198)	(16,499)	(474)	(1,504)	(4,078)	(25,833)	—	(25,833)
At 31 December 2017	352,191	18,559	574,353	19,486	26,447	191,323	1,182,359	76,702	1,259,061
At 1 January 2018	352,191	18,559	574,353	19,486	26,447	191,323	1,182,359	76,702	1,259,061
Exchange adjustments	122	—	1,050	292	147	—	1,611	298	1,909
Additions	32,818	3,546	16,759	1,726	4,596	108,580	168,025	641	168,666
Transfer from construction in progress	198,060	—	21,140	—	102	(219,302)	—	—	—
Transfer to investment properties	(100,925)	—	—	—	—	—	(100,925)	127,744	26,819
Disposals	(3,226)	—	(8,056)	(3,464)	(1,278)	—	(16,024)	—	(16,024)
At 31 December 2018	479,040	22,105	605,246	18,040	30,014	80,601	1,235,046	205,385	1,440,431
Accumulated depreciation:									
At 1 January 2017	63,120	10,760	191,298	11,742	16,524	—	293,444	12,617	306,061
Exchange adjustments	(1)	—	(1,356)	(207)	(59)	—	(1,623)	544	(1,079)
Charge for the year	18,300	2,549	48,971	2,917	3,739	—	76,476	2,204	78,680
Disposals	(1,215)	—	(5,722)	(404)	(862)	—	(8,203)	—	(8,203)
At 31 December 2017	80,204	13,309	233,191	14,048	19,342	—	360,094	15,365	375,459
At 1 January 2018	80,204	13,309	233,191	14,048	19,342	—	360,094	15,365	375,459
Exchange adjustments	2	—	436	221	94	—	753	—	753
Charge for the year	23,829	2,894	48,053	2,230	2,603	—	79,609	1,975	81,584
Transfer to investment properties	(2,355)	—	—	—	—	—	(2,355)	2,871	516
Disposals	(2,306)	—	(7,264)	(3,296)	(854)	—	(13,720)	—	(13,720)
At 31 December 2018	99,374	16,203	274,416	13,203	21,185	—	424,381	20,211	444,592
Impairment loss:									
At 1 January 2017	6,877	—	7,225	235	458	—	14,795	—	14,795
Exchange adjustments	(3)	—	(41)	(1)	7	—	(38)	—	(38)
Disposals	(899)	—	(809)	(22)	(2)	—	(1,732)	—	(1,732)
At 31 December 2017	5,975	—	6,375	212	463	—	13,025	—	13,025
At 1 January 2018	5,975	—	6,375	212	463	—	13,025	—	13,025
Exchange adjustments	109	—	116	4	8	—	237	—	237
Charge for the year	5,040	—	11,516	—	—	—	16,556	—	16,556
At 31 December 2018	11,124	—	18,007	216	471	—	29,818	—	29,818
Net book value:									
At 31 December 2018	368,542	5,902	312,823	4,621	8,358	80,601	780,847	185,174	966,021
At 31 December 2017	266,012	5,250	334,787	5,226	6,642	191,323	809,240	61,337	870,577

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

11 Investment properties, other property, plant and equipment (Continued)

(a) Reconciliation of carrying amount (Continued)

As at 31 December 2018, certain buildings and plants with carrying value of RMB58,586,000 (2017: RMB149,008,000) and investment properties with value of RMB174,343,000 (2017: Nil) were pledged to secure the Group's bank loans (note 24(iii)).

(b) Assets leased out under operating leases

During the year ended 31 December 2018, the Group leased out a piece of land, land use rights, certain buildings (classified as investment properties) and machineries located in the PRC and Peru under operating leases. The leases run for an initial period of one to three years with an option to renew the lease after the date at which time all terms are renegotiated. None of the lease includes contingent rentals. RMB9,890,000 (2017: RMB13,018,000) of rentals were recognised by the Group for the year ended 31 December 2018.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

Total future minimum lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**4,497**	7,235
After 1 year but within 5 years	**16,479**	—
After 5 years	**1,887**	—
	22,863	7,235

The Group's investment properties are accounted for using the cost model. The investment properties are specially designed for manufacturing of wood flooring and are not able to exchange in an active market. Therefore, the fair value cannot be determined reliably and are not expected to be materially different from the carrying amounts as at 31 December 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

11 Investment properties, other property, plant and equipment (Continued)

(c) Impairment loss

Due to the Group's change of strategy, a subsidiary of the Group, stop production in 2018. The Group assessed the recoverable amounts of the plant and machines. As a result, the carrying amount of these assets was written down to their recoverable amount, and an impairment loss of RMB15,051,000 was recognised in "Other operating expenses". The estimates of recoverable amount were based on the plant and machines' fair values less costs of disposal, using market comparison approach by reference to recent sales price of quotation from a few third parties. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement.

In addition, the Group ceased production of certain products. As a result, a provision of impairment RMB1,505,000 was recognised on certain idle flooring production machineries.

(d) Investment property transformation

The Group transfer a property to investment property when change in use, where, 1) end of owner-occupation, or 2) inception of an operating lease to another party. During the year, a property located in PRC were transferred to investment property due to commencement with certain parties on leasing agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

12 Intangible assets

	Patents and trademark RMB'000	Computer software RMB'000	Total RMB'000
Cost:			
At 1 January 2017	14,562	12,547	27,109
Additions	680	2,803	3,483
Disposals	—	(480)	(480)
At 31 December 2017	15,242	14,870	30,112
At 1 January 2018	15,242	14,870	30,112
Additions	—	3,216	3,216
At 31 December 2018	15,242	18,086	33,328
Accumulated amortisation:			
At 1 January 2017	7,862	4,718	12,580
Charge for the year	1,553	1,346	2,899
At 31 December 2017	9,415	6,064	15,479
At 1 January 2018	9,415	6,064	15,479
Charge for the year	1,180	2,259	3,439
At 31 December 2018	10,595	8,323	18,918
Net book value:			
At 31 December 2018	4,647	9,763	14,410
At 31 December 2017	5,827	8,806	14,633

The amortisation charge of intangible assets for the year is included in "administrative expenses" in the consolidated statements of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

13 Lease prepayments

	Land use rights RMB'000
Cost:	
At 1 January 2017	153,135
Additions	29,279
At 31 December 2017	182,414
At 1 January 2018	182,414
Transfer to investment properties	(26,819)
At 31 December 2018	155,595
Accumulated amortisation:	
At 1 January 2017	8,586
Amortisation for the year	2,880
At 31 December 2017	11,466
At 1 January 2018	11,466
Amortisation for the year	3,789
Transfer to investment properties	(516)
At 31 December 2018	14,739
Net book value:	
At 31 December 2018	140,856
At 31 December 2017	170,948

Lease prepayments represent the Group's land use rights on leasehold land located in the PRC.

As at 31 December 2018, lease prepayments with net book value of RMB74,619,000 were pledged for bank and other loans (2017: RMB75,821,000) (note 24(iii)).

The amortisation charge of lease prepayments for the year is included in "cost of sales" and "administrative expenses" in the consolidated statements of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Investments in subsidiaries

The following list contains only the particulars of major subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	**Place of incorporation and business**	**Particulars of issued and paid-up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
China Wood Flooring Holding Company Limited	BVI	United States Dollars ("USD") USD2	100%	100%	—	Investment holding
Eastpro Holdings Limited	BVI	USD1	100%	100%	—	Investment holding
Victory Land Holdings Limited	BVI	USD1	100%	100%	—	Investment holding
Nature Zhongshan 中山市大自然木業有限公司(i)(iii)	the PRC	USD7,650,000	100%	—	100%	Wood flooring manufacturing
Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. 昆山盈意大自然木業有限公司 (i) (iii)	the PRC	USD9,600,000	100%	—	100%	Wood flooring manufacturing
Taizhou Nature Home Co., Ltd. 泰州大自然家居有限公司 (i) (iii)	the PRC	RMB245,953,656	100%	—	100%	Wood flooring manufacturing
Jiangxi Yingran Wood Industry Co., Ltd. 江西盈然地板有限公司 (i) (iii)	the PRC	USD10,000,000	100%	—	100%	Wood flooring manufacturing
Hailin Taifeng Nature Wood Company Limited ("Hailin Taifeng") 海林泰豐大自然 (木業) 有限責任公司 (ii) (iii)	the PRC	RMB35,448,200	100%	—	100%	Wood flooring manufacturing
Henan Hengda Nature Home Company Limited 河南恒大大自然家居有限公司 (ii) (iii)	the PRC	RMB100,000,000	60%	—	60%	Wood flooring manufacturing
Guangxi Baijing 廣西柏景地板有限公司 (i) (iii)	the PRC	RMB13,800,000	100%	—	100%	Wood flooring manufacturing
Nature Gerui 中山市大自然格瑞新型材料有限公司 (i) (iii)	the PRC	RMB6,500,000	95%	—	95%	WPC flooring manufacturing

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Jiang Xi Nature Home Co., Ltd. 江西省大自然家居有限公司 (i) (iii)	the PRC	USD200,000	100%	—	100%	Trading of flooring products
Nature Home China 大自然家居 (中國) 有限公司 (i) (iii)	the PRC	RMB50,000,000	100%	—	100%	Trading of flooring products
Nature Desenberg (Taizhou) Wood Industry Co., Ltd. 泰州大自然德森堡木業有限公司 (i) (iii)	the PRC	USD20,000,000	100%	—	100%	Wood doors manufacturing
Guangdong Yingran Wood Industry Co., Ltd. 廣東盈然木業有限公司 (i) (iii)	the PRC	USD9,000,000	100%	—	100%	Wood doors manufacturing
Guangxi Nature Bigao Gaoxin Decoration Material Company Limited 廣西大自然壁高高新裝飾材料有限公司 (i) (iii)	the PRC	RMB42,300,000	100%	—	100%	Trading of wall paper
Zhongshan Yingde Nature Home Co., Ltd. 中山盈德大自然家居有限公司 (i) (iii)	the PRC	USD5,000,000	100%	—	100%	Wardrobe and cabinet manufacturing
Foshan Shunde Nature Investment Management Co., Ltd 佛山市順德區大自然投資管理有限公司 (ii) (iii)	the PRC	RMB50,000,000	50%	—	50%	Properties leasing
Nature Green (Shanghai) Enterprise Co., Ltd 大自然綠客 (上海) 實業有限公司 (ii) (iii)	the PRC	RMB29,869,822	85%	—	100%	Investment holding
Foshan Nature Green Technology Co., Ltd 佛山市大自然綠客科技有限公司 (ii) (iii)	the PRC	RMB35,897,400	70.45%	—	82.88%	Provision of home decoration services
Foshan Nature Zhihuijia Technology Company limited 佛山市大自然智慧家科技有限公司 (ii) (iii)	the PRC	RMB10,000,000	52.84%	—	75%	Trading of home decoration products

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Investments in subsidiaries (Continued)

Name of company	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Mico Incorporation Limited 民廣有限公司	Macau	USD4,000,000	100%	—	100%	Investment holding
Ever Sharp Industrial Limited 國耀實業有限公司	Hong Kong	HKD100	100%	—	100%	Investment holding and trading of flooring products
Nature Flooring Hong Kong Limited 大自然地板香港有限公司	Hong Kong	HKD100	100%	—	100%	Investment holding and trading of flooring products
Nature Wood (Peru) S.A.C.	Peru	PEN500,000	100%	—	100%	Properties and equipment leasing
Contrato De Compra Venta De Peruvian Flooring S.A.C.	Peru	PEN10,000	100%	—	100%	Properties and equipment leasing
Nature Flooring Industries Inc.	USA	USD10,000	100%	—	100%	Trading of flooring products
Homefloor Max Inc.	USA	USD4,000,000	100%	—	100%	Trading of flooring products
Nature US Corporation	USA	USD8,000,000	65%	—	65%	Trading of wardrobe and cabinet

(i) These are wholly foreign-owned enterprises in the PRC.

(ii) These are limited liability companies in the PRC.

(iii) The official names of these companies are in Chinese. The English translation of these companies' names is for reference only.

The directors consider that no individual non-controlling interest is material to the Group as at 31 December 2018 or 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

15 Other financial assets

	Notes	**31 December 2018 RMB'000**	1 January 2018 RMB'000	31 December 2017 RMB'000
Designated as FVOCI (non-recycling)	(c)			
— Unlisted		**28,484**	28,274	—
— Listed		**55,554**	47,102	—
		84,038	75,376	—
Available for sales financial assets	(c)			
— Unlisted		**—**	—	28,274
— Listed		**—**	—	47,102
		84,038	75,376	75,376

(a) Equity securities designated as fair value through other comprehensive income

	Equity securities RMB'000
Balance at 1 January 2018	75,376
Additions	29,540
Change in fair value recognised in other comprehensive income (note 10)	(20,826)
Exchange difference	(52)
Balance at 31 December 2018	84,038

(b) Additions

Additions mainly include investments in real estate business and online business platforms for decoration services.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

15 Other financial assets (Continued)

(c) Change in fair value recognised in other comprehensive income

The fair value measurement for listed equity securities that were designated as FVOCI (non-recycling) has been categorised as Level 1 fair value: unadjusted quoted price in active markets for identical assets or liabilities at the measurement date, as defined in IFRS 13, *Fair value measurement*. During the year ended 31 December 2018, there were no transfers between Level 2 and Level 3, or transfer into or out of Level 1.

The fair value measurement for unlisted equity securities that were designated as FVOCI (non-recycling) has been categorised as Level 3 fair value upon the adoption of IFRS 9 at 1 January 2018 (note 29(g)).

16 Inventories

	2018 RMB'000	2017 RMB'000
Raw materials	**41,366**	38,201
Work in progress	**50,417**	53,337
Finished goods	**313,754**	280,914
Spare parts and consumables	**18,946**	16,637
	424,483	389,089

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**2,004,549**	1,724,298
Write down of inventories	**15,579**	44,174
	2,020,128	1,768,472

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

17 Contract assets and contract liabilities

(a) Contract assets

	Notes	31 December 2018 RMB'000	1 January 2018 (i) RMB'000	31 December 2017 (i) RMB'000
Contract assets				
Arising from performance under made-to-order manufacturing arrangements	(ii)	**42,589**	28,768	—
Receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade and bills receivables" (note 18)		**383,860**	266,622	—

Notes:

(i) The Group has initially applied IFRS 9 and IFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of IFRS 9, opening adjustments were made as at 1 January 2018 to recognise additional expected credit losses (ECLs) on contract assets. This has resulted in a decrease in this balance as at that date (see note 1(c)(i)).

(iii) Upon the adoption of IFRS 15, some of the trade receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones or satisfactory completion of the retention period, were reclassified from "Trade receivables" under "Trade and bills receivables " to contract assets (see note 1(c)(ii)).

(iv) The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods and this change in accounting policy had no material impact on opening balances as at 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

17 Contract assets and contract liabilities (Continued)

(a) Contract assets (Continued)

Typical payment terms which impact on the amount of contract assets recognised are as follows:

— Made-to-order manufacturing and installation arrangements

The Group's made-to-order manufacturing and installation arrangements include payment schedules which require stage payments over the installation period once milestones are reached. These payment schedules prevent the build-up of significant contract assets. The Group also typically agrees to a two to three year retention period from range 3%-5% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing inspection.

There was no revenue recognised during the year from performance obligations satisfied (or partially satisfied) in previous periods.

Contract assets that is expected to be recovered after more than one year is RMB12,416,000, all of which relates to retentions.

(b) Contract liabilities

	Notes	31 December 2018 RMB'000	1 January 2018 (i) RMB'000	31 December 2017 (i) RMB'000
Contract liabilities				
Made-to-order manufacturing and installation arrangements				
— Billing in advance of performance	(ii)	**12,375**	11,366	—
Sales of other home decoration products				
— Billing in advance of performance	(ii)	**74,384**	62,661	—
		86,759	74,027	—

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of IFRS 15, amounts previously included as "Advanced payments and deposits received is from customers " under "Deposits received, accruals and other payables " (note 23) were reclassified to contract liabilities (see note 1(c)(ii)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

17 Contract assets and contract liabilities (Continued)

(b) Contract liabilities (Continued)

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

— Made-to-order manufacturing and installation arrangements

When the Group receives a deposit before the production activity commences this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the project exceeds the amount of the deposit. The Group typically receives a 10% deposit on acceptance of manufacturing orders and starting from 2018 it has become common practice on all the Group's Made-to-order manufacturing and installation contracts to require a 20-30% deposit before work commences. In previous periods the amount of the deposit, if any, was negotiated on a case by case basis with customers.

— Sales of other home decoration products

The Group receives 10% of the contract value as a deposit from customers when they sign the sale and purchase agreement. This deposit is recognised as a contract liability until the properties are completed and legally assigned to the customer. The rest of the consideration is typically paid when legal assignment is completed.

Movements in contract liabilities

	2018 RMB'000
Balance at 1 January	**74,027**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(388,269)**
Increase in contract liabilities as a result of receiving forward sales deposits and instalments during the period	**401,001**
Balance at 31 December	**86,759**

All of forward sales deposits and instalments received is expected to be recognised as income within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 Trade and Bills Receivables

(a) Trade and bills receivables comprises

	Notes	31 December 2018 RMB'000	1 January 2018 (i) RMB'000	31 December 2017 (i) RMB'000
Trade receivables	(i), (ii)	**1,083,485**	1,087,728	1,116,787
Bills receivables		**43,753**	162,407	162,407
Less: loss allowance (note 29(a))		**(120,080)**	(105,892)	(98,806)
		1,007,158	1,144,243	1,180,388

All of the trade and bills receivables are expected to be recovered within one year.

Notes:

(i) Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables and bills receivables (see note 1(c)(i)).

(ii) Upon the adoption of IFRS 15, some of the trade receivables, for which the Group's entitlement to the consideration was conditional on achieving certain milestones, were reclassified to "contract assets" and disclosed in note 17 (see note 1(c)(ii)).

(iii) As at 31 December 2018, trade receivables of RMB178,273,000 (2017: RMB451,309,000) and bills receivables of RMB30,000,000 (2017: RMB30,000,000) were pledged to a bank to secure banking facilities obtained by the Group (note 24(iii)).

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 month	**347,403**	266,972
1 to 3 months	**402,826**	488,758
3 to 6 months	**99,514**	235,237
6 to 12 months	**89,499**	42,323
More than 12 months	**67,916**	147,098
	1,007,158	1,180,388

Trade receivables and bills receivables are due within 30 to 365 days from the date of billing. Further details on the Group's credit policy are set out in note 29(a).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 Trade and Bills Receivables (Continued)

(b) Long-term receivables comprises:

	Gross amount RMB'000	Loss of debt restructuring RMB'000	Net book value RMB'000
Long-term receivables	46,669	(6,258)	40,411
Current portion of long-term receivables	32,000	(1,653)	30,347
	78,669	(7,911)	70,758

Note: As at the end of 2018, the Group entered into a repayment agreement with certain clients in Peru for receivables amounting to RMB78,669,000 to extended settlement date to the year 2019 and 2020 respectively. These receivables were discounted at a rate of 10%, which is equivalent to the official borrowing rate announced by the Central Bank of Peru and reclassified to long-term receivables. A debt restructuring loss of RMB 7,911,000 were recorded in "other expense" (note 4(b)).

19 Deposits, Prepayments and Other Receivables

	2018 RMB'000	2017 RMB'000
Deposits	**14,972**	17,098
Prepayments for purchase of raw materials	**77,883**	84,621
Prepayments for purchase of plant and equipment	**23,344**	18,841
Lease prepayments	**3,285**	2,570
Value added tax deductible	**37,923**	16,672
Other prepayments and receivables	**140,062**	131,004
Interest receivables	**9,699**	5,867
Less: loss allowance	**(12,607)**	—
	294,561	276,673

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

19 Deposits, Prepayments and Other Receivables (Continued)

An analysis of current and non-current portion of deposits, prepayments and other receivables is as follows:

	2018 RMB'000	2017 RMB'000
Non-current	**26,629**	21,411
Current	**267,932**	255,262
	294,561	276,673

All of deposits, prepayments and other receivables, apart from those classified as non-current portion, and certain deposits RMB6,458,000 (2017: RMB14,607,000), are expected to be recovered or recognised as expense within one year.

20 Restricted Deposits

At the end of the reporting period, the deposits have been pledged with banks as securities for the followings:

	2018 RMB'000	2017 RMB'000
Bank loans (note 24(iii))	**116,000**	116,000
Others	**263,765**	125,921
	379,765	241,921

Others mainly represented deposits placed in the financial institutions in the PRC for security of certain sales contracts and bidding transactions as required by the counter parties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

21 Cash and Cash Equivalents and Other Cash Flow Information

(a) Cash and cash equivalents comprise:

	2018 RMB'000	2017 RMB'000
Cash at bank and on hand	**823,843**	749,862

At 31 December 2018, cash and cash equivalents placed with banks in the PRC amounted to RMB756,735,000 (2017: RMB703,004,000). Remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of profit before taxation to cash generated from operations

	Note	2018 RMB'000	2017 RMB'000
Profit before taxation		**182,892**	136,667
Adjustments for:			
Depreciation	11(a)	**81,584**	78,680
Amortisation of intangible assets	12	**3,439**	2,899
Amortisation of lease prepayments in respect of land use rights	13	**3,789**	2,880
Net finance costs	5(a)	**27,343**	6,661
Impairment loss of property, plant and equipment	11(c)	**16,556**	—
Net loss on disposal of property, plant and equipment	4(b)	**1,292**	3,331
Impairment loss of available-for-sale securities		**—**	22,158
Share of profits less losses of associates	4(b)	**1,292**	375
Net gain on disposal of subsidiaries		**—**	(2,433)
Change in fair value of financial assets at fair value through profit or loss	4(b)	**—**	20,273
Change in fair value of derivative financial instrument	4(b)	**—**	2,057
Equity settled share-based payment transactions	25(b)	**5,693**	9,841
Changes in working capital:			
(Increase)/decrease in inventories		**(35,394)**	27,753
Decrease/(increase) in trade and bills receivables		**52,966**	(127,797)
Decrease/(increase) in deposits, prepayments and other receivables		**33,566**	(71,675)
Increase in trade and bills payables		**292,182**	1,603
Increase in deposits received, accruals and other payables		**19,184**	75,201
Cash generated from operations		**686,384**	188,474

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

21 Cash and Cash Equivalents and Other Cash Flow Information (Continued)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank and other loans RMB'000
At 1 January 2018	769,261
Changes from financing cash flows:	
Proceeds from new bank and other loans	656,187
Repayment of bank and other loans	(736,839)
Other borrowing costs paid	(76,642)
Total changes from financing cash flows	(157,294)
Changes from operating and investing cash flows:	
Net proceeds from letter of credit	4,101
Capitalised interest paid	(2,750)
Total changes from operating and investing cash flows	1,351
Exchange adjustments	7,693
Other changes:	
Interest expenses (note 5(a))	76,642
Capitalised borrowing costs (note 5(a))	2,750
Total other changes	79,392
At 31 December 2018	700,403

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

21 Cash and Cash Equivalents and Other Cash Flow Information (Continued)

	Bank and other loans RMB'000
At 1 January 2017	673,570
Changes from financing cash flows:	
Proceeds from new bank loans	547,968
Repayment of bank loans	(421,221)
Other borrowing costs paid	(29,476)
Total changes from financing cash flows	97,271
Changes from operating and investing cash flows:	
Net payment for letter of credit	(16,641)
Capitalised interest paid	(5,574)
Total changes from operating and investing cash flows	(22,215)
Exchange adjustments	(14,415)
Other changes:	
Interest expenses (note 5(a))	29,476
Capitalised borrowing costs (note 5(a))	5,574
Total other changes	35,050
At 31 December 2017	769,261

Note: Bank loans and other borrowings are disclosed in notes 24.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

22 Trade and Bills Payables

	2018 RMB'000	2017 RMB'000
Trade creditors	**399,174**	408,264
Bills payables	**498,071**	200,900
	897,245	609,164

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade creditors and bills payables, based on invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 month	**226,331**	241,068
1 to 3 months	**217,790**	150,395
3 to 6 months	**311,437**	157,676
6 to 12 months	**71,050**	20,771
Above 1 year	**70,637**	39,254
	897,245	609,164

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

23 Deposits Received, Accruals and Other Payables

	Note	**31 December 2018 RMB'000**	1 January 2018 (i) RMB'000	31 December 2017 (i) RMB'000
Payables for purchase of property, plant and equipment		**7,139**	20,010	20,010
Advanced payments and deposits received from customers	(i)	**—**	—	118,589
Accrued staff costs		**47,086**	48,327	48,327
Value added tax and consumption tax payable		**36,203**	26,600	26,600
Accrued transportation fees		**29,048**	23,957	23,957
Other payables and accruals		**184,662**	191,663	147,101
		304,138	310,557	384,584

Note:

(i) As a result of the adoption of IFRS 15, gross amount due to customers for contract work, advances received and forward sales deposits and instalments received are included in contract liabilities and disclosed in note 17(b) (see note 1(c)(ii)).

All of the deposits received, accruals and other payables are expected to be settled within one year or are repayable on demand.

24 Bank and Other Loans

At 31 December 2018, the bank and other loans were repayable as follows:

	2018 RMB'000	2017 RMB'000
Bank loans		
Within 1 year or on demand	**495,405**	665,361
After 2 years but within 5 years	**107,092**	103,900
	602,497	769,261
Other loans		
Within 1 year or on demand	**97,906**	—
	700,403	769,261

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 Bank and Other Loans (Continued)

At 31 December 2018, the bank and other loans were secured as follows:

	2018 RMB'000	2017 RMB'000
Bank loans (i)		
Secured	**546,982**	712,595
Unsecured	**55,515**	56,666
Sub-total	**602,497**	769,261
Other loan-secured (ii)	**97,906**	—
Total	**700,403**	769,261

Notes:

(i) At 31 December 2018, the Group has secured loans and borrowings amounting to approximately RMB546,982,000 (31 December 2017: RMB712,595,000), of which:

— approximately RMB107,092,000 (31 December 2017: RMB123,400,000) of these secured loans were secured by assets of the Group and guaranteed by certain joint venture partners on the joint and several guarantees;

— approximately RMB439,890,000 (31 December 2017: RMB589,195,000) of the other secured loans (the "collateral loans") were solely secured by assets of the Group;

(ii) At 31 December 2018, the Group has secured other loans amounting to approximately RMB97,906,000 (31 December 2017: Nil), of which:

— RMB49,206,000 (31 December 2017: Nil) was borrowed from a financial leasing company and secured by other property, plant and equipment with net book value of RMB23,994,000; and

— RMB48,700,000 (31 December 2017: Nil) was borrowed from a commercial factoring company and secured by a commercial bills receivable which were included as "trade receivables" with net book value of RMB 48,700,000.

(iii) The pledged assets of the Group are as follows:

	2018 RMB'000	2017 RMB'000
Restricted deposits (note 20)	**116,000**	116,000
Other property, plant and equipment (note 11)	**58,586**	149,008
Lease prepayments (note 13)	**74,619**	75,821
Investment properties (note 11)	**174,343**	—
Trade and bills receivables (note 18(a)(iii))	**208,273**	481,309
	631,821	822,138

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 Bank and Other Loans (Continued)

Notes: (Continued)

(iv) Part of the Group's banking facilities, amounted to RMB671,240,000 (2017: RMB610,502,000) are subject to the fulfilment of covenants relating to certain of the subsidiaries' balance sheet ratios, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 29(b). At 31 December 2018 and 31 December 2017, none of the covenants relating to drawn down facilities had been breached.

(v) The unutilised banking facilities as at 31 December 2018 amounted to RMB289,346,000 (2017: RMB281,717,000).

25 Equity Settled Share-Based Transactions

(a) Share Option Schemes

The Company has two share option schemes (the "Share Option Schemes") which were adopted on 16 December 2008 ("Pre-IPO Plan") and 3 May 2011 ("Post-IPO Plan") respectively whereby the directors of the Company are authorised at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up share options at a consideration of HK$1 to the subscribe for shares of the Company. Each option entitles the option holders to subscribe one ordinary share of the Company.

Plans	Date of grant	Batch	Numbers of options granted	Vesting period	Exercise price (HK$)	Contractual life of options	Remaining contractual life
Options granted to employees:							
Pre-IPO Plan	1 July 2010	Batch 6	1,200,000	1 July 2010 to 30 December 2010	3.38	10 years	1.5 years
	1 July 2010	Batch 7	3,600,000	1 July 2010 to 30 December 2011	3.38	10 years	1.5 years
	1 July 2010	Batch 8	3,600,000	1 July 2010 to 30 December 2012	3.38	10 years	1.5 years
	1 July 2010	Batch 9	3,600,000	1 July 2010 to 30 December 2013	3.38	10 years	1.5 years
Post-IPO Plan	4 January 2012	Batch 10	58,000,000	4 January 2012 to 4 January 2015	1.45	10 years	3.02 years
	8 October 2013	Batch 11	31,500,000	8 October 2013 to 8 October 2016	1.61	10 years	4.78 years
Options granted to directors:							
Post-IPO Plan	4 January 2012	Batch 10	10,000,000	4 January 2012 to 4 January 2015	1.45	10 years	3.02 years
		Total	111,500,000				

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

25 Equity Settled Share-Based Transactions (Continued)

(a) Share Option Schemes (Continued)

The number and weighted average exercise prices of share options are as follows:

	2018 Weighted average exercise price HK$	Number of options '000	2017 Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the year	**1.78**	**106,460**	1.79	111,811
Forfeited during the year	**1.82**	**(7,747)**	1.88	(5,351)
Expired during the year	**2.08**	**(8,312)**	—	—
Outstanding at the end of the year	**1.73**	**90,401**	1.78	106,460
Exercisable at the end of the year	**1.73**	**90,401**	1.78	106,460

The share options outstanding at 31 December 2018 and 2017 had an exercise price of HK$3.38, HK$1.45 or HK$1.61 and a weighted-average remaining contractual life of 3.1 years (31 December 2017: 3.7 years). No options were exercised during the year ended 31 December 2018 (2017: Nil).

During the year ended 31 December 2018, the Group reversed RMB4,780,000 (2017: RMB2,912,000) in respect of forfeited share options from several resigned staffs.

During the year ended 31 December 2018, the Group reversed RMB6,429,000 (2017: Nil) in respect of 8,312,000 (2017: Nil) expired share options under the Pre-IPO Plan.

(b) Share Award Scheme

On 25 April 2016, the board of directors of the Company approved the adoption of a Share Award Scheme (the "Share Award Scheme") under which shares of the Company (the "Awarded Shares") are awarded to selected employees of the Group in accordance with the provisions of the Share Award Scheme.

The shares to be awarded under the Share Award Scheme are acquired by the independent trustee from the open market out of cash contributed by the Group and held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the Share Award Scheme.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

25 Equity Settled Share-Based Transactions (Continued)

(b) *Share Award Scheme (Continued)*

The board of directors shall not make any further award which will result in the aggregate number of Awarded Shares awarded by the board throughout the duration of the Share Award Scheme to exceed 5% of the total number of issued shares of the Company from time to time. The number of the Awarded Shares awarded to each of selected employees shall not exceed 1% of the total number of issued shares from time to time.

When a selected employee has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the board of directors of the Company at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Awarded Shares to that employee at no cost. The selected employee however is not entitled to receive any income or distribution, such as dividend derived from the unvested Awarded Shares allocated to him/her.

Subject to any early termination as may be determined by the board of directors, the Share Award Scheme shall be valid and effective for a term of 4 years commencing on 25 April 2016.

(i) Details of the shares held under the Share Award Scheme are set out below:

	Average purchase price	No. of shares held	Value of shares	
	HK$	’000	HK$’000	RMB’000
Shares held for the Share Award Scheme as at 31 December 2017	1.26	26,790	33,755	28,887
Vested during the year	1.26	(11,395)	(14,358)	(12,054)
Shares held for the Share Award Scheme as at 31 December 2018	1.26	15,395	19,397	16,833

(ii) Details of the Company’s Share Award Scheme are as follows:

Date of grant	Vesting date	Number of Awarded Shares				
		granted	forfeited	vested	modified	unvested
		’000	’000	’000	’000	’000
25 April 2016	31 March 2018	14,500	(1,105)	(11,395)	(2,000)	—
25 April 2016	31 March 2019	14,500	(1,105)	—	2,000	15,395
		29,000	(2,210)	(11,395)	—	15,395

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

25 Equity Settled Share-Based Transactions (Continued)

(b) Share Award Scheme (Continued)

The estimated fair value of the Awarded Shares on the grant date is determined by reference to the market price of the Company's shares.

The Group recognised share award expenses of RMB5,693,000 during the year ended 31 December 2018 (2017: RMB9,841,000) with a corresponding increase in a capital reserve within equity in accordance with below accounting policy adopted for share-based payments.

Own equity instruments which are reacquired (shares held under the Share Award Scheme) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

The fair value of award shares granted to employees is recognised as an employee cost with a corresponding increase in other reserves within equity. The fair value is measured at the share price of the Company on the grant date. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the award shares, the total estimated fair value of the award shares is spread over the vesting period, taking into account the probability that the award shares will vest.

During the vesting period, the number of award shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to other reserves. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of award shares that vest (with a corresponding adjustment to other reserves) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in other reserves until either the award shares are exercised (when it is transferred to the share premium account) or the award shares expire (when it is released directly to retained profits).

The Group has extended the vesting period of 2,000,000 share awarded to two directors in the Share Award Scheme, the vesting date of which was extended from 31 March 2018 to 31 March 2019.

At 31 December 2018, 15,395,000 ordinary shares were held by the trustee under the Share Award Scheme.

26 Income Tax in the Consolidated Statement of Financial Position

(a) Current taxation in the consolidated statement of financial position represents:

	2018 **RMB'000**	2017 RMB'000
At 1 January	**22,635**	24,536
Provision for income tax (note 6(a))	**60,110**	63,843
Provision for dividend withholding tax (note 26(b))	**5,400**	—
(Over-provision)/Under-provision in respect of prior years (note 6(b)(viii))	**(5,223)**	596
PRC income tax paid	**(60,674)**	(66,201)
Withholding tax paid	**(5,589)**	—
Income tax paid by subsidiaries in other jurisdictions	**—**	(139)
At 31 December	**16,659**	22,635

26 Income Tax in the Consolidated Statement of Financial Position (Continued)

(b) *Deferred tax assets and liabilities recognised:*

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Write-downs of inventories	Credit loss allowance (Note)	Impairment of unlisted equity securities	Unused tax losses	Unrealised profit in inventories	Change in fair value of listed equity securities	Lease prepayments	Other property, plant and equipment	Inventories	Accrued expense	Provision of withholding tax on retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2017	8,455	8,183	3,188	1,286	2,789	(4,818)	(628)	(3,342)	(972)	604	—	14,745
Credited/(charged) to profit or loss	8,401	2,433	(3,089)	(1,286)	(496)	—	14	181	58	22	(25,000)	(18,762)
Other comprehensive income	—	—	—	—	—	(696)	—	—	—	—	—	(696)
Balance as at 31 December 2017	16,856	10,616	99	—	2,293	(5,514)	(614)	(3,161)	(914)	626	(25,000)	(4,713)
Impact on initial application of IFRS 9	—	1,810	—	—	—	—	—	—	—	—	—	1,810
Balance at 1 January 2018	16,856	12,426	99	—	2,293	(5,514)	(614)	(3,161)	(914)	626	(25,000)	(2,903)
Credited/(charged) to profit or loss	(5,559)	5,940	323	—	2,218	—	14	600	797	(345)	13,054	17,042
Other comprehensive income	—	—	—	—	—	4,866	—	—	—	—	—	4,866
Other transfer-out	—	—	—	—	—	—	—	—	—	—	5,400	5,400
Balance as at 31 December 2018	11,297	18,366	422	—	4,511	(648)	(600)	(2,561)	(117)	281	(6,546)	24,405

Note: Upon the initial application of IFRS 9, the Group has recognised deferred tax assets on the additional credit losses recognised under the ECL model (see note 1(c)(i))

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

26 Income Tax in the Consolidated Statement of Financial Position (Continued)

(b) *Deferred tax assets and liabilities recognised: (Continued)*

(ii) Reconciliation to the consolidated statement of financial position

	2018 RMB'000	2017 RMB'000
Net deferred tax assets recognised on the consolidated statement of financial position	**36,311**	30,490
Net deferred tax liabilities recognised on the consolidated statement of financial position	**(11,906)**	(35,203)
	24,405	(4,713)

(c) *Deferred tax assets not recognised*

No deferred tax assets have been recognised in respect of unused tax losses from certain subsidiaries as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. All of the tax losses, apart from those in the PRC and Peru, which have expiration periods of 5 years and 4 years respectively, do not expire under current tax legislation. As at the end of the reporting period, unused tax losses that:

	2018 RMB'000	2017 RMB'000
Expire by		
31 December 2018	**—**	53
31 December 2019	**6,953**	7,060
31 December 2020	**49,158**	49,498
31 December 2021	**21,860**	22,038
31 December 2022	**36,304**	36,304
31 December 2023	**84,487**	—
Sub-total	**198,762**	114,953
Unexpired under current tax legislation	**290,247**	255,037
Total	**489,009**	369,990

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

26 Income Tax in the Consolidated Statement of Financial Position (Continued)

(d) Deferred tax liabilities not recognised

During the year, certain PRC subsidiaries of the Company distribute profit of RMB184,536,000 in respect of distribution plan of RMB250,000,000 declared in prior year the "Proposed Dividend"), the related deferred taxation of RMB18,454,000 were realised thereon. At 31 December 2018, except for deferred tax liabilities of RMB6,546,000 (31 December 2017: RMB25,000,000) recognised for the Proposed Dividend, no further deferred taxation was recognised in respect of the dividend withholding tax relating to the undistributed profits of the Company's subsidiaries, as the Company controls the dividend policy of these subsidiaries. The Directors of the Group determined that the undistributed profits of the Company's subsidiaries would not be distributed in the foreseeable future except for those Proposed Dividend.

The amounts of remaining undistributed profit of the Company's subsidiaries are set out below:

	2018 **RMB'000**	2017 RMB'000
Distributable profits earned by PRC subsidiaries on or after 1 January 2008	**1,436,005**	1,218,854

As all of the Company's PRC subsidiaries are directly or indirectly owned by a Hong Kong or Macau incorporated subsidiary which is not a qualified tax resident, a rate of 10% is applicable to the PRC dividend withholding tax. Pursuant to the Corporate Income Tax Law of Peru, overseas investors of the domiciled legal entities shall be liable for withholding income tax at 6.8%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

27 Share Capital

(a) Issued and fully paid

	Ordinary shares		
	Number of ordinary shares	**Nominal value of fully paid ordinary shares** USD'000	**Nominal value of fully paid ordinary shares** RMB'000
As at 1 January 2017, 31 December 2017, and 1 January 2018	1,468,237,990	1,468	9,596
Shares repurchased and cancelled	(30,856,000)	(31)	(205)
As at 31 December 2018	1,437,381,990	1,437	9,391

(b) Purchase of own shares

During the year 2018, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	**Number of shares repurchased**	**Highest price paid per share** HK$	**Lowest price paid per share** HK$	**Aggregate price paid** RMB'000
May 2018	6,500,000	1.51	1.43	7,846
June 2018	6,356,000	1.71	1.48	8,365
July 2018	6,000,000	1.68	1.58	8,267
September 2018	10,000,000	1.60	1.56	13,754
October 2018	2,000,000	1.62	1.53	2,804
	30,856,000			41,036

The reserve for the Company's other treasury shares comprises the cost of the Company's shares held by the Group. At 31 December 2018, the Group held 2,210,000 Company's shares.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (Note 27)	Share premium RMB'000 (Note 28(d))	Share held for the Share Award Scheme RMB'000 (Note 25(b)(i))	Other treasury Shares RMB'000	Capital redemption reserve RMB'000 (Note 28(e))	Exchange reserve RMB'000 (Note 28(b))	Fair value reserve (recycling) RMB'000 (Note 28(f))	Fair value reserve (non-recycling) RMB'000 (Note 28(g))	Other reserves RMB'000	(Accumulated loss)/retained profits RMB'000	Total equity RMB'000
At 31 December 2017	**9,596**	**960,406**	**(28,887)**	**(2,382)**	**84**	**(46,074)**	**—**	**—**	**396,070**	**(531)**	**1,288,282**
Changes in equity for the year ended 31 December 2018											
Loss for the year	—	—	—	—	—	—	—	—	—	(8,701)	(8,701)
Other comprehensive income	—	—	—	—	—	61,387	—	(1,361)	—	—	60,026
Total comprehensive income	—	—	—	—	—	61,387	—	(1,361)	—	(8,701)	51,325
Share options forfeited during the year	—	—	—	—	—	—	—	—	(11,209)	11,209	—
Equity settled Share Award Scheme (note 25(b))	—	(1,722)	12,054	—	—	—	—	—	(4,639)	—	5,693
Disposal of FVOCI	—	—	—	—	—	—	—	—	—	1,268	1,268
Purchase and cancellation of own shares	(205)	(40,831)	—	—	—	—	—	—	—	—	(41,036)
At 31 December 2018	**9,391**	**917,853**	**(16,833)**	**(2,382)**	**84**	**15,313**	**—**	**(1,361)**	**380,222**	**3,245**	**1,305,532**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 Reserves (Continued)

	Share capital RMB'000 (Note 27)	Share premium RMB'000 (Note 28(d))	Share held for the Share Award Scheme RMB'000 (Note 25(b)(i))	Other treasury Shares RMB'000	Capital redemption reserve RMB'000 (Note 28(e))	Exchange reserve RMB'000 (Note 28(b))	Fair value reserve (recycling) RMB'000 (Note 28(f))	Fair value reserve (non-recycling) RMB'000 (Note 28(g))	Other reserves RMB'000	(Accumulated loss)/retained profits RMB'000	Total equity RMB'000
At 31 December 2016 and 1 January 2017	9,596	960,406	(31,269)	—	84	40,172	—	—	393,686	28,054	1,400,729
Changes in equity for the year ended 31 December 2017											
Loss for the year	—	—	—	—	—	—	—	—	—	(31,497)	(31,497)
Available for sales securities disposal: transfer to profit or loss	—	—	—	—	—	(86,246)	—	—	—	—	(86,246)
Total comprehensive income	—	—	—	—	—	(86,246)	—	—	—	(31,497)	(117,743)
Deregistration of subsidiaries acquired under common control	—	—	—	—	—	—	—	—	(4,545)	—	(4,545)
Equity settled Share Award Scheme (note 25(b))	—	—	—	—	—	—	—	—	9,841	—	9,841
Share transferred to other treasury share upon forfeiture	—	—	2,382	(2,382)	—	—	—	—	—	—	—
Share options forfeited during the year (note 25(a))	—	—	—	—	—	—	—	—	(2,912)	2,912	—
At 31 December 2017	9,596	960,406	(28,887)	(2,382)	84	(46,074)	—	—	396,070	(531)	1,288,282

Note: The Group, including the Company, has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see note 1(c)). There is no impact on adoption of IFRS 15 and IFRS 9 to the Company's individual components of equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 Reserves (Continued)

(a) *Statutory surplus reserve*

(i) According to the current PRC Company Law, the Group's subsidiaries established and operated in the PRC are required to transfer 10% of their profit after taxation to statutory surplus reserve until the surplus reserve balance reaches 50% of the registered capital. For the purpose of calculating the transfer to reserve, the profit after taxation shall be the amount determined based on the statutory financial statements prepared in accordance with PRC accounting standards. The transfer to this reserve has to be made before distribution of dividend by these entities.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(ii) The Macau Commercial Code requires that a company should set aside a minimum of 25% of the Company's profit after taxation to the legal reserve until the balance of the reserve reaches 50% of the Company's paid-in capital. The reserve can be utilised to offset accumulated losses, if any, and for capitalisation issue.

(iii) The Peru Corporation Law requires that a company should set aside a minimum of 10% of the Company's profit after taxation to the legal reserve until the balance equal to 20% of the paid-in capital. The reserve can be used to offset future net losses.

(b) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currencies other than the RMB presentation currency.

(c) *Other reserves*

The Group's other reserves comprise the following:

	2018 **RMB'000**	2017 RMB'000
Equity settled share-based transactions (i)	**66,769**	82,617
Capital contributions	**596**	596
Arising from reorganisation	**99**	99
	67,464	83,312

(i) The equity settled share-based transactions represent the cumulative value of the equity settled share options granted to employees recognised in accordance with the accounting policy adopted for share-based payments in note 1(s)(ii).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 Reserves (Continued)

(d) Share premium

Under the Companies Law of the Cayman Islands, 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.

(e) Capital redemption reserve

Capital redemption reserve represents the nominal amount of the shares repurchased.

(f) Fair value reserve (recycling)

Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with IAS 39. This amount has been reclassified to fair value reserve (non-recycling) upon the initial adoption of IFRS 9 at 1 January 2018 (see note 1(c)(i)).

(g) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see note 1(f)).

(h) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bills payables and interest-bearing loans and borrowings), less cash and cash equivalents and pledged deposits. Adjusted capital comprises all components of equity.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 Reserves (Continued)

The Group's adjusted net debt-to-capital ratio at 31 December 2018 and 2017 was as follows:

	Note	2018 RMB'000	2017 RMB'000
Current liabilities:			
Bills payables	22	**498,071**	200,900
Bank and other loans	24	**593,311**	665,361
		1,091,382	866,261
Non-current liabilities:			
Bank loans	24	**107,092**	103,900
Total debt		**1,198,474**	970,161
Less: Cash and cash equivalents	21	**(823,843)**	(749,862)
Restricted deposit	20	**(379,765)**	(241,921)
Adjusted net assets		**(5,134)**	(21,622)
Adjusted capital		**2,269,349**	2,180,679
Adjusted net debt-to-capital ratio		**Not applicable**	Not applicable

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except that banking facilities granted to certain subsidiaries are subject to the fulfilment of covenants relating to the subsidiaries' balance sheet ratios (Note 24). The Group will actively and regularly monitor its compliance to such covenants.

(i) Distributability of reserves

The aggregate amount of reserves available for distribution to equity shareholders of the Company at 31 December 2018 was HK$1,584,000,000 (equivalent to RMB1,299,959,000) (2017: HK$1,549,000,000 (equivalent to RMB1,358,000,000)) which comprises of share premium, fair value reserve, (accumulated losses)/retained profits excluding net unrealised gains on derivative financial instrument and other reserves.

(j) Dividends

No final dividend has been proposed by the Company for the year ended 31 December 2018 (2017: Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables, other receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivables is limited because the counterparties are banks and financial institutions, for which the Group considers to have low credit risk. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group does not provide any other guarantees which would expose the Group to credit risk.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 10% (2017: 38%) and 22% (2017: 41%) of the total trade receivables and contract assets was due from the Group's largest customer and the five largest customers of the Group.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 365 days from the date of billing. For debtors with balances past due, the Group will request the debtors to settle all outstanding balances or negotiate the payment terms. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix based on ageing of trade receivables and credit loss rate. As the Group's historical credit loss experience indicates significantly different loss patterns for different customer segments, the loss allowance based on ageing information is further distinguished between the Group's different customer bases, which include property developers, domestic distributors and overseas distributors for the purpose of measuring ECLs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values (Continued)

(a) *Credit risk* *(Continued)*

Trade receivables and contract assets

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2018:

	Expected loss rate	Gross Carrying amount	Loss allowance
	%	RMB'000	RMB'000
Property developers			
Within 1 year	1%	551,495	(5,515)
Over 1 year but within 2 years	10%	53,591	(5,359)
Over 2 years but within 3 years	50%	12,929	(6,465)
Over 3 years	100%	29,223	(29,223)
Subtotal		647,238	(46,562)
Domestic Distributors			
Within 1 year	1%	373,858	(3,739)
Over 1 year but within 2 years	25%	20,271	(5,068)
Over 2 years but within 3 years	50%	2,168	(1,084)
Over 3 years	100%	1,790	(1,790)
Subtotal		398,087	(11,681)
Overseas Distributors			
Within 1 year	1%	19,640	(196)
Over 1 year but within 2 years	50%	3,696	(1,848)
Over 2 years but within 3 years	100%	25,012	(25,012)
Over 3 years	100%	36,717	(36,717)
Subtotal		85,065	(63,773)
Total		1,130,390	(122,016)

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values (Continued)

(a) Credit risk (Continued)

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(l)(i) — policy prior to 1 January 2018). At 31 December 2017, trade receivables of RMB122,937,000 were determined to be impaired. The aging analysis of trade receivables that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	881,970
Less than 3 months past due	73,051
More than 3 months but less than 12 months past due	121,820
More than 12 months past due	79,416
	1,156,257

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values (Continued)

(a) *Credit risk (Continued)*

Comparative information under IAS 39 (Continued)

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

	2018 RMB'000	2017 RMB'000
Balance at 31 December under IAS 39	**98,806**	71,736
Impact on initial application of IFRS 9 (note 1(c)(i))	**7,377**	—
Balance at 1 January	**106,183**	71,736
Amounts written off during the year	**(6,780)**	(1,573)
Impairment losses recognised during the year	**60,660**	43,846
Reversal of impairment loss	**(35,667)**	(15,203)
Balance at 31 December	**124,396**	98,806

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the increase in the loss allowance during 2018:

— origination of new trade receivables resulted in an increase in loss allowance of RMB6,504,000;

— increase in trade receivables balance over one year resulted in an increase in loss allowance of RMB54,156,000; and

— a write-off of trade receivables with a gross carrying amount of RMB6,780,000 resulted in a decrease in loss allowance of RMB6,780,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it maintains sufficient reserves of cash on demand and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	At 31 December 2018				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Bank and other loans	**625,695**	**6,297**	**119,300**	**751,292**	**700,403**
Trade and bills payables	**897,245**	**—**	**—**	**897,245**	**897,245**
Deposits received, accruals and other payables	**304,138**	**—**	**—**	**304,138**	**304,138**
	1,827,078	**6,297**	**119,300**	**1,952,675**	**1,901,786**

	At 31 December 2017				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Bank loans	684,214	6,462	122,931	813,607	769,261
Trade and bills payables	609,164	—	—	609,164	609,164
Deposits received, accruals and other payables	384,584	—	—	384,584	384,584
	1,677,962	6,462	122,931	1,807,355	1,763,009

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values (Continued)

(c) *Interest rate risk*

The Group's interest rate risk arises primarily from bank and other loans. Bank and other loans issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings at the end of the reporting period:

	2018		2017	
	Effective interest rate %	**Carrying amount RMB'000**	Effective interest rate %	Carrying amount RMB'000
Variable rate instruments				
Bank loans	**4.69%**	**283,753**	4.23%	305,452
Fixed rate instruments				
Bank loans	**6.20%**	**318,744**	5.48%	463,809
Other loans	**8.80%**	**97,906**	—	—
Total borrowings		**700,403**		769,261
Fixed rate borrowings as a percentage of total borrowings		**59%**		60%

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates in bank loans, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits year by RMB2,570,000 (2017: RMB2,746,000) respectively.

The sensitivity analysis indicates the impact on the Group's profit after tax and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values (Continued)

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the entity to which the transactions relate. The currencies giving rise to this risk are primarily USD, PEN and EUR. The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB translated using the spot rate at the year-end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies					
	31 December 2018			31 December 2017		
	USD RMB'000	**PEN RMB'000**	**EUR RMB'000**	USD RMB'000	PEN RMB'000	EUR RMB'000
Cash and cash equivalents	**10,899**	**76**	**4,510**	13,526	574	20,895
Trade and bills receivables	**32,122**	**75,724**	**296**	30,430	80,927	8,544
Deposits, prepayments and other receivables	**2,026**	**3,484**	**13,982**	137	12,340	1,841
Trade and bills payables	**(4,156)**	**(1,348)**	**(13,412)**	(11,807)	(1,274)	(50,317)
Deposits received, accruals and other payables	**(5,907)**	**(656)**	**(10,783)**	—	(1,600)	—
Bank and other loans	**—**	**—**	**(34,190)**	—	—	(22,767)
Gross exposure arising from recognised assets and liabilities	**34,984**	**77,280**	**(39,597)**	32,286	90,967	(41,804)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values (Continued)

(d) *Currency risk (Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables, in particular interest rates, remain constant.

	31 December 2018			31 December 2017		
	Increase/ (decrease) in foreign exchange rates	**Effect on profit for the year RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year RMB'000	Effect on other components of equity RMB'000
USD	**1%**	**350**	**350**	1%	323	323
USD	**(1%)**	**(350)**	**(350)**	(1%)	(323)	(323)
PEN	**1%**	**773**	**773**	1%	910	910
PEN	**(1%)**	**(773)**	**(773)**	(1%)	(910)	(910)
EUR	**1%**	**(396)**	**(396)**	1%	(418)	(418)
EUR	**(1%)**	**396**	**396**	(1%)	418	418

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax for the year and equity measured in the respective functional currencies, translated into reporting currency (RMB) at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values (Continued)

(e) Commodity price risk

Various wood cores and timber are the major materials of the Group's products which accounted for 63% (2017: 58%) of total cost of sales. Fluctuation on commodity price of wood cores and timber will have significant impact on the Group's earnings, cash flows as well as the value of inventories. The Group minimises the cost of materials by bulk purchase of major raw materials and acquisition of natural resources. The Group has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(f) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as FVOCI (see note 15). Other than unquoted securities held for strategic purposes, all of these investments are listed.

The Group's listed investments are listed on the National Equities Exchange and Quotations in the PRC and Stock Exchange of Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group's liquidity needs. Listed investments that are not held for trading purposes have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

All of the Group's unquoted investments are held for long-term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long-term strategic plans.

At 31 December 2018, it is estimated that an increase/(decrease) of 20% (2017: 20%) in the relevant stock market index (for listed investments), the price/earnings ratios of comparable listed companies (for unquoted investments) or the Company's own share price (for the conversion option of certain convertible bonds) as applicable, with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

	2018	**Effect on other components of equity RMB'000**	2017	Effect on other components of equity RMB'000
Change in the relevant equity price risk variable:				
Increase	**20%**	**9,281**	20%	7,065
Decrease	**(20%)**	**(9,281)**	(20%)	(7,065)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values (Continued)

(f) Equity price risk (Continued)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax and retained profits and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2017.

(g) Fair value measurement

(i) Financial instruments carried at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

— Level 3 valuations: Fair value measured using significant unobservable inputs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values (Continued)

(g) *Fair value measurement (Continued)*

(i) Financial instruments carried at fair value (Continued)

Fair value hierarchy (Continued)

	Fair value at 31 December 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements				
Assets:				
Non-trading listed equity securities (note)	**55,554**	**55,554**	**—**	**—**
Unlisted equity securities (note)	**28,484**	**—**	**—**	**28,484**

	Fair value at 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements				
Assets:				
Non-trading listed equity securities (note)	47,102	47,102	—	—
Unlisted equity securities (note)	28,274	—	28,274	—

During the years ended 31 December 2017 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. Unlisted equity securities, were categorised into Level 3, upon the adoption of IFRS 9 at 1 January 2018, which were exempt to fair value measurement and recognised in the statement of financial position at cost less impairment losses as at 31 December 2017. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Note: Non-trading listed equity securities and unlisted equity securities, which were classified to available-for-sale financial assets as at 31 December 2017, designated at FVOCI (non-recycling) upon the adoption of IFRS 9 at 1 January 2018 (See note 1(c)(i)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Financial Risk Management and Fair Values (Continued)

(g) Fair value measurement (Continued)

(i) Financial instruments carried at fair value (Continued)

Information about Level 3 fair value measurements

The fair value of unlisted equity equities is determined using the cost as approximation of fair value, as the investees were pre-revenue entity, when there was no catalyst for a change in fair value, and insufficient recent information was available to measure fair value. The movement during the period in the balance of Level 3 fair value measurements is as follows:

	2018 **RMB'000**	2017 RMB'000
Unlisted equity securities:		
At 1 January	**28,274**	—
Additions	**210**	—
At 31 December	**28,484**	—

From 1 January 2018, any gains or losses arising from the remeasurement of the Group's unlisted equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings. Prior to 1 January 2018, any gains or losses arising from the disposal and impairment of the unlisted equity securities were presented in the "Other income" and "Other operating expenses" line items respectively in the consolidated statement of profit or loss.

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2017 and 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

30 Commitments and Contingent Liabilities

(a) Capital commitments

Capital commitments outstanding at the end of the reporting period not provided for in the consolidated financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Contracted for	**14,122**	41,732

(b) Operating lease commitments

At the end of the reporting period, the total future minimum lease payments under operating leases are as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**27,098**	20,232
After 1 year but within 3 years	**26,969**	13,976
After 3 years but within 5 years	**9,179**	1,993
After 5 years	**3,144**	3,640
	66,390	39,841

The Group leases a number of manufacturing facilities under operating leases. The leases typically run for an initial period of half a year to twenty years, with an option to renew the lease when all terms are negotiated. None of the leases included contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

31 Material Related Party Transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2018 **RMB'000**	2017 RMB'000
Short-term employee benefits	**12,395**	9,170
Post-employment benefits	**52**	24
Equity settled share-based payment expenses	**538**	1,557
	12,985	10,751

Total remuneration is included in "staff costs" (note 5(b)).

(b) Related Party Transactions

	2018 **RMB'000**	2017 RMB'000
Distribution network usage fees from Youzong Home	**2,311**	—
Purchase goods from Youzong Home	**2,509**	—
Service income from Youzong Home	**820**	—

Distribution network usage fees arose from Youzhong Furnishing's sale of home decoration product via the Group's distribution network. During the year, the Group also commenced with Youzhong Furnishing to purchase certain consumables for promotion.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

31 Material Related Party Transactions (Continued)

(c) *Balances with related parties*

(i) Amount due from related parties

	2018 RMB'000	2017 RMB'000
Swift Top Capital Resources Limited	**28**	13,467
Nature Flooring (Europe) Limited	—	7,892
Parquet Nature (France) S.A.R.L.	—	16,768
Youzong Home	**12,446**	—

(ii) Amount due to related parties

	2018 RMB'000	2017 RMB'000
Swift Top Capital Resources Limited	—	12,525
Nature Flooring (Europe) Limited	—	4,607
Parquet Nature (France) S.A.R.L.	—	4,513

The balances with these related parties are unsecured, interest-free and have no fixed repayment terms.

(d) *Applicability of the Listing Rules relating to connected transactions*

The related party transactions in respect of purchase and sales, as well as brand and distribution network charges above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

32 Company-Level Statement of Financial Position

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Investments in subsidiaries		**307,283**	292,553
Available-for-sale listed equity securities		**18,965**	—
Other receivables		**1,271,469**	1,152,104
		1,597,717	1,444,657
Current asset			
Cash and cash equivalents		**18,458**	8,474
		18,458	8,474
Current liabilities			
Banks loans		**148,670**	158,823
Deposits received, accruals and other payables		**161,973**	6,026
		310,643	164,849
Net current liabilities		**(292,185)**	(156,375)
NET ASSETS		**1,305,532**	1,288,282
CAPITAL AND RESERVES			
Share capital	27	**9,391**	9,596
Reserves	28	**1,296,141**	1,278,686
TOTAL EQUITY		**1,305,532**	1,288,282

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

33 Comparative Figures

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

34 Immediate and Ultimate Controlling Parties

At 31 December 2018, the directors consider the immediate parent of the Group to be Freewings Development Co., Ltd., which is incorporated in BVI. This entity does not produce financial statements available for public use. The ultimate controlling parties are Mr. Se Hok Pan and Ms. Un Son I.

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2018

Up to the date of issue of these financial statements, the IASB has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019
Amendments to IAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

35 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2018 (Continued)

IFRS 16, Leases

As disclosed in note 1(k), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information.

FIVE YEARS SUMMARY

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Results					
Turnover	**2,918,016**	2,550,646	2,315,651	2,012,092	1,979,285
Net change in fair value of biological assets	**—**	—	—	(225,928)	(144,349)
Profit/(loss) from operations	**210,235**	143,328	66,436	(186,347)	(19,840)
Net finance costs	**(27,343)**	(6,661)	(7,246)	(62,022)	(19,636)
Profit/(loss) before taxation	**182,892**	136,667	59,190	(248,369)	(39,476)
Income tax	**(37,845)**	(83,201)	(57,368)	(20,898)	(33,766)
Profit/(loss) for the year	**145,047**	53,466	1,822	(269,267)	(73,242)
Attributable to:					
Equity shareholders of the Company	**156,785**	68,182	38,280	(267,742)	(75,356)
Non-controlling interests	**(11,738)**	(14,716)	(36,458)	(1,525)	2,114
Profit/(loss) for the year	**145,047**	53,466	1,822	(269,267)	(73,242)
Assets and liabilities					
Non-current assets	**1,310,342**	1,185,004	1,147,960	1,151,335	1,319,377
Current assets	**2,976,117**	2,816,522	2,541,222	2,193,677	2,068,648
Total assets	**4,286,459**	4,001,526	3,689,182	3,345,012	3,388,025
Current liabilities	**(1,898,112)**	(1,681,744)	(1,507,873)	(1,086,205)	(947,156)
Non-current liabilities	**(118,998)**	(139,103)	(98,270)	(46,094)	(21,186)
NET ASSETS	**2,269,349**	2,180,679	2,083,039	2,212,713	2,419,683
Share capital	**9,391**	9,596	9,596	9,596	9,596
Reserves	**2,203,108**	2,105,760	2,047,511	2,150,591	2,393,116
Non-controlling interests	**56,850**	65,323	25,932	52,526	16,971
TOTAL EQUITY	**2,269,349**	2,180,679	2,083,039	2,212,713	2,419,683
Earnings/(Loss) per share (Note)					
Basic	**0.109**	0.047	0.026	(0.18)	(0.05)
Diluted	**0.109**	0.047	0.026	(0.18)	(0.05)

Note:

For the years ended 31 December 2018, 2017, 2016, 2015 and 2014, the effect of the Company's share option plans were anti-dilutive.