Royal HOME 皇朝家居

Stock Code: 1198

2023 ANNUAL REPORT

ROYALE HOME HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Lin Ruhai (appointed as Chairman, Executive Director and Chief Executive Officer on 1 December 2023)
Mr. Tse Kam Pang (re-designated from Chairman to Co-Chairman on 9 June 2023)
Mr. Yang Jun *(Chief Executive Officer)* (appointed as Chairman on 9 June 2023, resigned on 1 December 2023)

Non-Executive Directors

Mr. Wu Zhongming
Mr. Tao Ying (appointed on 18 January 2023)
Mr. Yao Jingming (appointed on 4 September 2023)
Ms. Yang Ying (appointed on 1 December 2023)
Mr. Wu Dingliang (resigned on 18 January 2023)
Mr. Chen Yisheng (resigned on 4 September 2023)
Ms. Qin You (resigned on 1 December 2023)

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chui See Lai

AUDITOR

Ernst & Young

LEGAL ADVISERS AS TO HONG KONG LAW

Jeffrey Mak Law Firm

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

1198

INVESTOR RELATIONS

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

I hereby present the annual results of Royale Home Holdings Limited ("Royale Home" or the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2023.

REVIEW OF 2023

With the pandemic impact receding in 2023, Chinese social life and economic activities are gradually returning to normal, marking the beginning of a new era after the pandemic in the People's Republic of China (the "PRC"). The Central Government's policies promoting consumption have stabilized the economic system, yet due to ongoing recovery in consumer demand and a weak real estate sector, the recovery of consumer durables, such as furniture products, has been even slower.

The Group endeavored to secure more business and projects from large commercial customers and sales from distributors in order to maintain its business scale by increasing discounts during the year.

Besides, the Group has dedicated the year to strategically developing a comprehensive range of home products to cater to diverse market needs. The Group aims to capture current market demands by offering a variety of products to the public. Concurrently, the Group is constantly deepening the sustainable development of its home furnishings divisions, including sofa, custom-made furniture, high-end finished furniture and sleep product divisions.

Throughout the year, the Group continued to enhance its offline distribution network by attracting high-quality distributors while phasing out low-quality ones. Adjustments were made according to market demands, resulting in a net increase of 1.7% to 1,942 sales outlets by year-end compared to the same period last year. Facing the slowdown in real estate market sales and the trend of consumers delaying purchases of large furniture items, the Group has adjusted product prices and offers to maintain competitiveness and market share, and also significantly increased promotional activities and discounts, resulting in lower gross margins and higher operating expenses. Under prudent financial considerations, the Group's overall impairment of trade receivables, other receivables and inventories increased during the year.

The collaboration with strategic shareholder Science City (Guangzhou) Investment Group Co., Ltd.* (科學城（廣州）投資集團有限公司) (the "Science City", together with its subsidiaries referred to as the "Science City Group") is deepening. Leveraging Science City Group's extensive political and business network, the Group achieved significant growth in furniture projects during the year, partially offsetting the decline in franchise sales. The Group is actively advancing project cooperation with commercial customers, expanding the scale and variety of furniture projects. As one of Huawei Group's designated furniture suppliers, we provide high-quality custom-made furniture, sofas, and movable furniture to multiple Huawei bases, along with comprehensive after-sales services, adhering to the concept of providing "healthy, safe, comfortable, and elegant" products and creating an ideal working and living environment for Huawei employees.

In the third quarter of 2023, the Group's hotel located in Xiancun Town, Zengcheng District, Guangdong Province, completed an upgrade and optimization, re-entering the market with a brand-new image. The hotel added several unique facilities and events, and hosted multiple large corporate events in the latter half of 2023, which were well-received by commercial clients and a wide range of travelers. The optimization of such hotel during the year reduced the number of its operating days, and due to the fixed depreciation cost of the properties, the gross profit margin of hotel business dropped significantly, but is expected to improve as the hotel has been fully put into operation in the third quarter.

During the year, the Group reorganized its business structure and ceased the commodity trading business, resulting in a significant decrease in revenue due to the change of structure.

During the year ended 31 December 2023, the Group recorded a year-on-year decrease of 43.4% to RMB827.9 million in sales. Gross profit margin decreased to 3.2% from 14.4% last year. The Group recorded a net loss for the year attributable to owners of the parent of RMB381 million.

* *For identification purposes only*

CHAIRMAN'S STATEMENT

OUTLOOK

In 2024, during the 2nd session of the 14th National People's Congress, the Chinese Government work report proposed to address real estate risks through targeted measures to maintain stability in the overall economic and financial situation. It also aimed to accelerate the construction of a new model for real estate development, revitalizing related markets. Some cities have already implemented policies to relax property purchase restrictions. At the same time, the Government indicated that future real estate industry development would focus on advancing the "Three Major Projects": construction of affordable housing, "dual purpose" public infrastructure, and urban village renovation as primary areas. The Group believes that with favorable policies promoting the healthy and stable development of the real estate market, the home furniture industry and its related upstream and downstream sectors are expected to continue recovering. The Group will continue to flexibly adapt to the complex environment, leveraging the latest economic activation policies from the Central government, its strong strategic partnership with Science City Group, and its extensive experience and advantages in furniture projects to seize market opportunities.

Looking ahead, the Group will actively promote cooperation projects with commercial clients and participate in more government-led projects through bidding, expanding the scope and variety of furniture project business to enhance the Group's revenue and market share. Additionally, the Group will continue to integrate franchisee management, segmenting based on regional characteristics, promoting resource sharing within regions, assisting franchisees in cost reduction, thereby improving the efficiency and profitability of the entire sales network.

In the face of the high-interest cycle, the Group will strive to reduce debt expenses, aiming to convert high-interest short-term debt into lower-interest long-term debt. Simultaneously, we will optimize fixed asset structures, revitalize assets, and achieve higher-quality asset returns.

The Group fully recognizes the challenges on the path to economic recovery. Nevertheless, based on its long-standing brand advantages, shareholder strengths, and years of operating experience in the PRC, the Groups firmly believe in its ability to further tap into the comprehensive home industry in the PRC, developing a more effective and flexible business model. The Group will patiently await opportunities, expanding business diversity at the right time, enhancing its overall competitiveness, and maximizing shareholder value.

APPRECIATION

On behalf of the Board of Directors, I would like to extend my gratitude to the management team, business partners and customers, franchisees and all employees. I would also like to express sincere appreciation to our shareholders for their support of the Group. In the coming year, the Group will bravely move forward and continue to strive for long-term and sustainable returns for all shareholders.

Lin Ruhai
Chairman

Hong Kong, 31 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDENDS

The Board has resolved not to declare a final dividend for the year ended 31 December 2023 (2022: HK1 cent per share for final dividend).

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 11 June 2024 to Friday, 14 June 2024, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on Friday, 14 June 2024, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, 7 June 2024.

FINANCIAL REVIEW

For the year ended 31 December 2023, the Group recorded revenue of RMB827.9 million (2022: RMB1,461.0 million), representing a decrease of 43.3% from last year. The decrease in revenue was due to the discontinuation of commodities trading business by the Group during the year. The Group's overall gross profit margin decreased from 14.4% for 2022 to 3.2% for 2023 due to decreased gross profit margin of furniture and hotel business. For the furniture business, the gross profit margin decreased from 24.6% in 2022 to 7.4% in 2023 due to (i) discount promotion of the Company to boost sales and (ii) increased direct material cost.

Loss for the year was RMB386.0 million (2022: profit for the year of RMB10.6 million), representing a decrease of 3,727.5%. Loss attributable to owners of the parent for the year was RMB381.5 million (2022: profit attributable to owners of the parent of RMB4.7 million), representing a decrease of 8,264.7%. The significant decrease was a result of the Group's decreased gross profit, increased operating expenses, turnaround from gains to losses in fair value of investment properties, impairment of trade receivables and financial assets included in prepayments, deposits and other receivables, turnaround from share of profits to share of losses of associates and a reduction in reversal of over-provision of income tax.

For the year ended 31 December 2023, selling and distribution expenses increased by 44.9% to approximately RMB165.4 million (2022: RMB114.1 million), which was mainly due to significant increase in sales promotional activities, such as new store promotion, expansion of home exhibition scale and recruiting of franchisees, in order to increase market share and increased in commission.

Administrative expenses increased by 20.6% to RMB157.2 million (2022: RMB130.4 million), which was mainly attributable to increased consultancy fee and guarantee fee for bank and other loan financing.

Finance costs during the year increased by 20.8% to RMB144.7 million (2022: RMB119.8 million) due to increased in average borrowings and average interest rate during the year.

Share of profits and losses of associates during the year turnaround from share of profits of RMB2.1 million for the year ended 31 December 2022 to share of losses of RMB12.0 million for the year ended 31 December 2023, which was mainly attributable to share of loss of Guangzhou Gangke Real Estate Co., Ltd* ("Gangke", 廣州港科置業有限公司) during the year.

An income tax credit of RMB33.1 million (2022: RMB107.0 million) has been recorded for the year ended 31 December 2023, which mainly represented adjustment in respect of current tax of previous periods.

* *For identification purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

With the pandemic impact receding in 2023, Chinese social life and economic activities are gradually returning to normal, marking the beginning of a new era after the pandemic in the PRC. The Central Government's policies promoting consumption have stabilized the economic system, yet due to ongoing recovery in consumer demand and a weak real estate sector, the recovery of consumer durables, such as furniture products, has been even slower.

The Group endeavored to secure more business and projects from large commercial customers and sales from distributors in order to maintain its business scale by increasing discounts during the year.

Besides, the Group has dedicated the year to strategically developing a comprehensive range of home products to cater to diverse market needs. The Group aims to capture current market demands by offering a variety of products to the public. Concurrently, the Group is constantly deepening the sustainable development of its home furnishings divisions, including sofa, custom-made furniture, high-end finished furniture and sleep product divisions.

Throughout the year, the Group continued to enhance its offline distribution network by attracting high-quality distributors while phasing out low-quality ones. Adjustments were made according to market demands, resulting in a net increase of 1.7% to 1,942 sales outlets by year-end compared to the same period last year. Facing the slowdown in real estate market sales and the trend of consumers delaying purchases of large furniture items, the Group has adjusted product prices and offers to maintain competitiveness and market share, and also significantly increased promotional activities and discounts, resulting in lower gross margins and higher operating expenses. Under prudent financial considerations, the Group's overall impairment of trade receivables, other receivables and inventories increased during the year.

The collaboration with strategic shareholder Science City is deepening. Leveraging Science City Group's extensive political and business network, the Group achieved significant growth in furniture projects during the year, partially offsetting the decline in franchise sales. The Group is actively advancing project cooperation with commercial customers, expanding the scale and variety of furniture projects. As one of Huawei Group's designated furniture suppliers, we provide high-quality custom-made furniture, sofas, and movable furniture to multiple Huawei bases, along with comprehensive after-sales services, adhering to the concept of providing "healthy, safe, comfortable, and elegant" products and creating an ideal working and living environment for Huawei employees.

In the third quarter of 2023, the Group's hotel located in Xiancun Town, Zengcheng District, Guangdong Province, completed an upgrade and optimization, re-entering the market with a brand-new image. The hotel added several unique facilities and events, and hosted multiple large corporate events in the latter half of 2023, which were well-received by commercial clients and a wide range of travelers. The optimization of such hotel during the year reduced the number of its operating days, and due to the fixed depreciation cost of the properties, the gross profit margin of hotel business dropped significantly, but is expected to improve as the hotel has been fully put into operation in the third quarter.

During the year, the Group reorganized its business structure and ceased the commodity trading business, resulting in a significant decrease in revenue due to the change of structure.

Inventory and prepayments, deposits and other receivables

The Group's inventory increased by 21.4% to approximately RMB302.4 million as at 31 December 2023 (2022: RMB249.1 million), which was mainly due to increased number of furniture projects in progress. Prepayments, deposits and other receivables decreased by 12.0% to RMB404.0 million (2022: RMB459.3 million), which was mainly due to reduction in deposits for acquisition of subsidiaries and decrease in prepayments for raw materials, partially set off by increase in other receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

Working capital

The Group had net current liabilities of RMB96.1 million at the end of the year (2022: net current assets of RMB284.0 million). The Group will continue to take initiatives to manage its cashflow and capital commitments. As of mid-March 2024, the Group's cash and cash equivalents was approximately RMB117.2 million. In addition, the Group had restricted cash of approximately RMB149.0 million. As such, there are sufficient funds to effectively support the operations of the Group.

Liquidity and financial resources

The Group had cash and cash equivalents amounted to RMB29.3 million as at 31 December 2023 (2022: RMB356.8 million). As at 31 December 2023, the Group's current ratio (current assets to current liabilities) decreased to 0.96 (2022: 1.16) and the net current liabilities amounted to RMB96.1 million (2022: net current assets of RMB284.0 million). As at 31 December 2023, the interest-bearing bank and other borrowings amounted to RMB2,389.9 million (2022: RMB2,250.4 million), all denominated in Renminbi, loan from the immediate holding company, loan from the ultimate holding company, loan from an associate, loan from non-controlling interests, loan from a director and medium term bonds are total amount of RMB328.6 million (2022: loan from the immediate holding company, loan from an associate, loan from non-controlling interests and medium term bonds are total amount of RMB370.4 million). Approximately 98% of the Group's cash and bank balances and time deposits were denominated in Renminbi with the remaining balance denominated in Hong Kong Dollars. The exposure to the foreign exchange rate fluctuation during the year has been minimal since both of our operating cash inflow and outflow are predominantly in Renminbi. Currently, the Group does not maintain any hedging policy with respect to these foreign currency exposures.

Capital structure

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

Gearing ratio

The gearing ratio is defined as net debt divided by capital plus net debt, amounted to 66% as at 31 December 2023 (2022: 56%).

Pledge of assets

As at 31 December 2023, the Group pledged (i) buildings and a right-of-use asset which had aggregate carrying values of approximately RMB576,668,000 (2022: RMB551,447,000); (ii) time deposits amounting to RMB159,041,000 (2022: RMB149,000,000); (iii) inventories amounting to RMB21,918,000 (2022: RMB7,045,000); (iv) certain machinery amounting to RMB23,464,000 (2022: RMB89,802,000); (v) construction in progress amounting to RMB nil (2022: RMB54,211,000); (vi) an investment property amounting to RMB nil (2022: RMB209,100,000) to secured certain bank and other borrowings granted to the Group; and (vii) 40% equity interest in an associate of approximately RMB715,622,000 (2022: RMB736,976,000) to secure general banking facilities granted to the associate.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant investments, acquisitions and disposals

Particulars of significant investments in associates held by the Group as at 31 December 2023 are set out as follows:

Name	Principal activities	Percentage of equity interest held	Carrying amount as at 31 December 2023 RMB'000	Carrying amount as at 31 December 2022 RMB'000	Percentage to the Group's audited total assets as at 31 December 2023
Guangzhou Fu Yue Design Company Limited ("Fuyue Design")	Design services	50%	**70,297**	72,715	**1.32%**
Sky Walk Limited ("Sky Walk")	Investment	42.42%	**107,363**	119,804	**2.02%**
Gangke	Real Estate	40%	**718,223**	739,577	**13.54%**
Science City (Guangzhou) Financial Leasing Co., Ltd.* (科學城（廣州）融資租賃有限公司) ("SC Financial Leasing")	Financial Leasing	25%	**381,083**	292,182	**7.18%**

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

Future plans for material investments or capital assets

Apart from those disclosed in this annual report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this annual report.

Contingent liabilities

During the year, the Group has provided guarantees of RMB333,000,000 and pledged 40% equity interest in an associate to secure general banking facilities granted to the associate.

PROSPECT

In 2024, during the 2nd session of the 14th National People's Congress, the Chinese Government work report proposed to address real estate risks through targeted measures to maintain stability in the overall economic and financial situation. It also aimed to accelerate the construction of a new model for real estate development, revitalizing related markets. Some cities have already implemented policies to relax property purchase restrictions. At the same time, the Government indicated that future real estate industry development would focus on advancing the "Three Major Projects": construction of affordable housing, "dual-purpose" public infrastructure, and urban village renovation as primary areas. The Group believes that with favorable policies promoting the healthy and stable development of the real estate market, the home furniture industry and its related upstream and downstream sectors are expected to continue recovering. The Group will continue to flexibly adapt to the complex environment, leveraging the latest economic activation policies from the Central government, its strong strategic partnership with Science City Group, and its extensive experience and advantages in furniture projects to seize market opportunities.

* *For identification purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

Looking ahead, the Group will actively promote cooperation projects with commercial clients and participate in more government-led projects through bidding, expanding the scope and variety of furniture project business to enhance the Group's revenue and market share. Additionally, the Group will continue to integrate franchisee management, segmenting based on regional characteristics, promoting resource sharing within regions, assisting franchisees in cost reduction, thereby improving the efficiency and profitability of the entire sales network.

In the face of the high-interest cycle, the Group will strive to reduce debt expenses, aiming to convert high-interest short-term debt into lower-interest long-term debt. Simultaneously, we will optimize fixed asset structures, revitalize assets, and achieve higher-quality asset returns.

The Group fully recognizes the challenges on the path to economic recovery. Nevertheless, based on its long-standing brand advantages, shareholder strengths, and years of operating experience in the PRC, the Groups firmly believe in its ability to further tap into the comprehensive home industry in the PRC, developing a more effective and flexible business model. The Group will patiently await opportunities, expanding business diversity at the right time, enhancing its overall competitiveness, and maximizing shareholder value.

CORPORATE GOVERNANCE REPORT

A. CORPORATE GOVERNANCE PRACTICES

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

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and other stakeholders and enhance shareholder value. The principle of the Company's corporate governance is to promote effective internal control and risk management measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects, and to ensure that its affairs are conducted in accordance with applicable laws and regulations. The Company believes that investors will realise significant long-term value when the Group's businesses are conducted in an open and responsible manner with strong corporate governance.

The Corporate Governance Code (the "CG Code") is set out in Appendix C1 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company has applied the principles in the CG Code. For the financial year of the Company ended 31 December 2023 (the "Year") under review, save as disclosed in this Corporate Governance Report, the Company has complied with the applicable code provisions (the "Code Provisions") and principles under the CG Code as set out in Appendix C1 to the Listing Rules on the Stock Exchange.

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

(a) develop and review the Company's policies and practices on corporate governance;

(b) review and monitor the training and continuous professional development of the Directors and senior management of the Company;

(c) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) review and monitor the code of conduct applicable to employees and the Directors; and

(e) review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

B. DIRECTORS' SECURITIES TRANSACTIONS

In accordance with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix C3 to the Listing Rules, the Company has adopted codes of conduct relating to securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry with the Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code regarding the Directors' securities transactions during the Year.

C. THE BOARD

Roles and responsibilities

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

CORPORATE GOVERNANCE REPORT

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

(a) participating in board meetings of the Company to bring an independent judgement to bear on issue of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;

(b) taking the lead where potential conflicts of interest arise;

(c) serving on the audit, remuneration and other governance committees, if invited; and

(d) scrutinizing the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

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

Board composition

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

*Executive directors (the "**Executive Directors**"):*
Mr. Lin Ruhai (appointed as Chairman, Executive Director and Chief Executive Officer on 1 December 2023)
Mr. Tse Kam Pang (re-designated from Chairman to Co-Chairman on 9 June 2023)
Mr. Yang Jun *(Chief Executive Officer)* (appointed as Chairman on 9 June 2023, resigned on 1 December 2023)

*Non-Executive directors (the "**Non-executive Directors**"):*
Mr. Wu Zhongming
Mr. Tao Ying (appointed on 18 January 2023)
Mr. Yao Jingming (appointed on 4 September 2023)
Ms. Yang Ying (appointed on 1 December 2023)
Mr. Wu Dingliang (resigned on 18 January 2023)
Mr. Chen Yisheng (resigned on 4 September 2023)
Ms. Qin You (resigned on 1 December 2023)

*Independent non-executive directors (the "**Independent Non-executive Directors**"):*
Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew
Mr. Chan Wing Tak Kevin

As at 31 December 2023, the Board consisted of a total of nine members, including two Executive Directors, four Non-executive Directors and three Independent Non-executive Directors. The name and biographical details of each Director and other senior management are set out on pages 27 to 29 of this annual report.

Relationship among Directors

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

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

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

Code Provision C.2.1 of the CG Code provides that the roles of Chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. During the year ended 31 December 2023, Mr. Yang Jun (from 1 January 2023 to 1 December 2023) and Mr. Lin Ruhai (after 1 December 2023) have taken both the positions as Chairman and CEO. Each of Mr. Yang Jun and Mr. Lin Ruhai (as the case may be), in addition to his duties as Chairman, was also be responsible for the corporate strategic planning and overall business development of the Group as CEO. Each of Mr. Yang Jun and Mr. Lin Ruhai (as the case may be) has extensive experience and his duties of overseeing the Group's operations are considered to be beneficial to the Group. The Company considers having each of Mr. Yang Jun and Mr. Lin Ruhai acting as both Chairman and CEO would provide strong and consistent leadership to the Group and facilitate the efficient execution of business strategies within the Group. Since the Directors will meet regularly to consider major matters affecting operations of the Company, the Directors and the management of the Company believe that this structure will enable the Company to make and implement decisions promptly and efficiently. As a result, the Company currently does not propose to separate the functions of Chairman and CEO. The Board will continue to review and consider splitting the roles of Chairman and CEO at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

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

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

CORPORATE GOVERNANCE REPORT

Board meeting and procedure

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

During the Year, apart from the ad hoc meetings and consents obtained by means of written resolutions of all the Board members, the Board has held 12 scheduled meetings. The attendance of individual members of the Board is set out in the table below:

	General meeting	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
Executive Directors					
Mr. Lin Ruhai (appointed on 1 December 2023)	0/0	2/2			
Mr. Tse Kam Pang	2/2	12/12			
Mr. Yang Jun (resigned on 1 December 2023)	2/2	10/10			
Non-executive Directors					
Mr. Wu Zhongming	2/2	12/12			
Mr. Tao Ying (appointed on 18 January 2023)	2/2	11/11			
Mr. Yao Jingming (appointed on 4 September 2023)	0/0	3/3			
Ms. Yang Ying (appointed on 1 December 2023)	0/0	2/2			
Mr. Wu Dingliang (resigned on 18 January 2023)	0/0	1/1			
Mr. Chen Yisheng (resigned on 4 September 2023)	2/2	9/9			
Ms. Qin You (resigned on 1 December 2023)	2/2	5/10			
Independent Non-executive Directors					
Mr. Lau Chi Kit	2/2	12/12	2/2	3/3	5/5
Mr. Yue Man Yiu Matthew	2/2	12/12	2/2	3/3	5/5
Mr. Chan Wing Tak Kevin	2/2	12/12	2/2	3/3	5/5

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

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

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

CORPORATE GOVERNANCE REPORT

Term of appointment of Non-Executive Directors

Mr. Chan Wing Tak Kevin, the Independent Non-executive Director, has been re-appointed with fixed term of three years with the Company on 9 June 2023. Mr. Lau Chi Kit, the Independent Non-executive Director, has been re-appointed with fixed term of three years with the Company on 6 June 2022. Mr. Yue Man Yiu Matthew, the Independent Non-executive Director, has been re-appointed with fixed term of three years with the Company on 31 May 2021.

Ms. Yang Ying, the Non-executive Director, has been appointed with fixed term of three years with the Company on 1 December 2023. Mr. Yao Jingming, the Non-executive Director, has been appointed with fixed term of three years with the Company on 4 September 2023. Mr. Wu Zhongming and Mr. Tao Ying, the Non-executive Directors, have been re-appointed with fixed term of three years with the Company on 9 June 2023. Ms. Qin You and Mr. Chen Yisheng, the Non-executive Directors, have been appointed with fixed term of three years with the Company on 6 June 2022 respectively. Mr. Wu Dingliang, the Non-executive Director, has been re-appointed with fixed term of three years with the Company on 31 May 2021. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and it still considers the Independent Non-executive Directors to be independent.

Code provision B.2.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. In accordance with article 87 of the Company's articles of association, every Director is subject to retirement by rotation at least once every three years.

Skills, knowledge, experience and attributes of Directors

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

Division of responsibilities between the Board and management

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

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

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

CORPORATE GOVERNANCE REPORT

Induction and training

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

Pursuant to Code Provision C.1.4 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure their contribution to the Board remains informed and relevant. During the Year, all Directors participated in appropriate continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

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

	Reading regulatory updates and guidance materials on directors' duties	Reading materials relating to business and industry	Attending professional briefings/seminars/ conferences relevant to directors' duties, regulatory updates and business
Executive Directors			
Mr. Lin Ruhai (appointed on 1 December 2023)	✓	✓	✓
Mr. Tse Kam Pang	✓	✓	✓
Mr. Yang Jun (resigned on 1 December 2023)	✓	✓	✓
Non-Executive Directors			
Mr. Wu Zhongming	✓	✓	✓
Mr. Tao Ying (appointed on 18 January 2023)	✓	✓	✓
Mr. Yao Jingming (appointed on 4 September 2023)	✓	✓	✓
Ms. Yang Ying (appointed on 1 December 2023)	✓	✓	✓
Mr. Wu Dingliang (resigned on 18 January 2023)	✓	✓	✓
Mr. Chen Yisheng (resigned on 4 September 2023)	✓	✓	✓
Ms. Qin You (resigned on 1 December 2023)	✓	✓	✓
Independent Non-executive Directors			
Mr. Lau Chi Kit	✓	✓	✓
Mr. Yue Man Yiu Matthew	✓	✓	✓
Mr. Chan Wing Tak Kevin	✓	✓	✓
Company Secretary			
Mr. Chui See Lai	✓	✓	✓

CORPORATE GOVERNANCE REPORT

Directors' and officers' liability insurance and indemnity

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

Independent advice

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

Independence of Independent Non-executive Directors

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

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

Board independence

The Group has established mechanisms to ensure independent views and input are available to the Board and such mechanisms will be reviewed annually by the Board:

- At least one-third of the Board are independent non-executive directors in compliance with the Listing Rules requirements, and the Company will assess the independence of the independent non-executive Directors on at least an annual basis.

- The Nomination Committee will assess the independence of a candidate who is nominated to be a new independent non-executive Director before appointment and the continued independence of the current long-serving independent non-executive Directors on an annual basis. All independent non-executive Directors are required to submit a written confirmation to the Company annually to confirm the independence of each of them and their immediate family members, and their compliance with the requirements as set out in the Rule 3.13 of the Listing Rules.

- All Directors and committees of the Board are entitled to retain independent professional advisors as and when it is required.

- All Directors are encouraged to express their views in an open and candid manner during the Board/Board committee meetings.

- The Chairman of the Board will meet with the independent non-executive Directors at least annually without the presence of the executive Directors.

- A Director (including the independent non-executive Directors) who has material interest in any contract, transaction or arrangement shall abstain from voting and not be counted in the quorum on any Board resolution approving the same.

- No equity-based remuneration with performance-related elements will generally be granted to independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

Company secretary

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

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

D. BOARD COMMITTEES

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

Audit Committee

As at 31 December 2023, the audit committee of the Board (the "Audit Committee") consisted of three Independent Non-executive Directors, namely Mr. Yue Man Yiu Matthew, who is the chairman of the Audit Committee, Mr. Lau Chi Kit and Mr. Chan Wing Tak Kevin. The members of the Audit Committee meet regularly, normally twice a year, with the senior financial management and meet with external auditor for final result reviews.

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

The main duties of the Audit Committee include the following:

1. to monitor the integrity of the annual and interim reports as well as to review significant financial reporting judgments before submission to the Board and to report to the Board;

2. to review the relationship with the external auditor; and

3. to review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

There were two meetings of the Audit Committee held in 2023. Details of the members' attendance record in the Year are set out on page 13 of this annual report. During the Year, the Audit Committee performed the following work (in summary):

(a) The Audit Committee assisted the Board in assuring the integrity of the Company's financial statements, including reviewed the financial results of the Group for the year ended 31 December 2022 and the interim results for the six months ended 30 June 2023. It evaluated and made recommendations to the Board about the appropriateness of accounting policies and practices, areas of judgment, compliance with Hong Kong Financial Reporting Standards and other legal requirements, and the results of external audit. It reviewed interim and annual financial statements of the Company, reported its work and findings to the Board and made recommendations on specific actions or decision for the Board to consider after each Audit Committee's meeting. Minutes of the Audit Committee's meetings were made available to all Directors for inspection.

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(b) The Audit Committee also managed the relationship with the external auditor on behalf of the Board. It made recommendation to the Board on the appointment of the external auditor and the relevant terms of engagement, including remuneration. The Audit Committee was required to review the integrity, independence and objectivity of the external auditor. Also, it examined the external auditor' independence including its engagement of non-audit services. Based on the review of the Audit Committee, the Board was satisfied that the external auditor was independent. During the year ended 31 December 2023, there was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

(c) The Audit Committee was required to ensure that the system of internal control of the Group was in place for identifying and managing risks. The Audit Committee had reviewed the effectiveness of internal controls for the Year. Such review covered financial, operational and compliance controls and risk assessment of the Group. The Board was satisfied that the effectiveness of the internal controls of the Group had been properly reviewed by the Audit Committee.

Remuneration Committee

The Company has set up a Remuneration Committee in accordance with the relevant requirements of the CG Code. The Remuneration Committee is chaired by Mr. Lau Chi Kit, and comprising two other members, namely Mr. Yue Man Yiu Matthew and Mr. Chan Wing Tak Kevin. All the members of the Remuneration Committee are Independent Non-executive Directors. The principal responsibilities of the Remuneration Committee include formulating a remuneration policy that guides the employment of senior personnel, recommending to the Board the remuneration of members of the Board who are Independent Non-executive Directors, determining the remuneration packages of the members of the Board who are executive Directors and reviewing and approving performance-based remuneration by reference to the Company's goals, objectives and market practices, review and/or approve matters relating to share schemes of the Company (whether or not under Chapter 17 of the Listing Rules) and ensure no Director involved in deciding his own remuneration.

There were three meetings of the Remuneration Committee held in 2023. Details of the members attendance record in the Year are set out on page 13 of this annual report. Details of the remuneration of each Director for 2023 is set out in the Note 8 to this annual report.

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

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

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

(a) formulating and recommending the policy and structure of the remuneration of the Directors and senior management of the Group to the Board;

(b) assessing individual performance of the Directors and senior management of the Group;

(c) reviewing specific remuneration packages of the Directors and senior management of the Group with reference to the Board's corporate goals and objectives as well as individual performances and terms of service contracts for Directors; and

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(d) reviewing and making recommendations to the Board on compensation-related issues.

The Remuneration Committee is tasked within its term of reference to review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules. The remuneration policy and package of the Group's employees are periodically reviewed by the Remuneration Committee. The Remuneration Committee has reviewed the remuneration policy and package of the Group, including an assessment of individual performance, attractiveness of the rewards offered by the Company, talent retention and incentivization, the financial condition and performance of the Group. No share awards were recommended to be awarded by the Remuneration Committee during the year ended 31 December 2023.

Principles of remuneration policy

The principles of the Group's remuneration policy:

1. were applied to all Directors and senior management of the Group for the Year and, so far as practicable, shall be applied to them for subsequent years;

2. were sufficiently flexible taking into account future changes in the Company's business environment and remuneration practice;

3. allowed remuneration arrangement to be designed to support the business strategy of the Group and to align with the interests of the Group's shareholders; and

4. aimed at setting appropriate reward levels to reflect the competitiveness in the market in which comparable companies and the Group had been operating during the Year so as to retain individuals with outstanding performance.

Remuneration structure

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

(a) an appropriate rate of base compensation for the job of each Executive Director and senior management of the Group;

(b) competitive benefit programs; and

(c) sets of performance measures and targets for performance-related annual and long-term incentive plans based on the appropriate independent advice and/or an assessment of the interests of shareholders of the Company and taking into account an appropriate balance of risk and reward for the Directors and other participants.

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

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Nomination Committee

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

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

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of the Independent Non-executive Directors; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.

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

There were five meetings of Nomination Committee meeting held in 2023. Details of the members attendance record in the Year are set out on page 13 of this annual report. The following is a summary of the work performed by the Nomination Committee during the Year:

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

(b) reviewing and recommending the re-appointment of the retiring Directors for re-election; and

(c) assessing independence of the Independent Non-executive Directors.

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Nomination procedures and criteria

The Board has adopted a nomination policy (the "Nomination Policy") which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. When assessing the suitability of a candidate, factors such as experience, qualifications, skills, integrity and board diversity will be taken into consideration as a whole. In the case of independent non-executive directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. The Nomination Committee will first identify potential candidates, including recommendations from the Board members and the shareholders of the Company. In the determination of the suitability of a candidate, the Nomination Committee will consider a range of factors, including but not limited to the following selection criteria: (a) the Company's board diversity policy and the requirements under the Listing Rules; (b) the independence of the independent non-executive directors with reference to the independence criteria set out in Rule 3.13 of the Listing Rules; (c) potential or actual conflicts of interest of the candidate or the re-elected director; (d) the skills, experience and qualifications of the candidate; (e) the candidate's integrity; (f) the candidate's ability to commit and devote sufficient time and attention to the Company's affairs; and (g) other relevant factors which will be considered by the Nomination Committee on a case-by-case basis. After reviewing and evaluating the background and information of the potential candidates based on the selection criteria, the Nomination Committee will make recommendations to the Board on the selected candidates.

Board diversity policy

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

The Board had not set any measurable objective for implementing the diversity policy during the Year. As at 31 December 2023, there were 8 male Directors and 1 female Director on the Board and the male to female ratio in the workforce (including senior management) of the Group was approximately 3:2. The Board considered that the composition of the Board and the workforce were sufficiently diversified in the context of a corporation mainly engaged in the manufacturing of furniture business. The Board has not set any numerical targets, plans and timelines set for achieving gender diversity on its Board and in the workforce.

The Board is mindful of the objectives for the factors as set out in the diversity policy for assessing the candidacy of the Board members and will ensure that any successors to the Board shall follow the diversity policy. Similar considerations will also be in place to assess the candidacy of the senior management team from time to time. The Group is determined to maintain gender diversity and equality in terms of the whole workforce, and to procure the senior management team to achieve gender equality in terms of the gender ratio. The Nomination Committee will discuss periodically and when necessary, agree on further measurable objectives and plans for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption.

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E. ACCOUNTABILITY AND AUDIT

Directors' responsibility for the accounts

The Directors acknowledge their responsibility for the preparation of the accounts of the Group and ensure that the accounts are in accordance with statutory requirements and applicable accounting standards. The accounts are prepared on a going concern basis, the members of the Board have selected appropriate accounting policies and apart from those new and amended accounting policies disclosed in the notes to the accounts during the year ended 31 December 2023, have applied consistently with previous financial periods. The statement of our auditor about their responsibility on the accounts is included in the Independent Auditor's Report. For the annual reports and accounts, the Company's finance department is responsible for clearing them with the external auditor and then the Audit Committee. In addition, all new accounting standards and requirements adopted by the Group have been discussed and approved by the Audit Committee.

The Group incurred a net loss of approximately RMB386 million for the year ended 31 December 2023 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB96 million. In the opinion of the Directors, the Group is able to continue as a going concern in the next twelve months by taking into consideration that:

(i) The Group's bank and other loans of RMB1,816 million are guaranteed by Science City. Science City has agreed to continue to act as the Group guarantor for the next twelve months on all their existing and new bank and other loans with an aggregated amount of not exceeding RMB2,000 million. Based on historical experience, the directors expect that the Group is able to renew all the bank and other loans with Science City's guarantee when they expire. As of 31 December 2023, the Group also has unpledged investment properties with carrying amount of approximately RMB599 million which are available for use as security to obtain new bank and other loans. Subsequent to the year end date, the Group has successfully renewed or obtained new bank and other loans of RMB356 million;

(ii) The Group will continue to seek suitable opportunities to disposal of certain equity interest to raise the level of liquid funds; and

(iii) The Group will continue to implement measures to improve the operation performance, and to speed up the collection of outstanding sales proceeds and other receivables; and the Group will continue to take active measures to control costs and expense.

Save as disclosed above, the Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any other material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 47 to 51 of this annual report.

External auditor's remuneration

The Group's independent external auditor is Ernst & Young, Certified Public Accountants. The Company has not changed its external auditor in any of the preceding three years. Prior to the commencement of the audit of the Group's 2023 financial statements, for the year ended 31 December 2023 the Audit Committee received written confirmation from the external auditor of its independence and objectivity. The external auditor refrained from engaging in non-assurance services except for limited tax-related services or specifically approved items. The Audit Committee reviewed the external auditor's statutory audit scope and non-audit services and approves its fees. During the year ended 31 December 2023, the remuneration paid or payable to the external auditor for audit services and non-audit services amounted to RMB2,170,000 (2022: RMB1,965,000) and RMB1,564,000 (2022: RMB1,658,000), respectively. Non-audit services include tax consultancy services amounted to RMB226,000 (2022: RMB243,000), review of financial statements services amounted to RMB796,000 (2022: RMB729,000) and agreed-upon procedures services amounted to RMB542,000 (2022: RMB686,000).

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F. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. 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 internal audit department, which is independent to the Company's daily operations and accounting functions, is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The Audit Committee or the internal audit department conducts a review of the effectiveness of the Group's internal control system at least annually.

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

With respect to internal control for the handling and dissemination of inside information, the Company shall assess the circumstances under which inside information may arise from time to time and disclose inside information as soon as reasonably practicable in accordance with the SFO and the Listing Rules. The Company conducts its business affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission and imposes a strict prohibition on the unauthorised use of confidential or inside information by Directors, employees and other relevant persons (such as external service providers and project working team members).

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

The Company has established a comprehensive risk management system, which specifies the roles and responsibilities of the management and the Board in risk management work. On the basis of the system, continuous monitoring has taken place in relation to the risk management and internal control systems. Based on the risk management conducted in previous years, the management of the Company continues to identify and evaluate the risks of the Group. The management has analysed the changes to core risks by paying attention to market and industry changes and communicating with the chief executive and relevant senior management. In addition, the control of core risks is also under continuous monitoring through risk management reports, which are consolidated from self-inspection and evaluation regarding respective core risks.

The Board, through the internal audit department and the Audit Committee, has conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2023 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such system are effective and adequate.

Reference is made to the sub-section headed "Connected Transactions and Continuing Connected Transactions – Connected Transactions" in the Report of the Directors. The Company should have complied with the relevant reporting and announcement requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Construction Agreements, which constituted a connected transaction, as and when such obligations arose. The Company has reviewed the incident and the internal control system of the Group. The non-compliance was due to a misunderstanding that the Construction was in the ordinary and usual course of business of the Group and part of the day to day business activities of the Group, which was inadvertent and not intentional. The Company has taken remedial measures and actions to prevent similar non-compliance from occurring in the future, including arranging legal advisers to advise the management on compliance requirements, re-circulation and enhancement of internal communication policy and reporting procedure within the Group, implementation of strengthened monitoring and supervision of transactions at subsidiaries/business unit level by the compliance department, additional training on regulatory compliance and ensuring timely professional support.

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G. COMMUNICATION WITH SHAREHOLDERS

The Company has adopted a shareholders' communication policy. Under the policy, the Company should maintain various channels, including general meetings and the Company's website, to effectively communicate with shareholders.

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

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

(a) the Company's annual and interim reports which have been enhanced to present a balanced, clear and comprehensive assessment of the Group's position and prospects;

(b) forum and notices of AGMs and other general meetings and accompanying explanatory materials;

(c) press releases on major development of the Group;

(d) disclosures to the Stock Exchange and relevant regulatory bodies;

(e) response to inquiries from shareholders or media; and

(f) the website of the Company through which the public can access, among other things, corporate announcements, press releases, annual reports, and general corporate information of the Group.

The communication channels between the Company and its shareholders above will be reviewed by the Board on a regular basis to ensure their effectiveness in maintaining an on-going dialogue with shareholders. In the year, the Company also communicated with investors through news release. The Board has reviewed the implementation and effectiveness of the Company's shareholders' communication policy including steps taken at the general meetings the handling of queries received (if any) and the multiple channels of communication and engagement in place, and considered the Company's shareholders' communication policy has been properly implemented during the Year and is effective.

Constructive use of AGMs

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

The Chairman and a majority of the other Directors along with key executives and the external auditor attended the 2023 AGM and addressed concerns raised by a number of Shareholders about the resolutions being proposed and the Company's business. The Directors in attendance included those who were chairing the Audit Committee, the Nomination Committee and the Remuneration Committee on the date of the meeting.

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Shareholders' rights

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

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

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

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

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

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

(c) Enquiries to the Board

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

H. DIVIDEND POLICY

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

CORPORATE GOVERNANCE REPORT

I. INVESTOR RELATIONS

The Company regards the communication with institutional investors as an important means to enhance the transparency of the Company and to collect views and feedback from institutional investors. The Group keeps Shareholders informed of its performance, operations and significant business developments by adopting a transparent and timely corporate disclosure policy which complies with the Listing Rules and provides all Shareholders equal access to such information. The Company promotes fair disclosure of information to all investors and care is taken to ensure that analyst briefings and other disclosures made by the Company comply with the Listing Rules' prohibition against selective disclosure of price sensitive information. Shareholders have specific rights to convene extraordinary general meetings under the Company's articles and association. Shareholders, investors and interested parties can make enquiries to the Company through the following means:

By e-mail: info@royale.com.hk
Telephone number: (852) 2636 6648
By post: Room 607, 6/F Tsim Sha Tsui Centre, West Wing
66 Mody Road
Tsim Sha Tsui East, Kowloon
Hong Kong
Attention: Public Relationship

J. CONSTITUTIONAL DOCUMENT

The Company proposed to amend the Articles of Association for the purpose of establishing and facilitating the dual-chairmen structure of the Company by way of the adoption of the second amended and restated Articles of Association. The special resolution on the proposed amendments to the Articles of Association was passed by the Shareholders at the extraordinary general meeting of the Company held on 9 June 2023.

MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. LIN Ruhai ("Mr. Lin"), aged 41, graduated from Zhejiang Normal University with a major in business administration in 2018. He is currently the chairman of the board of directors of Guangzhou Science City Venture Capital Co., Ltd.* (廣州科學城創業投資管理有限公司), which is a subsidiary of Science City. He was also the general manager of the same company from 2018 to 2023. From 2016 to 2018, he was the deputy general manager of the financial department of Guangzhou Hi-tech Investment Group Co., Ltd.* (廣州高新區投資集團有限公司) and the general manager of Guangzhou Guoju Risk Investment Co., Ltd.* (廣州國聚風險投資有限公司). He worked with China Construction Bank (Guangzhou Development Zone Branch) as a client manager from 2006 to 2016. Mr. Lin has over a decade of experience in corporate management and equity investment. He holds the qualification of a licensed fund practitioner in the PRC. Mr. Lin was appointed as an executive Director of the Company and Chief Executive Officer on 1 December 2023. Mr. Lin holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. TSE Kam Pang ("Mr. Tse"), aged 69, is the Co-Chairman of the Company and an executive Director. Prior to the founding of the Group in 1997, he previously held the position of the Deputy Managing Director in a public listed company in Hong Kong. He has over 30 years of experience in the international trade and China trade business. He has been appointed as a director of various subsidiaries of the Company in China and Hong Kong. He was subsequently re-designated from Chairman to Co-Chairman with effect from 9 June 2023. He is a vice chairman of Hong Kong Furniture Association. Mr. Tse is the sole director of Crisana International Inc. ("Crisana"), Charming Future Holdings Limited ("Charming Future") and Leading Star Global Limited ("Leading Star"), which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr. Tse has been appointed as the chairman of the board and an executive director of Morris Home Holdings Limited (stock code: 1575), a listed company in Hong Kong, with effect from 17 October 2022.

Non-Executive Directors

Mr. WU Zhongming ("Mr. Wu"), aged 42, obtained a bachelor degree in history from the Department of History of the Sun Yat-sen University in 2005, a PhD in ancient Chinese history from the Sun Yat-sen University in 2010. Mr. Wu has been appointed as a non-executive Director of the Company since 29 August 2019. He has been an assistant to the general manager of Science City Group since August 2020. He has also served as a member of the Party Committee of Science City Group since January 2021. Mr. Wu holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. TAO Ying ("Mr. Tao"), aged 53, obtained a bachelor degree in engineering (major in power application in the department of electrical engineering) from Fuzhou University in 1994 and completed the on-job postgraduate course majoring in labor economics (research directed at human resources management) at the School of Labor and Human Resources of Renmin University of China in April 2003. He worked at Science City (Guangzhou) Information Technology Group Co., Ltd.* (科學城（廣州）信息科技集團有限公司) (formerly known as Guangzhou Development District Information Engineering Co., Ltd.* (廣州開發區信息工程有限公司) from April 2019 to December 2022, and held positions successively as a director and a general manager. From October 2013 to April 2019, Mr. Tao worked at Guangzhou Dongjin New District Development Co., Ltd.* (廣州東進新區開發有限公司) as a deputy general manager. From April 2003 to October 2013, he took senior positions in the organisation and personnel, propaganda and administration divisions of Guangzhou Development Zone Construction and Development Group Co., Ltd.* (廣州開發區建設發展集團有限公司). Mr. Tao has been appointed as a non-executive Director of the Company since 18 January 2023. Mr. Tao holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

* *For identification purposes only*

MANAGEMENT PROFILE

Mr. YAO Jingming ("Mr. Yao"), aged 41, graduated from Guangdong Normal Polytechnic* (廣東技術師範學院) (currently known as Guangdong Polytechnic Normal University) with a major in accountancy in 2008. He is currently a supervisor of the audit division of Science City. He worked as a deputy supervisor of the audit division of Science City from February 2020 before his promotion to supervisor in April 2022. From June 2017 to March 2019, he was an investment director at Guangdong Lesso Environmental Enterprise Management Co., Ltd.* (廣東聯塑環保企業管理有限公司). He held the positions of a senior investment manager of Foshan Beijing Enterprises Water Environment Development Co., Ltd.* (佛山北控水環境開發有限公司) from January 2017 to June 2017 and an external audit supervisor of the supervision and audit department of Beijing Enterprises Water Group Limited (a company the shares of which are listed on the Main Board of the Stock Exchange (stock code: 371)) from October 2015 to January 2017. He worked with Guangdong Zexin Accountant Firm Co., Ltd.* (廣東澤信會計師事務所有限公司) from July 2008 to October 2015 with last position as an audit manager. He is a senior auditor in the PRC. Mr. Yao was appointed as a non-executive Director of the Company on 4 September 2023. Mr. Yao holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Ms. YANG Ying ("Ms. Yang"), aged 42, graduated from Zhongnan University of Economics and Law with a bachelor's degree in law in 2003 and awarded a master's degree in law (major in civil and commercial law) by Sun Yat-sen University in 2011. She has worked with Science City as a deputy general manager of the legal and risk management (compliance management) department from 2021 to 2023 and a senior manager of the asset operations management department from 2018 to 2021, respectively. She was a legal manager of SYNSUN Health Enterprises Co., Ltd.* (聖原健康產業有限公司) from 2017 to 2018. From 2006 to 2017, she held the position of legal director (intellectual property management) at Guangdong Revenco Enterprises Co., Ltd.* (廣東立信企業有限公司). She was a legal assistant at Heungkong Group Co., Ltd.* (香江集團有限公司) from 2004 to 2006. She has over 20 years of experience in practicing company law. She holds the Legal Professional Qualification awarded by the Ministry of Justice of the PRC. Ms. Yang was appointed as a non-executive Director of the Company on 1 December 2023. Ms. Yang holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Independent Non-executive Directors

Mr. LAU Chi Kit ("Mr. Lau"), aged 79, retired from The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in December 2000 after more than 35 years of service. Among the major positions in HSBC, he was the assistant general manager and head of Personal Banking Hong Kong and assistant general manager and head of Strategic Implementation, Asia-Pacific Region. He is a fellow of the Hong Kong Institute of Bankers ("Institute"). He was the chairman of the Institute's Executive Committee (from January 1999 to December 2000) and is currently the honorary advisor of the Institute's Executive Committee. He served as a member on a number of committees appointed by the Government of the Hong Kong Special Administration Region, including the Advisory Council on the Environment (from October 1998 to December 2001), the Advisory Committee on Human Resources Development in the Financial Services Sector (from June 2000 to May 2001), the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption (from January 2000 to December 2003), the Environment and Conservation Fund Committee (from August 2000 to October 2006), the Innovation and Technology Fund (Environment) Projects Vetting Committee (from January 2000 to December 2004) and the Law Reform Commission's Privacy Sub-committee (from February 1990 to March 2006). He also served as chairman of the Business Environment Council Limited (from September 1998 to December 2001). Currently, he is an independent non-executive director of Leoch International Technology Limited (stock code: 842) and Hin Sang Group (International) Holding Company Limited (stock code: 6893). Mr. Lau has been appointed as an independent non-executive Director of the Company since 6 September 2011. Mr. Lau has resigned as an independent non-executive director of Century Sunshine Group Holdings Limited (stock code: 509) with effect from 30 June 2021 and an executive director of Chinlink International Holdings Limited (stock code: 997) with effect from 19 May 2023, which are listed public companies in Hong Kong. Mr. Lau has been appointed as an independent non-executive Director of the Company since 6 September 2011.

* *For identification purposes only*

MANAGEMENT PROFILE

Mr. YUE Man Yiu Matthew ("Mr. Yue"), aged 62, has been the chief financial officer of Ko Shi Wai Holdings Limited since September 2009. He has been a director of China-Link Capital Management Limited since September 2009 and was the chief financial officer of the same firm from August 2005 to August 2009. He is currently an independent non-executive director of a Hong Kong listed company, namely, Classified Group (Holdings) Limited (Stock Code: 8232). He graduated from the Chinese University of Hong Kong with a bachelor degree in business administration in 1984. He is a fellow of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. He has extensive experience in financial control, project analysis and management functions and has the related financial expertise. Mr. Yue has been appointed as an independent non-executive Director of the Company since 17 November 2011.

Mr. CHAN Wing Tak Kevin ("Mr. Chan"), aged 58, graduated from London School of Economics and Political Science, University of London in 1991 with a major in economics. He has over 20 years of experience in investment research. He is a Fellow of CPA Australia. During 2008 to 2013, he was the Head of China and Hong Kong Financial Research at CLSA Limited. From 2013 to 2017, he was a member of Main Board and GEM Listing Committees of The Stock Exchange of Hong Kong Limited. From 2013 to 2014, he also served as a Senior Advisor (Banking) in KPMG. Since September 2016 he was an Executive Vice President of Chinese Banking Association of Hong Kong. From 2013 to 2018, he was a member of the Chinese People's Political Consultative Conference, Guanxi Committee. Since March 2019, he is a member of Shenzhen Futian Committee. From 1 February 2020 to 31 January 2022, he is a member of the Investigation Panel A of the HKICPA. From June 2020, he is a member of the Working Group on e-CNY of the Financial Services Development Council. He is appointed as a member of the Finance subsector of the Sixth Election Committee of the Hong Kong Special Administrative Region (the "HKSAR") for a term from 22 October 2021 to 21 October 2026. From January 2023, Mr. Chan is a member of Guangdong Province Committee of the Chinese People's Political Consultative Conference of the PRC. He is appointed as a member of the HKSAR Chief Executive's Policy Unit Expert Group for a term from 30 May 2023 to 29 May 2024. From 2023 he is a member of the HKSAR Kowloon City District Fight Crime Committee. Mr. Chan has been appointed as an independent non-executive director of China Communications Construction Company Limited (stock code: 1800) with effect from 25 February 2022, and an independent non-executive director of Travelsky Technology Limited (stock code: 696) with effect from 1 September 2022, all being listed public companies in Hong Kong. Mr. Chan has been appointed as an independent non-executive Director of the Company since 5 November 2019.

SENIOR MANAGEMENT

Mr. CHAN Wing Kit ("Mr. Chan"), aged 52, was appointed as Chief Financial Officer on 1 November 2019. He holds a bachelor of commerce degree from Monash University in Australia. He has over twenty years of business and financial experience in overseas and in China. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of CPA Australia. Mr. Chan was an executive director from March 2016 to August 2019. Prior to joining the Group in October 2001, he worked as an auditor with Nelson Wheeler and Ernst & Young. He was also the company secretary and financial controller of the Company from October 2001 to May 2011. Mr. Chan is also an independent non-executive director of Zhi Sheng Group Holdings Limited (stock code: 8370), a company whose shares are listed on the GEM of the Stock Exchange of Hong Kong Limited since 17 December 2016.

Mr. CHEN Hao ("Mr. Chen"), aged 53, was appointed as Director of subsidiary of the Company in China. He is responsible for the day-to-day management, administration and manufacturing operation of the Company's major subsidiaries in China. He has extensive experience in enterprise management mainly focusing in manufacturing. He joined the Group in 2000.

Mr. CHUI See Lai ("Mr. Chui"), aged 44, is the financial controller and Company Secretary of the Company. He is responsible for the financial management, accounting and company secretarial duties of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants and holds a bachelor degree in accountancy. He has over 10 years financial management, accounting and auditing experience in Hong Kong listed companies and international accounting firms. He joined the Group in 2017.

Save as disclosed above and in this report, as at the date 31 December 2023, each of the Directors and senior management members mentioned above did not have any relationship with any other directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of the Company.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2023 to the shareholders of the Company.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

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

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2023 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 52 to 137.

The Board does not recommend the payment of any dividend (2022: final dividend of HK1 cent per share) for the financial year.

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 138. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

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

On 24 May 2019, the Company and Science City (Hong Kong) Investment Co. Limited ("SCHK") entered into the Subscription Agreement ("Subscription") pursuant to which the Company has conditionally agreed to issue, and the SCHK has conditionally agreed to subscribe for, in cash, 433,093,554 new shares of the Company ("Share(s)") at a price of HK$1.02 per Share under specific mandate. The closing price quoted on the Stock Exchange on 24 May 2019 was HK$0.96 per Share. The aggregate nominal value of the subscription shares was approximately HK$43,309,355.4. On 2 August 2019, the Company completed the allotment and issuance of 433,093,554 new ordinary Shares. The net proceeds from the Subscription received by the Company were approximately HK$440.2 million, equivalent to a net subscription price of approximately HK$1.02 per Share.

The details of the proposed use of net proceeds, change in use of proceeds and the actual use of proceeds during the year are as follows:

Proposed use of proceeds	Original allocation of the net proceeds as disclosed in the Circular (HK$ million)	Revised use of proceeds as disclosed in 2020 Annual Report (HK$ million)	Unutilised net proceeds as at 1 January 2023 (HK$ million)	Net proceeds utilised during the year ended 31 December 2023 (HK$ million)	Amount utilised up to 31 December 2023 (HK$ million)	Unutilised proceeds as at 31 December 2023 (HK$ million)	Expected timeline
Repaying certain loans of the Company	100.0	100.0	–	–	100.0	–	–
Acquisition of land	30.0	30.0	–	–	30.0	–	–
Construction of new production facilities	130.0	130.0	26.7	22.6	125.9	4.1	by 31 December 2024 (Note)
Imported machinery for new production facilities	80.0	80.0	42.0	1.6	39.6	40.4	by 31 December 2024 (Note)
Expenditure for establishing warehouses/new distribution spot on the Group's land in northern China	60.0	–	–	–	–	–	–
General working capital	40.2	100.2	–	–	100.2	–	–
Total	440.2	440.2	68.7	38.6	395.7	40.5	

Note: Previously, due to the outbreak of COVID-19, the Group's plan in relation to the construction of new production facilities and imported machinery for new production facilities had been delayed. Due to a slow recovery of consumer demand and a weak property market in the PRC, the Company considers that focus should be put on effective resources allocation and management. It is consistent with the macroeconomic condition and the Company's position to adopt a more prudent expansion strategy with an emphasis on maintaining stable operations. The expected timeline for each purpose is based on the Group's best estimate of future market conditions in combination with the business plan and market conditions, which may be subject to change based on the current and future development of market conditions. After considering a range of factors (which are analysed and disclosed in this report), including without limitation the actual business plan and funding needs of the Group, the priorities of fund utilization and business development of the Group, the overall financial condition of the Group and market conditions, the Company has made certain adjustments to the expected timeline based on the current estimate. The Board considers that it is appropriate to extend the expected timeline for the application of such unutilised proceeds to 31 December 2024.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 40 and note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to RMB885,018,000.

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions of RMBnil (2022: RMB7,153,000).

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for approximately 18.1% of the total sales for the year and sales to the largest customer included therein amounted to 5.7%. Purchases from the Group's five largest suppliers accounted for approximately 12.2% of the total purchase for the Year and purchase from the Group's largest supplier included therein amounted to 4.6%.

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

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. Being a furniture manufacturer in the PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution and discharge of waste and water into the environment. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the Year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. Please refer to the Environmental, Social and Governance Report for the year ended 31 December 2023 which will be published at the same time as the publication of this report.

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

Save the share option scheme of the Company as disclosed herein, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2023 or subsisted at the end of the year.

RELATIONSHIP WITH STAKEHOLDERS

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

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

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

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

POSSIBLE RISKS AND UNCERTAINTIES FACING THE COMPANY

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

Business risk

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

Financial risk

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

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:
Mr. Lin Ruhai (appointed as Chairman, Executive Director and Chief Executive Officer on 1 December 2023)
Mr. Tse Kam Pang (re-designated from Chairman to Co-Chairman on 9 June 2023)
Mr. Yang Jun *(Chief Executive Officer)* (appointed as Chairman on 9 June 2023, resigned on 1 December 2023)

Non-Executive Directors:
Mr. Wu Zhongming
Mr. Tao Ying (appointed on 18 January 2023)
Mr. Yao Jingming (appointed on 4 September 2023)
Ms. Yang Ying (appointed on 1 December 2023)
Mr. Wu Dingliang (resigned on 18 January 2023)
Mr. Chen Yisheng (resigned on 4 September 2023)
Ms. Qin You (resigned on 1 December 2023)

Independent Non-executive Directors:
Mr. Lau Chi Kit
Mr. Yue Man Yiu Matthew
Mr. Chan Wing Tak Kevin

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

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 27 to 29 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

REPORT OF THE DIRECTORS

DIRECTORS' REMUNERATION

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

PERMITTED INDEMNITY PROVISION

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

The Company has taken out and maintained Directors' liability insurance throughout the financial year ended 31 December 2023, which provides appropriate cover for the Directors. During the year ended 31 December 2023, no claims were made against the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" below and note 36 to the financial statements headed "Related party transactions" of this annual report, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Director of the Company or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2023.

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

As at 31 December 2023, the interests and short positions of the Directors and chief executive in the shares and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in shares and underlying shares of the Company

		Number of Shares and underlying Shares held, capacity and nature of interest				
Name of Director	Note	**Directly beneficially owned**	**Through controlled corporation/ family interests**	**Through jointly held by other persons** (Note a)	**Total**	**Percentage of the Company's issued share capital** (Note c)
Mr. Tse Kam Pang ("Mr. Tse")	(a) & (b)	282,948,047	427,580,269	1,234,862,964	1,945,391,280	74.86
Mr. Yue Man Yiu Matthew		3,000,000	–	–	3,000,000	0.12

Notes:

(a) On 24 May 2019, SCHK, Mr. Tse, Leading Star, Crisana and Charming Future entered into an acting in concert arrangement. SCHK, Mr. Tse, Leading Star, Crisana and Charming Future are parties acting in concert (having the meaning ascribed to it under the Takeovers Code). As such, SCHK, Mr. Tse, Leading Star (being wholly owned by Mr. Tse), Crisana (being wholly owned by Mr. Tse) and Charming Future (being wholly owned by Mr. Tse) are deemed to be interested in 74.86% of the issued share capital of the Company.

REPORT OF THE DIRECTORS

(b) 282,948,047 Shares (representing 10.89% of the issued share capital of the Company), were directly beneficially owned by Mr. Tse, 51,971,227 Shares were held by Leading Star, 165,840,120 Shares were held by Crisana and 209,768,922 Shares were held by Charming Future. Leading Star, Crisana and Charming Future are all companies wholly and beneficially owned by Mr. Tse. 1,234,862,964 Shares was deemed to be interested by Mr. Tse as a result of being a party acting-in-concert with SCHK. As such, Mr. Tse was deemed to be interested in the 1,945,391,280 Shares.

(c) The percentage is calculated on the basis of 2,598,561,326 Shares in issue as at 31 December 2023.

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

Save as disclosed above, as at 31 December 2023, none of the Directors or chief executive had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTEREST IN COMPETING BUSINESS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

OTHER MATTERS RELATING TO THE BOARD

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

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2023, the following persons (other than Directors and chief executive) who were interested in 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions

		Number of Shares and underlying Shares held, capacity and nature of interest				
Name	Notes	**Directly beneficially owned**	**Interest held through controlled corporation**	**Interest held jointly with other persons** (Note e)	**Total**	**Percentage of the Company's issued share capital** (Note f)
Science City	(a)	–	1,945,391,280	–	1,945,391,280	74.86
SCHK	(a)	1,234,862,964	–	710,528,316	1,945,391,280	74.86
Crisana	(b)	165,840,120	–	1,779,551,160	1,945,391,280	74.86
Charming Future	(c)	209,768,922	–	1,735,622,358	1,945,391,280	74.86
Leading Star	(d)	51,971,227	–	1,893,420,053	1,945,391,280	74.86

Notes:

(a) SCHK is wholly owned by Science City, a company established in the PRC with limited liability on 21 August 1984. As such, Science City was deemed to be interested in 1,945,391,280 Shares under Part XV of the SFO. The ultimate beneficial owner of Science City is the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會).

(b) Crisana is wholly owned by Mr. Tse Kam Pang, a Director of the Company.

(c) Charming Future is wholly owned by Mr. Tse Kam Pang, a Director of the Company.

(d) Leading Star is wholly owned by Mr. Tse Kam Pang, a Director of the Company.

(e) On 24 May 2019, SCHK, Mr. Tse, Leading Star, Crisana and Charming Future entered into a acting in concert arrangement. SCHK, Mr. Tse, Leading Star, Crisana and Charming Future are parties acting in concert (having the meaning ascribed to it under the Takeovers Code). As such, SCHK, Mr. Tse, Leading Star (being wholly owned by Mr. Tse), Crisana (being wholly owned by Mr. Tse) and Charming Future (being wholly owned by Mr. Tse) are deemed to be interested in 74.86% of the issued share capital of the Company.

(f) The percentage is calculated on the basis of 2,598,561,326 Shares in issue as at 31 December 2023.

Save as disclosed above, as at 31 December 2023, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and Chief Executive's interests and short positions in shares, underlying shares and debentures" above, had any interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Company has maintained a sufficient public float as required under the Listing Rules during the year and as at the date of this annual report.

REPORT OF THE DIRECTORS

PERFORMANCE SHARE AWARD PLAN

The Company has adopted a performance share award plan (the "Performance Share Award Plan") on 14 May 2021 (the "Adoption Date"). The Performance Share Award Plan is a share scheme under Chapter 17 of the Listing Rules following the amendments to Chapter 17 of the Listing Rules following the publication of the Consultation Conclusions on Proposed Amendments to Listing Rules relating to Share Schemes of Listed Issuers and Housekeeping Rule Amendment by the Stock Exchange in July 2022.

The principal terms of the Performance Share Award Plan are summarised as below:

Purpose of the Performance Share Award Plan

The purpose of the Performance Share Award Plan is to recognise and reward the contribution of selected persons (the "Selected Persons"), which are any full-time employee of the Group, including directors, executive, officers or senior management of the Group but excluding Directors or the chief executive officer of the Company shall be determined by the Administration Committee, towards the growth and development of the Group through an award of Shares.

Administration

The Performance Share Award Plan shall be subject to the administration of the Administration Committee (the "Administration Committee") in accordance with the rules of the Performance Share Award Plan and the trust deed (the "Trust Deed") as appointed by the Company. The Administration Committee is delegated with the power and authority by the Board to administer the Performance Share Award Plan and comprises senior management of the Group. The trustee appointed by the Board to manage the Performance Share Award Plan (the "Trustee") shall hold the trust fund in accordance with the terms of the Trust Deed.

Participants

The Administration Committee may, in its absolute discretion, make an award to Selected Persons for awards shall be individual employee(s) excluding Directors and the chief executive officer of the Company.

Award of Shares

The Administration Committee shall, subject to and in accordance with the provisions of the Performance Share Award Plan, be entitled (but shall not be bound) to, at any time during the continuation of the Performance Share Award Plan, make an award to any of the Selected Persons of such number of issued Shares, fully paid or credited as fully paid, as the Administration Committee shall determine pursuant to the Performance Share Award Plan.

Plan limit and maximum entitlement of each participant

The total number of Shares under the Performance Share Award Plan will not exceed 5% of the total issued Shares on the Adoption Date (i.e. 129,928,066 Shares, representing approximately 5% of the total issued Shares as at the date of this report). The accumulated number of Shares which may be awarded to a Selected Person under the Performance Share Award Plan shall not exceed 1% of the number of issued Shares from time to time.

Duration of the Performance Share Award Plan

Subject to any early termination pursuant to the terms of the Performance Share Award Plan, the Performance Share Award Plan will remain valid and effective for a period of 5 years commencing from the Adoption Date.

REPORT OF THE DIRECTORS

Vesting of Award Shares

The Trustee shall transfer to and vest in any Selected Person(s) the legal and beneficial ownership of the awarded Shares within 10 business days after the latest of: (a) the earliest date on which the Trustee may vest the legal and beneficial ownership of the awarded Shares with the relevant Selected Person as specified in the award notice; (b) the date on which the condition(s) or performance target(s) (if any) to be attained by such Selected Person as specified in the related award notice have been attained and notified to the Trustee by the Administration Committee in writing; and (c) where applicable, the date on which the Trustee has completed the purchase of Shares and/or subscription of new Shares to be issued and allotted by the Company for the purpose of making the relevant award.

Lapse of Awards

In the event that the condition(s) or performance target(s) are not attained by any relevant Selected Person before the deadline as specified in the relevant award notice or upon any illegality, breaches of laws and regulations, termination of employment or such other situation as the Board or Remuneration Committee may deem appropriate, an award made to such Selected Person shall forthwith lapse and be cancelled.

Exercise period or rights

As the Performance Share Award Plan is a share award plan of the Company instead of a share option scheme, the awards granted under the Performance Share Award Plan are not subject to any exercise period nor are the Selected Participants entitled to any exercise rights.

Share purchase pursuant to the Performance Share Award Plan

The Administration Committee has considered the further development of Company, the market conditions and its trading share price and instructed the Trustee to purchase Shares for the purpose of the pool of awarded Shares. As at the date of this annual report, the Trustee has purchased and holds a total of 120,690,000 Shares (31 December 2022: 112,966,000 Shares) on the market on trust for the benefit of the Selected Persons pursuant to the rules of Performance Share Award Plan and the Trust Deed. The balance of share awards held by the Trustee represents approximately 4.64% (31 December 2022: 4.35%) to the total number of Shares in issue as at the date of this annual report.

During the Year, 7,724,000 Shares (2022: 4,000,000 Shares) were purchased, no share awards (2022: nil) were granted and no share awards (2022: nil) were vested, cancelled or lapsed under the Performance Share Award Plan. There were no outstanding share awards as at 1 January 2023 and as at 31 December 2023. The Board will constantly review and determine at its absolute discretion such number of awarded Shares to be awarded to the Selected Persons under the Performance Share Award Plan with such vesting conditions as the Board may deem appropriate.

The number of share awards available for grant under the plan mandate of 129,928,066 Shares as at both 1 January 2023 and 31 December 2023 were 129,928,066 (31 December 2022: 129,928,066), representing 5% of the Shares in issue.

Acceptance price

No price is payable by the Selected Persons upon acceptance of awarded Shares granted under the Performance Share Award Plan.

REPORT OF THE DIRECTORS

Purchase price to be paid by the relevant Selected Person for the awarded Shares

The subscription price (if any) to be paid by the relevant Selected Person for the relevant awarded Shares shall be determined by the Administration Committee with reference to the applicable rules and regulations, the market price of the Shares and the remuneration level of the relevant Selected Person.

Details of the Performance Share Award Plan were set out in the announcement of the Company dated 14 May 2021.

Review by Remuneration Committee

The remuneration committee of the Board is tasked within its term of reference to review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules. The remuneration policy and package of the Group's employees are periodically reviewed by the remuneration committee. The remuneration committee has reviewed the remuneration policy and package of the Group, including an assessment of individual performance, attractiveness of the rewards offered by the Company, talent retention and incentivization, the financial condition and performance of the Group. No share awards and share options were recommended to be awarded by the remuneration committee during the year ended 31 December 2023.

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2023 was 1,358 (2022: 1,490). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share award may also be granted to eligible employees and persons of the Group under the Performance Share Award Plan adopted by the Company on 14 May 2021. At 31 December 2023, no Shares have been awarded to any Selected Persons pursuant to the Performance Share Award Plan.

Details of the remuneration of the Directors are set out in note 8 to the financial statements. The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2023 were within the following bands:

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

REPORT OF THE DIRECTORS

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULES 13.20 AND 13.22 AND DETAILS OF LOANS OF GRANT DISCLOSURE PURSUANT TO RULE 13.16 OF THE LISTING RULES

In accordance with the requirements of Rules 13.20 and 13.22 of the Listing Rules, the following were the details of advances to entity and financial assistances to an affiliated company of the Group which, together in aggregate, exceed 8% of the Group's total assets as at 31 December 2023.

Name of counterparty/ affiliated company	Amount	Nature	Interest rate	Repayment terms/method of repayment and maturity date	Security/collateral	Source of funding	Banking facilities utilised or to be utilised which are guaranteed by the Group
1. Gangke[1]	Principal amount of up to RMB732 million	Shareholder's loan	8%–12.5% per annum	Repayable on demand	Unsecured	The Group's internal resources	N/A
2. Gangke[2]	Principal amount of up to RMB30 million	Loan	12.5% per annum	Repayable on demand	Unsecured	The Group's internal resources	N/A
3. Gangke[3]	Maximum RMB320 million	Share pledge provided by Wanlibao for the benefit of Industrial and Commercial Bank of China Limited, Xintang, Guangzhou Branch (中國工商銀行股份有限公司廣州新塘支行) over the 40% equity interests in the Gangke held by Wanlibao to secure the repayment of bank loan by Gangke	N/A	N/A	N/A	N/A	RMB216.71 million
4. Gangke[4]	Maximum RMB13 million	Guarantee provided by Wanlibao for the benefit of Guangzhou Yuexiu Industrial Investment Co., Ltd.* (廣州越秀實業投資有限公司) to guarantee the repayment of bank loan by Gangke	N/A	N/A	N/A	N/A	RMB7.74 million
Total	RMB1,095 million						RMB224.45 million

* *For identification purposes only*

REPORT OF THE DIRECTORS

Notes:

(1) Pursuant to a joint venture agreement dated 27 October 2020 (the "JV Agreement"), the parties agreed to establish Gangke for the purpose of acquiring a parcel of land situated at Hengling Village, Shitan Town, Zengcheng District, Guangzhou* (廣州市增城區石灘鎮橫嶺村) of residential (and commercial) uses with a total land area of approximately 196,435.11 square metres (the "Target Land Parcel"). Gangke has successfully acquired the Target Land Parcel at the public auction held on 11 November 2020. Under the JV Agreement, the maximum commitment of Guangzhou Wanlibao Investment Co., Ltd.* (廣州萬利寶投資有限公司) ("Wanlibao") to Gangke, determined based on the shareholding percentage of Wanlibao in Gangke (i.e. 40%), amounts to RMB1.532 billion (the "Total Commitment"). Gangke represents an investment in an associate of the Company. Its equity interest is held as to 40% by Wanlibao (a wholly-owned subsidiary of the Company) and 60% by Jiangsu Ganglong Huayang Real Estate Co., Ltd.* ("Jiangsu Ganglong", 江蘇港龍華揚置業有限公司), an indirect wholly-owned subsidiary of Ganglong China Property Group Limited (the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 6968)).

Wanlibao has extended to Gangke a shareholder's loan, being a part of the Total Commitment, representing a commitment and obligation of the Group under the JV Agreement, which is binding on the Group. Pursuant to a letter of confirmation dated 5 January 2022 entered into between Wanlibao and Gangke, the parties have agreed and confirmed the provision of a shareholder's loan (the "Shareholder's Loan") in the principal amount of up to RMB732 million and that certain previous contributions made shall be deemed to be and construed as advances provided by Wanlibao to Gangke under the Shareholder's Loan (and the date of such advances shall be deemed to be and construed as the date of drawdown under the Shareholder's Loan).

The Company considered that the establishment of Gangke represented a good investment opportunity to the Group, through which the Group will be able to hold an investment interest in Gangke and enjoy the estimated earnings of the development project in relation to the Target Land Parcel (the "Development Project"). With the Group's familiarity with and long-established presence in the Zengcheng District, and taking into account Jiangsu Ganglong's expertise and experience in property development projects; it is expected that the parties will exert their respective advantages and contribute to the successful development of Gangke and the Development Project.

(2) Guangzhou Royal Furniture Company Limited* ("Guangzhou Royal", 廣州皇朝家具有限公司), an indirect wholly-owned subsidiary of the Company, extended a loan to Gangke in the principal amount of up to RMB30.0 million (the "Loan"). The Loan was provided as further financial support for the Development Project, demonstrating the Group's continuous dedication in solidifying its investment as well as locking future return. As a key investment of the Group, the Group remains committed to the exploitation and realization of its potential, and will utilize its resources for such purpose having regard to the Group's funding needs, cashflow positions and business plan and strategy.

(3) A pledge over 40% of the equity interest in Gangke held by Wanlibao was provided by Wanlibao in favour of Industrial and Commercial Bank of China Limited, Xintang, Guangzhou Branch (中國工商銀行股份有限公司廣州新塘支行) pursuant to the terms of pledge agreement dated 29 September 2021 entered into between Wanlibao as pledgor and the lender as pledgee to secure the repayment of a maximum loan amount of RMB320 million. The pledge was provided by the Group in support of the Development Project, which enabled Gangke to obtain external financings while at the same time creating no immediate capital outflow for the Group.

(4) A guarantee was provided by Wanlibao in favour of Guangzhou Yuexiu Industrial Investment Co., Ltd.* (廣州越秀實業投資有限公司) pursuant to the terms of guarantee agreement dated 23 March 2023 entered into between Wanlibao as guarantor and the lender as guarantee to guarantee the repayment of a maximum loan amount of RMB13 million. The guarantee was provided by the Group in support of the Development Project, which enabled Gangke to obtain external financings while at the same time creating no immediate capital outflow for the Group.

* *For identification purposes only*

REPORT OF THE DIRECTORS

A statement of financial position of the affiliated company as at 31 December 2023 required to be disclosed under Rule 13.22 of the Listing Rules is set out below:

	Statement of financial position RMB'000
Current assets	4,690,026
Non-current assets	386
Current liabilities	2,223,951
Non-current liabilities	677,406
Net assets	1,789,055

The attributable interest of the Group in this affiliated company as at 31 December 2023 are set out in note 18 to the consolidated financial statements.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected Transactions

Construction Agreements and Supplemental Construction Agreement

On 10 February 2023, Guangdong Hengcheng, an indirect wholly owned subsidiary of the Company, entered into the design, construction and sub-contracting agreements (the "Construction Agreements") with Science City (Guangzhou) Architecture and Construction Co., Ltd.* (科學城(廣州)建築工程有限公司, "SC (GZ) Construction") and Guangzhou Construction Industry Development Co., Ltd.* (廣州建築產業開發有限公司, "Guangzhou Construction"), pursuant to which Guangdong Hengcheng agreed to engage SC (GZ) Construction (as lead contractor) and Guangzhou Construction (as joint-contractor) for the provision of construction services for the design and construction work in relation to civil foundation constructions, renovation, electricity and gas constructions, drainage constructions, road constructions and lighting constructions etc. for the household products production and development project (phase 2) (the "Project") on the site located in Guangde (Yingde) Industrial Park Construction (the "Construction") for a total consideration of RMB181,784,028.60 (inclusive of tax).

The construction period under the Construction Agreements was expected to be 540 calendar days from the issuance of construction permit by the relevant government authorities.

In view of the adjustment of the Project due to re-alignment of production lines, on 24 January 2024, Guangdong Hengcheng entered into an supplemental construction agreement to the Construction Agreements (the "Supplemental Construction Agreement") with SC (GZ) Construction and Guangzhou Construction, pursuant to which it was agreed that the total consideration for the provision of construction services for the Construction shall be reduced to RMB51,676,662.62.

The entering into of the Construction Agreements and the Supplemental Construction Agreement, and the development and construction of the Project are beneficial to the Group as the Construction would enable the Group to manufacture its furniture and accessories and further develop its principal business of design, sale and manufacture of furniture.

As SC (GZ) Construction is a wholly-owned subsidiary of Science City, a controlling shareholder of the Company, it is an associate of Science City and a connected person of the Company. Therefore, the Construction Agreements, the Supplemental Construction Agreement and the transactions contemplated thereunder constitute connected transactions of the Company. For further details please refer to the announcement of the Company dated 24 January 2024.

* *For identification purposes only*

REPORT OF THE DIRECTORS

Continuing Connected Transactions

Master Product Sales Agreement

On 15 June 2023, the Company has entered into a master product sales agreement ("Master Product Sales Agreement") with Science City, pursuant to which members of the Group will sell furniture and related products (together with ancillary services) to members of the Science City Group on a non-exclusive basis, subject to the entering into of individual contracts as agreed between members of the Group and the Science City Group. The Master Product Sales Agreement shall be effective for a term commencing from 15 June 2023 and ending on 31 December 2025 (both days inclusive).

As Science City Group is a controlling shareholder of the Company, it is a connected person of the Company. Accordingly, the Master Product Sales Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. For further details please refer to the announcement of the Company dated 15 June 2023.

The annual cap for the transactions under the Master Product Sales Agreement for the year ended 31 December 2023 was RMB74,000,000. For the year ended 31 December 2023, the actual transaction amount was RMB69,735,000.

Master Decoration Services Agreement

On 15 June 2023, the Company has entered into a master decoration services agreement ("Master Decoration Services Agreement") with Science City, pursuant to which members of the Group will provide decoration services including undertaking interior design, decoration, refurbishment, installation and fittings works as contractor in property development projects of the Science City Group to members of the Science City Group on a non-exclusive basis, subject to the entering into of individual contracts as agreed between respective members of the Group and the Science City Group. The Master Decoration Services Agreement shall be effective for a term commencing from 15 June 2023 and ending on 31 December 2025 (both days inclusive).

As Science City Group is a controlling shareholder of the Company, it is a connected person of the Company. Accordingly, the Master Decoration Services Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. For further details please refer to the announcement of the Company dated 15 June 2023.

The annual cap for the transactions under the Master Decoration Services Agreement for the year ended 31 December 2023 was RMB74,000,000. For the year ended 31 December 2023, the actual transaction amount was RMB8,679,000.

The Independent Non-executive Directors have reviewed and confirmed that the continuing connected transactions undertaken by the Group during the year were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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

REPORT OF THE DIRECTORS

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

CORPORATE GOVERNANCE

The Company is committed to maintaining high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 10 to 26.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three Independent Non-executive Directors. The financial statements of the Group and of the Company for the year ended 31 December 2023 together with the notes attached thereto have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Listing Rules and the legal requirements, and that adequate disclosure has been made.

TAX RELIEF AND EXEMPTION

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

In view of the adjustment to the household products production and development project (phase 2) on the site located in Guangde (Yingde) Industrial Park (the "Project") due to re-alignment of production lines, on 24 January 2024, Guangdong Hengcheng Furniture Ltd.* (廣東恒誠傢俬有限公司, "Guangdong Hengcheng") (an indirect wholly-owned subsidiary of the Company) entered into a supplemental construction agreement with Science City (Guangzhou) Architecture and Construction Co., Ltd.* (科學城(廣州)建築工程有限公司) and Guangzhou Construction Industry Development Co., Ltd.* (廣州建築產業開發有限公司), pursuant to which it was agreed that the total consideration for the provision of construction services for the construction of the Project shall be reduced to RMB51,676,662.62 (inclusive of tax). For details, please refer to the announcement of the Company dated 24 January 2024.

Saved as disclosed in this report, there are no significant events affecting the Group after the year ended 31 December 2023 and up to the date of this report.

MANAGEMENT CONTRACTS

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

* *For identification purposes only*

REPORT OF THE DIRECTORS

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2023 have been audited by Ernst & Young, who will retire, and being eligible and offer themselves for re-appointment at the AGM.

AMENDMENTS TO ARTICLES OF ASSOCIATION

The Company proposed to amend the Articles of Association for the purpose of establishing and facilitating the dual-chairmen structure of the Company by way of the adoption of the second amended and restated Articles of Association. The special resolution on the proposed amendments to the Articles of Association was passed by the Shareholders at the extraordinary general meeting of the Company held on 9 June 2023 (the "EGM").

CHANGES IN INFORMATION OF DIRECTORS

Following the passing of the special resolution approving the amendments to the Articles of Association at the EGM held on 9 June 2023, the appointment of Mr. Yang as Chairman and the re-designation of Mr. Tse from Chairman to Co-Chairman has become effective.

Save as disclosed, there is no information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the year.

ON BEHALF OF THE BOARD
LIN Ruhai
Chairman
Hong Kong

31 March 2024

INDEPENDENT AUDITOR'S REPORT

EY 安永

To the shareholders of Royale Home Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Royale Home Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 137, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2.1 to the consolidated financial statements, which indicates that the Group incurred a net loss of approximately RMB386 million for the year ended 31 December 2023 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB96 million, while its cash and cash equivalents amounted to RMB29 million. This condition, along with the current situation as set forth in note 2.1, indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Provision for inventory	
The Group manufactures and sells furniture and is subject to changing consumer demands. As at 31 December 2023, the gross amount of inventories and the provision for inventory balance amounted to approximately RMB326 million and RMB24 million, respectively. Significant management judgement was required to assess whether the carrying amount of these inventories was higher than the net realisable value. Specific factors that management considered in the estimation of the provision for inventory included the ageing of the balances, type of furniture, forecasted inventory usage or sales and any other available information. The accounting policy, the estimation uncertainty and the details of provision for inventory are disclosed in notes 2.4, 3 and 19 to the consolidated financial statements.	We assessed the process, methods and assumptions used to develop the provision for slow-moving, excess or obsolete items and tested the ageing of inventories, on a sample basis. We evaluated the inventory's net realisable value on a sample basis, by comparing the forecasted selling price to existing contracts and recent market prices. We also observed the condition of inventories in stock-take to inspect obsolete and damaged inventories. We performed financial analytical review on inventory turnover days and compared the turnover days with those for other listed entities of the same industry where available. We reviewed and assessed the adequacy of the related disclosures in the consolidated financial statements.
Fair value of investment properties	
The Group chooses the fair value model to subsequently measure all investment properties. As at 31 December 2023, the carrying amount of investment properties was RMB599 million and the fair value loss on investment properties recognised during the year was RMB2.4 million. The Group engaged an external valuation expert to perform valuation of the Group's investment properties to estimate the fair values as at 31 December 2023. The fair values of investment properties were determined principally using the discounted cash flow method by estimating the rental income derived from the existing tenancies with due provisions for the reversionary income potential of the properties. The determination of application of the valuation technique, future rental income and rental rate involved significant management judgement and estimates. The accounting policy, the estimation uncertainty and the details of fair value of investment properties are disclosed in notes 2.4, 3, 6 and 14 to the consolidated financial statements.	We assessed the objectivity, independence and competence of the external valuation expert engaged by the Company. We assessed the related data used by the external valuation expert as inputs of the valuations by comparing to the historical data and market index. We also involved our internal valuation specialists to assist us in evaluating the valuation methodology and the underlying assumptions which principally included the market unit rental rate and discount rate. We assessed the adequacy of the disclosures of the valuations of investment properties in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

31 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000 (Restated)
REVENUE	5	**827,916**	1,461,037
Cost of sales		**(801,799)**	(1,250,225)
Gross profit		**26,117**	210,812
Other income and gains	5	**108,249**	101,851
Selling and distribution expenses		**(165,352)**	(114,113)
Administrative expenses		**(157,194)**	(130,384)
(Impairment losses)/Reversal of impairment on financial and contract assets		**(39,545)**	3,003
Other expenses		**(34,675)**	(49,762)
Finance costs	7	**(144,670)**	(119,795)
Share of profits and losses of associates	6	**(12,048)**	2,054
LOSS BEFORE TAX	6	**(419,118)**	(96,334)
Income tax credit		**33,147**	106,974
(LOSS)/PROFIT FOR THE YEAR		**(385,971)**	10,640
Attributable to:			
Owners of the parent		**(381,536)**	4,673
Non-controlling interests		**(4,435)**	5,967
		(385,971)	10,640
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**RMB(15.362) cents**	RMB0.188 cents
Diluted		**RMB(15.362) cents**	RMB0.188 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	Note	2023 RMB'000	2022 RMB'000 (Restated)
(LOSS)/PROFIT FOR THE YEAR		**(385,971)**	10,640
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**7,494**	7,279
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**7,494**	7,279
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Translation from functional currency to presentation currency		**1,028**	150
Gains on property revaluation	13	**21,135**	9,430
Income tax effect		**(5,284)**	(2,358)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**16,879**	7,222
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**24,373**	14,501
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(361,598)**	25,141
Attributable to:			
Owners of the parent		**(357,062)**	19,174
Non-controlling interests		**(4,536)**	5,967
		(361,598)	25,141

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	**31 December 2023 RMB'000**	31 December 2022 RMB'000 (Restated)	1 January 2022 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	13	**797,143**	824,154	777,949
Investment properties	14	**599,200**	601,600	481,100
Intangible assets	17	**700**	737	2,810
Right-of-use assets	15	**286,240**	271,974	254,295
Goodwill	16	**25,052**	27,808	27,808
Investments in associates	18	**1,339,417**	1,306,414	1,291,844
Deferred tax assets	29	**23,731**	27,734	20,352
Prepayments	21	**73,539**	126,681	17,777
Contract assets	22	**–**	12,866	1,369
Restricted cash	24	**–**	100,566	100,000
Total non-current assets		**3,145,022**	3,300,534	2,975,304
CURRENT ASSETS				
Inventories	19	**302,399**	249,079	207,324
Trade receivables	20	**236,378**	202,106	152,612
Prepayments, deposits and other receivables	21	**330,465**	332,595	367,699
Contract assets	22	**4,592**	2,009	93
Financial assets at fair value through profit or loss	23	**20,885**	4,778	8,551
Amounts due from associates	32	**1,003,530**	852,216	741,725
Restricted cash	24	**233,258**	116,806	567,902
Cash and cash equivalents	24	**29,270**	356,829	119,482
Total current assets		**2,160,777**	2,116,418	2,165,388
CURRENT LIABILITIES				
Trade payables	25	**220,658**	128,378	87,639
Other payables and accruals	26	**286,134**	178,033	125,563
Interest-bearing bank and other borrowings	28	**1,480,150**	1,098,804	1,147,776
Loan from an associate	32	**53,000**	150,173	–
Loan from the immediate holding company	32	**–**	144,497	–
Loan from the ultimate holding company	32	**79,000**	–	–
Loan from non-controlling interests	32	**45,013**	5,300	2,771
Loan from a director	32	**18,969**	–	72,831
Tax payable		**73,961**	127,257	146,632
Total current liabilities		**2,256,885**	1,832,442	1,583,212
NET CURRENT (LIABILITIES)/ASSETS		**(96,108)**	283,976	582,176
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,048,914**	3,584,510	3,557,480

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	**31 December 2023 RMB'000**	31 December 2022 RMB'000 (Restated)	1 January 2022 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,048,914**	3,584,510	3,557,480
NON-CURRENT LIABILITIES				
Medium term bonds	27	**37,494**	34,253	29,646
Interest-bearing bank and other borrowings	28	**909,743**	1,151,570	762,170
Loan from non-controlling interests	32	**–**	36,178	36,483
Loan from the immediate holding company	32	**95,113**	–	77,504
Lease liabilities	15	**37,130**	45,099	20,225
Deferred tax liabilities	29	**149,715**	146,961	366,484
Deferred government grant		**33,195**	34,201	37,012
Total non-current liabilities		**1,262,390**	1,448,262	1,329,524
Net assets		**1,786,524**	2,136,248	2,227,956
EQUITY				
Equity attributable to owners of the parent				
Share capital	30	**221,592**	221,592	221,592
Reserves		**1,399,608**	1,790,857	1,887,090
		1,621,200	2,012,449	2,108,682
Non-controlling interests		**165,324**	123,799	119,274
Total equity		**1,786,524**	2,136,248	2,227,956

LIN Ruhai
Director

TSE Kam Pang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2023

	Note	Attributable to owners of the parent											
		Issued share capital	Shares held under share award scheme##	Share premium account	Capital reserve**	Asset revaluation reserve#	Special reserve safety fund	Statutory reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023		221,592	(188,961)*	958,007*	(7,953)*	177,530*	3,528*	110,712*	(39,673)*	777,667*	2,012,449	123,799	2,136,248
Loss for the year		-	-	-	-	-	-	-	-	(381,536)	(381,536)	(4,435)	(385,971)
Other comprehensive income for the year													
Gains on property revaluation, net of tax	13	-	-	-	-	15,851	-	-	-	-	15,851	-	15,851
Exchange differences related to foreign operations		-	-	-	-	-	-	-	8,623	-	8,623	(101)	8,522
Total comprehensive losses for the year		-	-	-	-	15,851	-	-	8,623	(381,536)	(357,062)	(4,536)	(361,598)
Capital contribution from non-controlling interests		-	-	-	-	-	-	-	-	-	-	46,061	46,061
Acquisition of shares under share award scheme		-	(10,694)	-	-	-	-	-	-	-	(10,694)	-	(10,694)
2022 final dividend		-	-	(23,493)	-	-	-	-	-	-	(23,493)	-	(23,493)
Transfer to reserve		-	-	-	-	-	1,337	776	-	(2,113)	-	-	-
Utilisation of safety fund		-	-	-	-	-	(4,865)	-	-	4,865	-	-	-
Transfer from asset revaluation reserve		-	-	-	-	(3,263)	-	-	-	3,263	-	-	-
At 31 December 2023		221,592	(199,655)*	934,514*	(7,953)*	190,118*	-	111,488*	(31,050)*	402,146*	1,621,200	165,324	1,786,524

\# The asset revaluation reserve arose from a revaluation surplus resulting from the building revaluation on 31 December 2023.

* These reserve accounts comprise the consolidated reserves of RMB1,399,608,000 (2022: RMB1,790,857,000) in the consolidated statement of financial position.

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

\#\# During the current year, the trustee appointed for the Share Award Scheme adopted by the Company acquired 7,724,000 (2022: 4,000,000) shares of the Company through purchases on the open market at a cost of approximately RMB10,694,000 (2022: RMB3,935,000), net of dividends received. As at 31 December 2023, 120,690,000 (31 December 2022: 112,966,000) shares of the Company are held by the trustee and have yet to be awarded.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 December 2023

	Note	Attributable to owners of the parent											
		Issued share capital RMB'000 (Restated)	Shares held under share award scheme RMB'000 (Restated)	Share premium account RMB'000 (Restated)	Capital reserve RMB'000 (Restated)	Asset revaluation reserve RMB'000 (Restated)	Special reserve safety fund RMB'000 (Restated)	Statutory reserve RMB'000 (Restated)	Exchange fluctuation reserve RMB'000 (Restated)	Retained profits RMB'000 (Restated)	Total RMB'000 (Restated)	Non-controlling interests RMB'000 (Restated)	Total equity RMB'000 (Restated)
At 1 January 2022		221,592	(185,026)	1,069,479	(7,953)	174,891	–	107,651	(47,102)	775,150	2,108,682	119,274	2,227,956
Profit for the year		–	–	–	–	–	–	–	–	4,673	4,673	5,967	10,640
Other comprehensive income for the year													
Gains on property revaluation, net of tax	13	–	–	–	–	7,072	–	–	–	–	7,072	–	7,072
Exchange differences related to foreign operations		–	–	–	–	–	–	–	7,429	–	7,429	–	7,429
Total comprehensive income for the year		–	–	–	–	7,072	–	–	7,429	4,673	19,174	5,967	25,141
Acquisition of shares under share award scheme		–	(3,935)	–	–	–	–	–	–	–	(3,935)	–	(3,935)
2021 final dividend		–	–	(111,472)	–	–	–	–	–	–	(111,472)	–	(111,472)
Transfer to reserve		–	–	–	–	–	3,549	–	–	(3,549)	–	–	–
Utilisation of safety fund		–	–	–	–	–	(21)	–	–	21	–	–	–
Transfer from asset revaluation reserve		–	–	–	–	(4,433)	–	–	–	4,433	–	–	–
Appropriations of statutory reserve		–	–	–	–	–	–	3,061	–	(3,061)	–	–	–
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(1,442)	(1,442)
At 31 December 2022		221,592	(188,961)	958,007	(7,953)	177,530	3,528	110,712	(39,673)	777,667	2,012,449	123,799	2,136,248

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(419,118)**	(96,334)
Adjustments for:			
Finance costs	7	**144,670**	119,795
Share of losses/(profits) of associates	6	**12,048**	(2,054)
Bank interest income	5	**(10,458)**	(3,103)
Interest income from an associate	5	**(51,425)**	(32,490)
Gain on disposal of right-of-use assets	5	**(515)**	(97)
Covid-19-related rent concessions from lessors	15	**–**	(87)
Depreciation of property, plant and equipment	6	**110,785**	84,913
Changes in fair value of investment properties	6	**2,400**	(39,979)
Depreciation of right-of-use assets	6	**26,163**	29,585
Amortisation of intangible assets	6	**596**	2,583
Write-down/(Reversal of write-down) of inventories to net realisable value	6	**4,269**	(30,088)
Impairment losses/(Reversal of impairment) on financial and contract assets	6	**39,545**	(3,003)
Gains on debt restructuring	6	**(7,827)**	–
Impairment of goodwill	6	**2,756**	–
Impairment of investments in associates	6	**20,884**	–
Fair value gains on financial assets at fair value through profit or loss	5	**(20,885)**	(4,778)
		(146,012)	24,863
Changes in inventories		**(57,589)**	(8,017)
Changes in trade receivables		**(49,626)**	(48,347)
Changes in prepayments, deposits and other receivables		**(962)**	(94,161)
Changes in contract assets		**10,462**	(13,610)
Changes in trade payables		**150,798**	35,682
Changes in other payables and accruals		**78,686**	(12,563)
Cash used in operations		**(14,343)**	(116,153)
Income taxes paid		**(18,192)**	(9,266)
Net cash flows used in operating activities		**(32,535)**	(125,419)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**65**	3,103
Purchase of items of property, plant and equipment		**(24,271)**	(120,537)
Additions to intangible assets		**(559)**	–
Additions to right-of-use assets		**(36,118)**	–
Proceeds from disposal of items of property, plant and equipment		**218**	77
Increase in amounts due from associates		**(91,471)**	(54,517)
Decrease/(Increase) in prepayment for acquisition of subsidiaries		**40,000**	(93,220)
Prepayment for acquisition of non-controlling interests		**–**	(14,080)
Proceed from financial assets at fair value through profit or loss		**4,778**	8,992
Increase in investment in associates		**(75,000)**	(8,286)
Proceeds from land resumption		**–**	30,476
Net cash flows used in investing activities		**(182,358)**	(247,992)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	**2023 RMB'000**	2022 RMB'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares under share award scheme		**(10,694)**	(3,935)
Dividends paid to a non-controlling interest		**–**	(1,442)
New bank and other borrowings		**1,691,665**	1,593,372
Repayment of bank and other borrowings		**(1,552,146)**	(1,322,444)
Principal portion of lease payments	15(b)	**(18,629)**	(25,767)
Loan/(Repayment of loan) from a director		**18,855**	(77,820)
Loan from a non-controlling interest		**1,575**	252
(Repayment of loan)/Loan from an associate		**(97,173)**	145,650
Loan from the ultimate holding company		**79,000**	–
(Repayment of loan)/Loan from the immediate holding company		**(56,370)**	54,961
Dividends paid		**(23,493)**	(111,472)
Interest paid		**(133,220)**	(96,769)
Changes in restricted cash		**(15,886)**	450,530
Net cash flows (used in)/from financing activities		**(116,516)**	605,116
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(331,409)**	231,705
Cash and cash equivalents at beginning of year		**356,829**	119,482
Effect of foreign exchange rate changes, net		**3,850**	5,642
CASH AND CASH EQUIVALENTS AT END OF YEAR		**29,270**	356,829
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**29,270**	356,829

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

Particulars of the Company's principal subsidiaries as of 31 December 2023 are as follows:

Name	Place of incorporation/ registration	Place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Chitaly (BVI) Limited	British Virgin Islands ("BVI")	Hong Kong	US$50,000	100	–	Investment holding
Hong Kong Royal Furniture Holding Limited	Hong Kong	Hong Kong	HK$10,000	–	100	Investment holding
Chitaly Furniture Limited	Hong Kong	Hong Kong	HK$10,000	–	100	Investment holding
Wanlibao (Guangzhou) Furniture Limited*	Chinese Mainland	Chinese Mainland	US$5,700,000	–	100	Trading of commodities
Guangzhou Yufa Furniture Company Limited*	Chinese Mainland	Chinese Mainland	RMB500,000,000	–	100	Manufacture and sale of furniture
Hong Kong Wong Chiu Furniture Holding Limited	BVI	Macau	US$50,000	–	100	Sale of furniture
Guangzhou Fuli Furniture Company Limited*	Chinese Mainland	Chinese Mainland	HK$72,000,000	–	100	Manufacture and sale of furniture
Realink Investment Group Limited	British Virgin Islands	Hong Kong	US$50,000	–	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration	Place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Beauty City Holdings Limited	British Virgin Islands	Hong Kong	US$50,000	–	100	Investment holding
Jiangxi Furun Furniture Company Limited**	Chinese Mainland	Chinese Mainland	US$26,964,145.47	–	63.38	Rental of properties
Tianjin Royal Furniture Company Limited**	Chinese Mainland	Chinese Mainland	RMB150,000,000	–	55	Rental of properties
Guangzhou Royal Furniture Company Limited*	Chinese Mainland	Chinese Mainland	RMB100,000,000	–	100	Manufacture and sale of furniture
Guangzhou Hong Mian Hong Company Limited**	Chinese Mainland	Chinese Mainland	RMB500,000	–	80	Manufacture and sale of foam
Guangzhou Zunyi Trading Company Limited**	Chinese Mainland	Chinese Mainland	RMB500,000	–	100	Dormant
Guangzhou Runyu Horticulture Company Limited**	Chinese Mainland	Chinese Mainland	RMB300,000	–	75	Dormant
Guangzhou Wanlibao Industrial Holding Limited**	Chinese Mainland	Chinese Mainland	RMB1,400,000,000	–	100	Investment holding
Guangzhou Kemi Zhijia Furniture Co., Ltd.**	Chinese Mainland	Chinese Mainland	RMB8,000,000	–	100	Sale of upholstered furniture
Guangzhou Kemi Decoration Co., Ltd.**	Chinese Mainland	Chinese Mainland	RMB28,000,000	–	100	Decoration services
Jiangsu Huangju Technology Co., Ltd.*	Chinese Mainland	Chinese Mainland	RMB200,000,000	–	100	Manufacture and sale of furniture

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.1 BASIS OF PREPARATION

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

Going concern basis

The Group incurred a net loss of approximately RMB386 million for the year ended 31 December 2023 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB96 million, while its cash and cash equivalents amounted to RMB29 million. The above conditions indicated the existence of a material uncertainty which may cast a significant doubt on the Group's ability to continue as a going concern.

In view of the aforementioned, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial sources to continue as a going concern. The following plans and measures are formulated to mitigate the liquidity pressure and to improve the financial position of the Group:

(i) The Group's bank and other loans of RMB1,816 million are guaranteed by Science City (Guangzhou) Investment Group Co., Ltd.* ("Science City"). Science City has agreed to continue to act as the Group guarantor for the next twelve months on all their existing and new bank and other loans with an aggregated amount of not exceeding RMB2,000 million. Based on historical experience, the directors expect that the Group is able to renew all the bank and other loans with Science City's guarantee when they expire. As of 31 December 2023, the Group also has unpledged investment properties with carrying amount of approximately RMB599 million which are available for use as security to obtain new bank and other loans. Subsequent to the year end date, the Group has successfully renewed or obtained new bank and other loans of RMB356 million;

(ii) The Group will continue to seek suitable opportunities to disposal of certain equity interest to raise the level of liquid funds; and

(iii) The Group will continue to implement measures to improve the operation performance, and to speed up the collection of outstanding sales proceeds and other receivables; and the Group will continue to take active measures to control costs and expense.

* *For identification purposes only*

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.1 BASIS OF PREPARATION (Continued)

Going concern basis (Continued)

The board of directors have reviewed the Group's cash flow projections prepared by management, which cover a period of not less than twelve months from 31 December 2023. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2023. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the following:

(i) the successful obtaining continuous support by the banks and the Group's creditors;

(ii) successfully disposing of the Group's equity interest in certain companies when suitable; and

(iii) the successful and timely implementation of the plans to improve the operation performance, speed up the collection of outstanding sales proceeds and other receivables, and control costs and expense so as to generate adequate net cash inflows.

Should the Group be unable to achieve the above-mentioned plans and measures and operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), any non-controlling interests and exchange fluctuation reserve and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Change in presentation currency

Since most of the Group's transactions are denominated and settled in RMB and the change in the presentation currency could reduce the impact of any fluctuations in the exchange rate of HKD against RMB, which is not related to the operations and financial conditions of the Group on the consolidated financial statements of the Group and is beyond the control of the Group, the directors of the Company consider that it is more appropriate to use RMB as the presentation currency of the Group and the presentation of financial statements in RMB can provide more relevant information for management to control and monitor the performance and financial position of the Group. Accordingly, the Group has changed its presentation currency of the financial statements from HKD to RMB starting from 1 January 2023.

Such change in the presentation currency has been accounted for retrospectively in accordance with HKAS 8 Accounting Policies, Change in Accounting Estimates and Errors. The following methodology has been used to represent the comparative figures as at 1 January 2022 and 31 December 2022 and for the year ended 31 December 2022 (the "Relevant Period"), which were originally presented in HKD, in RMB:

Income and expenditure have been translated at the average rates of exchange prevailing for the Relevant Period;

Assets and liabilities have been translated at the closing rates of exchange at the end of the Relevant Period;

Share capital and other reserves were translated at applicable historical rates; and

All resulting exchange differences have been recognised in other comprehensive income.

In addition to the comparative information in respect of the previous period as provided in these consolidated financial statements, the Group presented an additional statement of financial position as at 1 January 2022 without related notes in accordance with HKAS 1 Presentation of Financial Statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 Making Materiality Judgements provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under HKAS 12.

(d) Amendments to HKAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised HKFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised HKFRSs, if applicable, when they become effective.

Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[1, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[1, 4]
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*[1]
Amendments to HKAS 21	*Lack of Exchangeability*[2]

1 Effective for annual periods beginning on or after 1 January 2024

2 Effective for annual periods beginning on or after 1 January 2025

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

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

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

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2023 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 MATERIAL ACCOUNTING POLICIES

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

Investments in associates and joint ventures

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

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

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

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

Business combinations and goodwill

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

Fair value measurement

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for non-financial asset is required (other than inventories, contract assets, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

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

or

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, plant and equipment and depreciation

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Buildings	3%–5%
Leasehold improvements	10%–50%
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles and others	20%

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

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

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including right-of-use assets) held to earn rental income and/or for capital appreciation. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

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

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

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

Intangible assets (other than goodwill)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Computer software

The purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 2 to 10 years.

Customer relationships

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

Research and development costs

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

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

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

Leases

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

Group as a lessee

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(a) *Right-of-use assets*

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

Leasehold land	27 to 50 years
Buildings	1.5 to 15 years
Motor vehicle	5 years

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

(b) *Lease liabilities*

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessor

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition of financial assets

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

Simplified approach

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and other borrowings, financial liabilities at fair value through profit or loss and payables.

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

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

Subsequent measurement

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

Financial liabilities at amortised cost (trade and other payables, and borrowings)

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

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

Financial guarantee contracts

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

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

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

Shares held under the share award scheme

The Group's 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.

Inventories

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

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-team highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

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

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

The Group provides for warranties in relation to the sale of certain products for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are initially recognised based on past experience of the level of repairs and returns, discounted to their present values as appropriate. The warranty-related cost is revised annually.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

Sale of goods

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

Sale of goods (Continued)

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

(i) Rights of return

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

(ii) Volume rebates

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

Installation and other ancillary services

For Installation and other ancillary services, according to different individual contracts, the revenue is satisfied upon acceptance by the customer or the progress towards complete satisfaction of performance. Revenue recognised upon the progress towards complete satisfaction of performance uses an output method to measure. The output method recognises revenue in accordance with the direct measurements of the value of the services transferred by the Group to the customer with reference to the certified value of work performed to date.

Revenue from other sources

Hotel revenue from room rental is recognised over time during the period of stay for the hotel guests. Revenue from food and beverage sales is generally recognised at the point in time when the services are rendered.

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

Other income

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

Licence fee income is recognised on a time proportion basis in accordance with the substance of the relevant agreements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Contract assets

If the Group performs by transferring goods or services to a customer before being unconditionally entitled to the consideration under the contract terms, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets. They are reclassified to trade receivables when the right to the consideration becomes unconditional.

Contract liabilities

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

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries in accordance with the statutory limits prescribed by the Mandatory Provident Fund Schemes Ordinance and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Dividends

Dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the note 11 to the financial statements.

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

Foreign currencies

The functional currency of the Company is Hong Kong dollar and these financial statements are presented in RMB. Most of the turnover of the Group is contributed by the business in Chinese Mainland and the presentation currency of RMB could provide users of the financial statements with more comparable information with other companies in similar industries. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the year. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

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

The functional currencies of certain entities in the Group are currencies other than RMB. As at the end of the year, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the year and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in the statement of profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Property lease classification – Group as lessor

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

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 29.

Estimation uncertainty

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

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

Write-down of inventories

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. Significant management judgements and estimates were required to determine the net realisable value of the inventories. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and the write-down/write-back of the inventories in the period in which such estimate has been changed. During the year ended 31 December 2023, the amount of write-down of inventory provision in the statement of profit or loss was RMB4,269,000 (2022: reversal of write-down of the inventories of RMB30,088,000). As at 31 December 2023, the carrying amount of the write-down of the inventories was RMB23,851,000 (2022: RMB19,582,000).

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

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets and financial assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating). There will be different provision rates based on the type of customer.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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

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

Estimation of fair value of investment properties

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

As at 31 December 2023, the carrying amount of investment properties was RMB599,200,000 (2022: RMB601,600,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2023 was RMB25,052,000 (2022: RMB27,808,000). Further details are given in note 16.

Fair values of property, plant and equipment

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. As at 31 December 2023, the carrying amounts of the property, plant and equipment approximated to their fair values. For details, refer to note 13 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The chief operating decision-makers mainly include executive directors of the Company. They review the Group's internal reporting in order to assess performance, allocate resources, and determine the operating segments based on these reports. Segment results are evaluated based on reportable gross profit margin.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

4. OPERATING SEGMENT INFORMATION (Continued)

The Group has four reportable segments as follows:

(a) The furniture products segment, engaging in the manufacture and sale of home furniture.

(b) The development properties for sale and property investments segment, engaging in the property investments and development.

(c) The hotel operations segment, engaging in hotel operations.

(d) The trading segment, engaging in the trading of aluminium ingots and bars.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. The following is an analysis of the Group's revenue and results by reportable and operating segments:

Year ended 31 December 2023

	Manufacture and sale of furniture RMB'000	Development properties for sales and property investments RMB'000	Hotel operations RMB'000	Trading RMB'000	Total RMB'000
Segment revenue					
Sale to external customers	**782,825**	**–**	**12,838**	**32,253**	**827,916**
Revenue from continuing operations					**827,916**
Segment results	**57,857**	**–**	**(32,847)**	**1,107**	**26,117**
Loss before tax from continuing operations	**(324,877)**	**(36,008)**	**(48,492)**	**(9,741)**	**(419,118)**
Segment assets	**3,968,026**	**1,529,559**	**517,122**	**549,532**	**6,564,239**
Elimination of intersegment receivables					**(1,258,440)**
Total assets					**5,305,799**
Segment liabilities	**3,680,180**	**277,300**	**272,454**	**547,781**	**4,777,715**
Elimination of intersegment payables					**(1,258,440)**
Total liabilities					**3,519,275**

NOTES TO FINANCIAL STATEMENTS

31 December 2023

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2022

	Manufacture and sale of furniture RMB'000 (Restated)	Development properties for sales and property investments RMB'000 (Restated)	Hotel operations RMB'000 (Restated)	Trading RMB'000 (Restated)	Total RMB'000 (Restated)
Segment revenue					
Sale to external customers	825,248	–	36,442	599,347	1,461,037
Revenue from continuing operations					1,461,037
Segment results	202,862	–	3,715	4,235	210,812
Loss before tax from continuing operations	(62,136)	(16,378)	(13,452)	(4,368)	(96,334)
Segment assets	3,667,655	1,630,132	544,184	507,391	6,349,362
Elimination of intersegment receivables					(932,410)
Total assets					5,416,952
Segment liabilities	2,872,218	375,812	477,275	487,809	4,213,114
Elimination of intersegment payables					(932,410)
Total liabilities					3,280,704

Information about a major customer

No revenue from sales to a single customer amounted to 10% or more of the Group's revenue during the year (2022: RMB354,756,000).

Geographical information

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2023 RMB'000	2022 RMB'000 (Restated)
Revenue from contracts with customers		
Sale of goods	**767,980**	1,337,944
Installation and other ancillary services	**47,098**	86,651
Hotel operation income	**12,838**	36,442
	827,916	1,461,037

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2023

	Manufacture and sale of furniture RMB'000	**Hotel operations RMB'000**	**Trading RMB'000**	**Total RMB'000**
Timing of revenue recognition				
Revenue recognised at a point in time	**755,148**	**7,118**	**32,253**	**794,519**
Revenue recognised over time	**27,677**	**5,720**	**–**	**33,397**
Total revenue from contracts with customers	**782,825**	**12,838**	**32,253**	**827,916**

For the year ended 31 December 2022

	Manufacture and sale of furniture RMB'000 (Restated)	Hotel operations RMB'000 (Restated)	Trading RMB'000 (Restated)	Total RMB'000 (Restated)
Timing of revenue recognition				
Revenue recognised at a point in time	825,248	4,895	599,347	1,429,490
Revenue recognised over time	–	31,547	–	31,547
Total revenue from contracts with customers	825,248	36,442	599,347	1,461,037

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligation

Information about the Group's performance obligations is summarised below:

Sale of goods

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

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

Hotel operations income

Hotel revenue from room rental is recognised over time during the period of stay of the hotel guests. Revenue from the sale of food and beverage is generally recognised at the point in time when the services are rendered.

Installation and other ancillary services

Installation and other ancillary services are recognised at a point in time of acceptance by the customer or recognised over time, according to different individual contracts.

The following table shows the amount of revenue recognised in the current year that was included in the contract liabilities at the beginning of the year:

	2023 RMB'000	2022 RMB'000 (Restated)
Revenue recognised that was included in contract liabilities at the beginning of the year	**23,376**	27,850

	2023 RMB'000	2022 RMB'000 (Restated)
Other income and gains		
Rental income	**7,444**	7,767
Bank interest income	**10,458**	3,103
Interest income from an associate	**51,425**	32,490
Fair value gains on investment properties	**–**	39,979
Sales of scraps	**452**	4,449
Government subsidy	**4,464**	3,816
Fair value gain on financial assets at fair value through profit or loss	**20,885**	4,778
Gain on disposal of right-of-use assets	**515**	97
Gain on disposal of property, plant and equipment	**236**	–
Others	**12,370**	5,372
	108,249	101,851

NOTES TO FINANCIAL STATEMENTS

31 December 2023

6. LOSS BEFORE TAX

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

	Notes	2023 RMB'000	2022 RMB'000 (Restated)
Cost of inventories sold		**755,585**	1,202,595
Cost of services provided		**41,945**	77,718
Depreciation of property, plant and equipment	13	**110,785**	84,913
Depreciation of right-of-use assets	15(a)	**26,163**	29,585
Amortisation of intangible assets	17	**596**	2,583
Research and development costs:			
Current year expenditure*		**1,933**	2,234
Lease payments not included in the measurement of lease liabilities	15(c)	**5,482**	1,380
Auditor's remuneration		**3,508**	3,380
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**166,569**	181,790
Pension scheme contributions		**20,422**	21,929
		186,991	203,719
Fair value gain on financial assets at fair value through profit or loss	5	**(20,885)**	(4,778)
Write-down/(Reversal of write-down) of inventories to net realisable value**		**4,269**	(30,088)
Impairment/(Reversal of impairment) of trade receivables		**15,354**	(772)
Impairment/(Reversal of impairment) of financial assets included in prepayments, deposits and other receivables		**24,370**	(2,443)
Provision for estimated loss from legal proceedings#		**–**	35,411
Fair value losses/(gains) on investment properties	5	**2,400**	(39,979)
Impairment of goodwill##	16	**2,756**	–
Impairment of investments in associates##	18	**20,884**	–
Donation expense##		**–**	7,152
(Reversal of impairment)/Impairment of contracts assets		**(179)**	212
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties##		**425**	806
Foreign exchange differences, net##		**3,675**	1,939
Expenses on compensation, penalties and fines##		**3,399**	–
Bank interest income	5	**(10,458)**	(3,103)
Interest income from an associate	5	**(51,425)**	(32,490)
Share of profits and losses of associates	18	**12,048**	(2,054)
Gain on disposal of right-of-use assets	5	**(515)**	(97)
Gains on debt restructuring###		**(7,827)**	–

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

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

\# Provision has been included in "Other expenses" based on the best estimate for the estimated loss from legal proceedings, further details are set out in note 26.

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

\#\#\# This item has been included in "Other income and gains" on the face of the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

7. FINANCE COSTS

	2023 RMB'000	2022 RMB'000 (Restated)
Interest on bank and other borrowings (including medium term bonds)	**126,913**	104,980
Interest on loans from related parties	**14,730**	12,085
Interest on lease liabilities	**3,027**	2,730
	144,670	119,795

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2023 RMB'000	2022 RMB'000 (Restated)
Fees	**922**	875
Other emoluments:		
Salaries, allowances and benefits in kind	**4,756**	6,719
Pension scheme contributions	**86**	206
	5,764	7,800

NOTES TO FINANCIAL STATEMENTS

31 December 2023

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

2023

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:					
Mr. Lin Ruhai* *(Chief Executive)* (appointed on 1 December 2023)	–	–	–	–	–
Mr. Tse Kam Pang	271	3,946	–	–	4,217
Mr. Yang Jun (resigned on 1 December 2023)	–	380	–	39	419
	271	4,326	–	39	4,636
Non-executive directors:					
Mr. Wu Zhongming*	–	–	–	–	–
Mr. Tao Ying (appointed on 18 January 2023)	–	402	–	43	445
Mr. Yao Jingming* (appointed on 4 September 2023)	–	–	–	–	–
Ms. Yang Ying (appointed on 1 December 2023)	–	28	–	4	32
Mr. Wu Dingliang* (resigned on 18 January 2023)	–	–	–	–	–
Mr. Chen Yisheng* (resigned on 4 September 2023)	–	–	–	–	–
Ms. Qin You* (resigned on 1 December 2023)	–	–	–	–	–
	–	430	–	47	477
Independent non-executive directors:					
Mr. Lau Chi Kit	217	–	–	–	217
Mr. Yue Man Yiu Matthew	217	–	–	–	217
Mr. Chan Wing Tak Kevin	217	–	–	–	217
	651	–	–	–	651
	922	4,756	–	86	5,764

NOTES TO FINANCIAL STATEMENTS

31 December 2023

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

2022

	Fees RMB'000 (Restated)	Salaries, allowances and benefits in kind RMB'000 (Restated)	Performance related bonuses RMB'000 (Restated)	Pension scheme contributions RMB'000 (Restated)	Total remuneration RMB'000 (Restated)
Executive directors:					
Mr. Tse Kam Pang	257	5,019	–	–	5,276
Mr. Yang Jun *(Chief Executive)*	–	588	–	68	656
	257	5,607	–	68	5,932
Non-executive directors:					
Mr. Wu Zhongming	–	578	–	69	647
Mr. Wu Dingliang	–	534	–	69	603
Ms. Qin You*	–	–	–	–	–
Mr. Chen Yisheng*	–	–	–	–	–
	–	1,112	–	138	1,250
Independent non-executive directors:					
Mr. Lau Chi Kit	206	–	–	–	206
Mr. Yue Man Yiu Matthew	206	–	–	–	206
Mr. Chan Wing Tak Kevin	206	–	–	–	206
	618	–	–	–	618
	875	6,719	–	206	7,800

* During the year, six of directors have agreed not to receive any directors' remuneration (2022: two).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2022: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2022: four) highest paid employees who are neither a director nor chief executive of the Company for the year are as follows:

	2023 **RMB'000**	2022 RMB'000 (Restated)
Salaries, allowances and benefits in kind	**6,178**	7,127
Pension scheme contributions	**140**	208
	6,318	7,335

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

	Number of employees	
	2023	2022
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**2**	2
HK$2,000,001 to HK$2,500,000	**1**	2
	4	4

10. INCOME TAX CREDIT

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2022: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2023 **RMB'000**	2022 RMB'000 (Restated)
Current – Chinese Mainland		
Charge for the year	**3,945**	154,861
Adjustment in respect of current tax of previous periods	**(38,068)**	(39,992)
Deferred (note 29)	**976**	(221,843)
Total tax credit for the year	**(33,147)**	(106,974)

NOTES TO FINANCIAL STATEMENTS

31 December 2023

10. INCOME TAX CREDIT (Continued)

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

	2023 RMB'000	2023 %	2022 RMB'000 (Restated)	2022 %
Loss before tax	**(419,118)**		(96,334)	
Tax at the applicable tax rate at 25% (2022: 25%)	**(104,779)**	**25.0**	(24,084)	25.0
Lower tax rates for specific provinces or enacted by local authority	**9,403**	**(2.2)**	5,481	(5.7)
Profits and losses attributable to associates	**3,012**	**(0.7)**	(513)	0.5
Adjustments in respect of current tax of previous periods	**(38,068)**	**9.1**	(39,992)	41.5
Adjustments in respect of previously recognized deferred tax liabilities arising from tax filing of land resumption*	**–**	**–**	(59,168)	61.4
Expenses not deductible for tax	**221**	**(0.1)**	6,649	(6.9)
Tax losses not recognised	**97,839**	**(23.3)**	9,076	(9.4)
Tax losses utilised from previous periods	**(775)**	**0.2**	(4,423)	4.6
Tax credit at the Group's effective rate	**(33,147)**	**8**	(106,974)	111

The Group has aggregate tax losses arising in Hong Kong of RMB218,943,000 (2022: RMB109,872,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. The Group has aggregate tax losses arising in Chinese Mainland of RMB308,020,000 (2022: RMB20,497,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets as at 31 December 2023.

11. DIVIDENDS

	2023 RMB'000	2022 RMB'000 (Restated)
Proposed final dividend – Nil (2022: Final dividend of HK1 cent per ordinary share)	**–**	23,493

The directors of the Company have resolved not to declare a final dividend for the year ended 31 December 2023 (2022: RMB23,493,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic (loss)/earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue less shares held under share award scheme during the year of 2,483,566,389 (2022: 2,487,280,044).

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2023 and 2022.

The calculations of basic and diluted (loss)/earnings per share are based on:

	2023 RMB'000	2022 RMB'000 (Restated)
(Loss)/Earnings		
(Loss)/Profit attributable to ordinary equity holders of the parent, used in the basic and diluted (loss)/earnings per share calculations	**(381,536)**	4,673

	Number of shares	
	2023	2022
Shares		
Weighted average number of ordinary shares in issue less shares held under share award scheme during the year used in the basic and diluted (loss)/earnings per share calculation	**2,483,566,389**	2,487,280,044

NOTES TO FINANCIAL STATEMENTS

31 December 2023

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2023

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2022 and at 1 January 2023:							
Cost or valuation	556,114	191,243	204,287	14,297	9,923	61,470	1,037,334
Accumulated depreciation	(21,634)	(78,062)	(97,281)	(8,454)	(7,749)	–	(213,180)
Net carrying amount	534,480	113,181	107,006	5,843	2,174	61,470	824,154
At 1 January 2023, net of accumulated depreciation	534,480	113,181	107,006	5,843	2,174	61,470	824,154
Additions	10,863	32,398	2,555	1,294	254	17,553	64,917
Transfer	60,598	–	–	–	–	(60,598)	–
Surplus on revaluation	21,135	–	–	–	–	–	21,135
Disposals	–	–	(141)	(4,097)	(22)	–	(4,260)
Depreciation provided during the year	(32,030)	(52,515)	(24,650)	(804)	(786)	–	(110,785)
Exchange realignment	–	–	1,914	1	67	–	1,982
At 31 December 2023, net of accumulated depreciation	595,046	93,064	86,684	2,237	1,687	18,425	797,143
At 31 December 2023:							
Cost or valuation	648,710	216,530	208,756	15,592	10,244	18,425	1,118,257
Accumulated depreciation	(53,664)	(123,466)	(122,072)	(13,355)	(8,557)	–	(321,114)
Net carrying amount	595,046	93,064	86,684	2,237	1,687	18,425	797,143

NOTES TO FINANCIAL STATEMENTS

31 December 2023

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

31 December 2022

	Buildings RMB'000 (Restated)	Leasehold improvements RMB'000 (Restated)	Plant and machinery RMB'000 (Restated)	Furniture, fixtures and office equipment RMB'000 (Restated)	Motor vehicles and others RMB'000 (Restated)	Construction in progress RMB'000 (Restated)	Total RMB'000 (Restated)
At 31 December 2021 and at 1 January 2022:							
Cost or valuation	547,776	114,353	189,537	12,253	9,875	46,314	920,108
Accumulated depreciation	(9,815)	(36,671)	(80,437)	(7,311)	(7,925)	–	(142,159)
Net carrying amount	537,961	77,682	109,100	4,942	1,950	46,314	777,949
At 1 January 2022, net of accumulated depreciation	537,961	77,682	109,100	4,942	1,950	46,314	777,949
Additions	–	76,890	15,929	1,515	495	15,338	110,167
Transfer	182	–	–	–	–	(182)	–
Surplus on revaluation	9,430	–	–	–	–	–	9,430
Disposals	–	(20)	(57)	–	–	–	(77)
Depreciation provided during the year	(24,310)	(41,371)	(17,966)	(983)	(283)	–	(84,913)
Exchange realignment	11,217	–	–	369	12	–	11,598
At 31 December 2022, net of accumulated depreciation	534,480	113,181	107,006	5,843	2,174	61,470	824,154
At 31 December 2022:							
Cost or valuation	556,114	191,243	204,287	14,297	9,923	61,470	1,037,334
Accumulated depreciation	(21,634)	(78,062)	(97,281)	(8,454)	(7,749)	–	(213,180)
Net carrying amount	534,480	113,181	107,006	5,843	2,174	61,470	824,154

At 31 December 2023, the Group had pledged buildings amounting to RMB560,358,000 (2022: RMB534,480,000) to obtain bank and other borrowings (note 28).

At 31 December 2023, the Group had pledged certain machinery amounting to RMB23,464,000 (2022: RMB89,802,000) to obtain bank and other borrowings (note 28).

As at 31 December 2023, the Group had no pledged construction in progress (2022: RMB54,211,000) to obtain bank and other borrowings (note 28).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

14. INVESTMENT PROPERTIES

	2023 RMB'000	2022 RMB'000 (Restated)
Carrying amount at 1 January	**601,600**	481,100
Net (loss)/gain from fair value adjustments	**(2,400)**	39,979
Addition	**–**	80,521
Carrying amount at 31 December	**599,200**	601,600

The Group's investment properties consist of two industrial properties located in Tianjin and Jiangxi Province respectively, Chinese Mainland, which were subsequently measured at fair value. The directors of the Company have determined that the investment properties consist of one class of assets, i.e., industrial properties, based on the nature, characteristics and risk of each property. The Group's investment properties were revalued on 31 December 2023 based on the valuation by an independent valuer Stern Appraisal Limited. Each year, the Group's property manager and the chief financial officer decide to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results each year when the valuation is performed for annual financial reporting.

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

As at 31 December 2023, the Group had no pledged investment properties (2022: RMB209,100,000) to obtain bank and other borrowings (note 28).

Fair value hierarchy

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

	Fair value measurement as at 31 December 2023 using significant unobservable inputs Level 3 RMB'000	**Total RMB'000**
Recurring fair value measurement for:		
Industrial properties	**599,200**	**599,200**

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14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

	Fair value measurement as at 31 December 2022 using significant unobservable inputs Level 3 RMB'000 (Restated)	Total RMB'000 (Restated)
Recurring fair value measurement for:		
Industrial properties	601,600	601,600

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2022: Nil).

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

	Valuation technique	**Significant unobservable inputs**	**Range 2023**	Range 2022
Industrial properties	Discounted cash flow method	Estimated rental value (per sq.m. per month)	**15.3–27.91**	15.8–25.47
		Rent growth (p.a.)	**-3%–10%**	6%–11.76%
		Long term vacancy rate	**10%**	10%–15%
		Discount rate	**7%–8%**	7%–8%

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

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

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

NOTES TO FINANCIAL STATEMENTS

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15. LEASES

The Group as a lessee

The Group has lease contracts for buildings and a motor vehicle for different uses in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 27 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings and motor vehicle generally have lease terms between 1.5 to 15 years.

(a) Right-of-use assets

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

	Leasehold land RMB'000	Buildings RMB'000	Motor vehicle RMB'000	Total RMB'000
At 1 January 2022: (restated)	215,438	37,049	1,808	254,295
Addition (restated)	–	46,020	–	46,020
Disposal (restated)	–	(4,446)	–	(4,446)
Depreciation charge (restated)	(4,350)	(24,639)	(596)	(29,585)
Exchange realignment (restated)	5,515	43	132	5,690
As at 31 December 2022 and 1 January 2023 (restated)	**216,603**	**54,027**	**1,344**	**271,974**
Addition	**36,120**	**8,322**	**–**	**44,442**
Reassessment of a lease term arising from a decision not to exercise the extension option	**–**	**(4,635)**	**–**	**(4,635)**
Revision of a lease term arising from a change in the non-cancellable period of a lease	**–**	**546**	**–**	**546**
Depreciation charge	**(9,522)**	**(16,013)**	**(628)**	**(26,163)**
Exchange realignment	**–**	**41**	**35**	**76**
As at 31 December 2023	**243,201**	**42,288**	**751**	**286,240**

At 31 December 2023, the Group had pledged a right-of-use asset amounting to RMB16,310,000 (2022: RMB16,967,000) to obtain bank and other borrowings (note 28).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

15. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

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

	2023 **RMB'000**	2022 RMB'000 (Restated)
Carrying amount at 1 January	**59,483**	40,868
New leases	**8,322**	46,020
Reassessment of a lease term arising from a decision not to exercise the extensions option	**(5,151)**	(4,349)
Revision of a lease term arising from a change in the non-cancellable period of a lease	**548**	–
Accretion of interest recognised during the year	**3,027**	2,730
Payments	**(18,629)**	(25,767)
Covid-19-related rent concessions from lessors	**–**	(87)
Exchange realignment	**71**	68
Carrying amount at 31 December	**47,671**	59,483
Analysed into:		
Current portion	**10,541**	14,384
Non-current portion	**37,130**	45,099

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

The Group has applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain plant and equipment during the year.

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

	2023 **RMB'000**	2022 RMB'000 (Restated)
Interest on lease liabilities	**3,027**	2,730
Depreciation charge of right-of-use assets	**26,163**	29,585
Expense relating to short-term leases and low-value assets	**5,482**	1,380
Total amount recognised in profit or loss	**34,672**	33,695

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

NOTES TO FINANCIAL STATEMENTS
31 December 2023

15. LEASES (Continued)

The Group as a lessor

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

At 31 December 2023, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2023 RMB'000	2022 RMB'000 (Restated)
Within one year	**1,905**	5,709
In the second to fifth years, inclusive	**7,463**	7,621
After five years	**–**	1,747
	9,368	15,077

16. GOODWILL

	2023 RMB'000
At 31 December 2022:	
Cost	**27,808**
Accumulated impairment	**–**
Net carrying amount	**27,808**
Cost at 1 January 2023, net of accumulated impairment	**27,808**
Impairment during the year	**(2,756)**
Cost and net carrying amount at 31 December 2023	**25,052**
At 31 December 2023:	
Cost	**27,808**
Accumulated impairment	**(2,756)**
Cost and net carrying amount	**25,052**

NOTES TO FINANCIAL STATEMENTS

31 December 2023

16. GOODWILL (Continued)

Impairment testing of goodwill

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

The recoverable amount of the sales of foam cash-generating unit (the "CGU") is determined based on a value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets of the CGUs approved by management covering a five-year period. The discount rate applied to the cash flow projections is 15.4% (2022: 15.2%) and cash flows beyond the five-year period were extrapolated using a growth rate of 2.3% (2022: 3%).

Assumptions were used in the value in use calculation of the sales of foam cash-generating unit for 31 December 2023. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

17. INTANGIBLE ASSETS

31 December 2023

	Patents, licences and software RMB'000	Customer relationships RMB'000	Total RMB'000
At 1 January 2023:			
Cost	7,763	12,194	19,957
Accumulated amortisation	(7,434)	(11,786)	(19,220)
Net carrying amount	329	408	737
Cost at 1 January 2023, net of accumulated amortisation	329	408	737
Addition	559	–	559
Amortisation provided during the year	(188)	(408)	(596)
Cost at 31 December 2023, net of accumulated amortisation	700	–	700
At 31 December 2023:			
Cost	8,322	12,194	20,516
Accumulated amortisation	(7,622)	(12,194)	(19,816)
Net carrying amount	700	–	700

NOTES TO FINANCIAL STATEMENTS

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17. INTANGIBLE ASSETS (Continued)

31 December 2022

	Patents, licences and software RMB'000 (Restated)	Customer relationships RMB'000 (Restated)	Total RMB'000 (Restated)
At 1 January 2022:			
Cost	8,806	11,412	20,218
Accumulated amortisation	(8,731)	(8,677)	(17,408)
Net carrying amount	75	2,735	2,810
Cost at 1 January 2022, net of accumulated amortisation	75	2,735	2,810
Addition	398	–	398
Amortisation provided during the year	(144)	(2,439)	(2,583)
Exchange realignment	–	112	112
Cost at 31 December 2022, net of accumulated amortisation	329	408	737
At 31 December 2022			
Cost	7,763	12,194	19,957
Accumulated amortisation	(7,434)	(11,786)	(19,220)
Net carrying amount	329	408	737

18. INVESTMENT IN ASSOCIATES

	2023 RMB'000	2022 RMB'000 (Restated)
Share of net assets	**1,303,742**	1,249,855
Goodwill on acquisition	**56,559**	56,559
	1,360,301	1,306,414
Provision for impairment	**(20,884)**	–
	1,339,417	1,306,414

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18. INVESTMENT IN ASSOCIATES (Continued)

At the end of the reporting period, in view of the loss-making, the directors of the group estimated the recoverable amounts which were the higher of VIU and the fair value less costs of disposal ("FVLCD") of the investments in associates for the purpose of impairment testing. The recoverable amount of Dongma (Guangzhou free trade zone) Grease Chemical Co., LTD. was determined by FVLCD.

In this connection, the FVLCD of Dongma (Guangzhou free trade zone) Grease Chemical Co., LTD. was determined by reference to the recent transaction.

In respect of the recoverable amount using VIU, the discounted cash flow calculations were based on cash flow projections estimated by management and the key assumptions adopted in these cash flow projections include revenue growth rate, profit margins and discount rate. In respect of the recoverable amount based on FVLCD, the FVLCD was calculated using certain key valuation assumptions including the selection of comparable companies, recent market transactions and liquidity discount for lack of marketability.

As a result, the Group made an aggregate impairment provision of RMB20,884,000 (2022: Nil) against the carrying amounts of above investments in associates during the year ended 31 December 2023.

The Group's trade receivables with associates are disclosed in note 36 to the financial statements.

Particulars of the material associate are as follows:

Name	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Guangzhou Fu Yue Design Company Limited* ("Fuyue Design")^**	Chinese Mainland	50%**	Design services
Dongma (Guangzhou free trade zone) Grease Chemical Co., LTD.* ("Dongma")^	Chinese Mainland	25%	Chemical product manufacturing
Sky Walk Limited* ("Sky Walk")	British Virgin Islands/ Hong Kong	42.42%	Investment
Science City (Guangzhou) Financial Leasing Co., Ltd.* ("Financial Leasing")^	Chinese Mainland	25%	Financial leasing
Guangzhou Gangke Real Estate Co., Ltd.* ("Gangke")^	Chinese Mainland	40%	Real estate
Zhicheng (Guangzhou) Design and Decoration Engineering Co., Ltd.* ("Zhicheng")^	Chinese Mainland	30%	Building decoration
Guangzhou Technology and Innovation Ruixiang No. One Venture Investment Fund Partnership Enterprise (Limited Partnership)* ("Ruixiang")^	Chinese Mainland	15.42%	Investment

Notes:

* The statutory financial statements of these companies for the year were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

** The Group directly obtained a 50% equity interest in Fuyue Design. The Group considers that it could only exercise significant influence in the strategic financial and operating policy decisions of Fuyue Design after the injection even though it directly owns 50% of the equity interest in Fuyue Design because the Group owns less than 50% of the voting rights and can only exercise significant influence over Fuyue Design.

^ The English names of these companies represent the best effort made by the directors of the Company to directly translate their Chinese names as they do not register any official English names.

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18. INVESTMENT IN ASSOCIATES (Continued)

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

2023

	Fuyue Design RMB'000	Sky Walk RMB'000	Gangke RMB'000	Financial Leasing RMB'000	Total RMB'000
Current assets	5	252,581	4,690,026	5,141,926	10,084,538
Non-current assets	109,591	13,861	386	2,015,455	2,139,293
Current liabilities	336	10,815	2,223,951	3,737,766	5,972,868
Non-current liabilities	–	–	677,406	1,949,634	2,627,040
Net assets	109,260	255,627	1,789,055	1,469,981	3,623,923
Reconciliation to the Group's interest in the associate:					
Proportion of the Group's ownership	50%	42.42%	40%	25%	
Group's share of net assets of the associate, excluding goodwill	54,630	107,363	715,622	367,495	1,245,110
Goodwill on acquisition	15,667	–	2,601	13,588	31,856
Carrying amount of the investment	70,297	107,363	718,223	381,083	1,276,966
Revenue	–	–	407,586	451,527	859,113
Profit/(loss) and total comprehensive profit/(loss) for the year	(4,838)	(29,621)	(30,723)	55,611	(9,571)
Share of the associates' profit/(loss) for the year	(2,419)	(12,441)	(12,289)	13,903	(13,246)

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18. INVESTMENT IN ASSOCIATES (Continued)

2022

	Fuyue Design RMB'000 (Restated)	Sky Walk RMB'000 (Restated)	Gangke RMB'000 (Restated)	Financial Leasing RMB'000 (Restated)	Total RMB'000 (Restated)
Current assets	–	329,249	4,829,135	5,454,966	10,613,350
Non-current assets	114,304	4,080	780	2,092,014	2,211,178
Current liabilities	208	26,345	2,320,058	3,482,733	5,829,344
Non-current liabilities	–	21,736	667,416	2,949,871	3,639,023
Net assets	114,096	285,248	1,842,441	1,114,376	3,356,161
Reconciliation to the Group's interest in the associate:					
Proportion of the Group's ownership	50%	42.42%	40%	25%	
Group's share of net assets of the associate, excluding goodwill	57,048	119,804	736,976	278,594	1,192,422
Goodwill on acquisition	15,667	–	2,601	13,588	31,856
Carrying amount of the investment	72,715	119,804	739,577	292,182	1,224,278
Revenue	–	–	–	522,216	522,216
Profit/(loss) and total comprehensive profit/(loss) for the year	(4,838)	4,621	(12,497)	31,759	19,045
Share of the associates' profit/(loss) for the year	(2,419)	1,941	(4,999)	7,940	2,463

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

	2023 RMB'000	2022 RMB'000 (Restated)
Share of the associates' profit/(loss) for the year	**1,198**	(409)
Share of the associates' total comprehensive profit/(loss)	**1,198**	(409)
Carrying amount of the Group's investments in the associates	**62,451**	82,136

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19. INVENTORIES

	2023 RMB'000	2022 RMB'000 (Restated)
Raw materials	**89,108**	90,561
Work in progress	**3,180**	5,688
Finished goods	**144,499**	131,985
Contract performance costs	**65,612**	20,845
	302,399	249,079

At 31 December 2023, the Group's inventories with a carrying amount of RMB21,918,000 (2022: RMB7,045,000) were pledged as security for the Group's other borrowings, as further detailed in note 28 to the financial statements.

20. TRADE RECEIVABLES

	2023 RMB'000	2022 RMB'000 (Restated)
Trade receivables	**258,320**	208,694
Impairment	**(21,942)**	(6,588)
	236,378	202,106

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

The trade receivables of RMB42,925,000 (2022: RMB48,750,000) which are due from related parties are unsecured, interest-free and repayable on demand.

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

	2023 RMB'000	2022 RMB'000 (Restated)
Within 1 year	**166,023**	199,932
1 to 2 years	**70,355**	2,135
Over 2 years	**–**	39
	236,378	202,106

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20. TRADE RECEIVABLES (Continued)

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

	2023 RMB'000	2022 RMB'000 (Restated)
At beginning of year	**6,588**	14,992
Impairment loss, net (note 6)	**15,354**	(772)
Amount written off as uncollectible	**–**	(6,699)
Exchange realignment	**–**	(933)
At end of year	**21,942**	6,588

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

		Ageing		
	Less than 1 year	**1 to 2 years**	**Over 2 years**	**Total**
As at 31 December 2023				
Expected credit loss rate	**2.29%**	**20.18%**	**100%**	**8.49%**
Gross carrying amount (RMB'000)	**169,914**	**88,137**	**269**	**258,320**
Expected credit losses (RMB'000)	**3,891**	**17,782**	**269**	**21,942**
As at 31 December 2022				
Expected credit loss rate	1.72%	57.09%	100%	3.16%
Gross carrying amount (restated) (RMB'000)	203,425	5,066	203	208,694
Expected credit losses (restated) (RMB'000)	3,493	2,892	203	6,588

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21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2023 RMB'000	2022 RMB'000 (Restated)
Non-current assets		
Prepayment for acquisition of subsidiaries*	**56,000**	96,000
Prepayment for acquisition of non-controlling interests*	**14,500**	14,500
Prepayment for property, plant and equipment	**–**	16,181
Prepayment for construction in progress	**3,039**	–
	73,539	126,681
Current assets		
Prepayments	**69,451**	131,327
Land resumption due from the government	**122,859**	122,859
Deposits and other receivables	**181,864**	97,748
	374,174	351,934
Impairment allowance	**(43,709)**	(19,339)
	330,465	332,595

* The prepayments for the acquisition as at 31 December 2023 were mainly related to two parts, (a) the prepayment of RMB56,000,000 for the acquisition of a 50% interest in a company from an independent third party individual, (b) prepayment of RMB14,500,000 for the acquisition of a 25% interest in a company from a non-controlling interest.

Deposits and other receivables under current assets mainly represent rental deposits and deposits with suppliers. As at 31 December 2023, expected credit losses were estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2023 ranged from 0.1% to 100% (2022: 0.1% to 100%).

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22. CONTRACT ASSETS

	2023 RMB'000	2022 RMB'000 (Restated)
Contract assets arising from:		
Installation and other ancillary services	**4,625**	15,087
Impairment	**(33)**	(212)
	4,592	14,875
Analysed into:		
Current portion	**4,592**	2,009
Non-current portion	**–**	12,866

Contract assets are initially recognised for revenue earned from sale of goods as the receipt of consideration is conditional on the successful acceptance by the customers. Upon completion of the contracts and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 RMB'000	2022 RMB'000 (Restated)
Contingent consideration receivables#	**–**	4,778
Put option##	**20,885**	–
	20,885	4,778

\# As at 31 December 2022, the amount represents the fair value of contingent consideration receivables if the net profits of an associate cannot chieve the base profit target for the year ended 31 December 2022. The contingent consideration receivables constitutes a derivative within the scope of HKFRS 9, and is recognised at its fair value as asset on initial recognition and is subsequently remeasured at fair value with changes in fair value recognised in profit or loss. The contingent consideration receivables have been settled by cash in 2023.

\## According to the agreement entered into between Guangzhou Yuyuan Real Estate Development Co., Ltd* ("Yuyuan"), a subsidiary of the Group, Guangzhou Lvshang Technology Development Co., Ltd.* ("Lvshang"), the controlling shareholder of Dongma (Guangzhou Free Trade Zone) Grease Chemical Co., LTD.* ("Dongma"), and Dongma, Yuyuan has been granted a put option, pursuant to which Yuyuan has the right (but not an obligation) to request Lvshang to acquire all the equity interest held by Yuyuan in Dongma upon occurrence of certain events. Accordingly, financial assets of approximately RMB20,885,000 are recognised as put option as at 31 December 2023. The Company has reassessed the fair value of the put option as at 31 December 2022 and regarded fair value of the put option as insignificant.

The fair values of put option were determined based on the Black-Scholes Options Pricing Model. Details of the fair value disclosure are set out in note 38 to the financial statements.

* For identification purposes only

NOTES TO FINANCIAL STATEMENTS

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24. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2023 RMB'000	2022 RMB'000 (Restated)
Cash and bank balances	**29,270**	356,829
Time deposits	**233,258**	217,372
	262,528	574,201
Less:		
Restricted cash – current	**233,258**	116,806
Restricted cash – non-current	**–**	100,566
Cash and cash equivalents	**29,270**	356,829

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to RMB258,416,000 (2022: RMB477,616,000). The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

As at 31 December 2023, time deposits amounting to RMB159,041,000 (2022: RMB149,000,000) was pledged for bank and other borrowings, RMB6,411,000 (2022: RMB566,000) was pledged for advance payment guarantee and RMB67,806,000 (2022: RMB67,806,000) has been frozen following a court order.

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

25. TRADE PAYABLES

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

	2023 RMB'000	2022 RMB'000 (Restated)
Within 1 month	**87,801**	62,695
1 to 3 months	**52,501**	45,648
3 to 6 months	**19,600**	10,426
6 to 12 months	**33,921**	7,649
More than 1 year	**26,835**	1,960
	220,658	128,378

The trade payables are non-interest-bearing and are normally settled for a period of 3 months extendable up to 1 year.

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26. OTHER PAYABLES AND ACCRUALS

	2023 RMB'000	2022 RMB'000 (Restated)
Contract liabilities	**73,154**	33,281
Other payables	**122,333**	89,347
Lease liabilities	**10,541**	14,384
Accruals*	**80,106**	41,021
	286,134	178,033

* Certain subsidiaries of the Group are currently defendants in a lawsuit brought by an independent third-party lessee alleging that a warehouse built on a leased land by the lessee was tore down by the subsidiaries without consent of termination of the lease contract by the lessee. In June 2022, the court made the first instance verdict and the management made the provision of RMB36,467,000 based on their best estimates, which was accounted in the provision for estimated loss from legal proceedings included in the accrual. In February 2024, the amount has been settled.

27. MEDIUM TERM BONDS

On 5 February 2016, the Company established a medium-term bond programme with a nominal value of HK$10,000,000 each. As at 31 December 2023, the Company has issued the medium-term bonds (the "Bonds") with a principal amount in aggregate of HK$700,000,000. The Bonds are non-callable until 5 February 2025 and non-puttable until 5 February 2020. Interest on the outstanding bonds will be payable annually in arrears at the nominal interest rate of 0.1% per annum first payable on 5 February 2018 and last payable on 5 February 2063 and will mature on 5 February 2064. The Bonds were amortised at the effective interest method by applying the effective interest rate ranging from 8.01% to 8.86% per annum.

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

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

	2023 RMB'000	2022 RMB'000 (Restated)
Carrying amount at 1 January	**34,253**	29,646
Accrued interest expenses	**2,836**	2,606
Payment for interest	**(615)**	(459)
Exchange realignment	**1,020**	2,460
Carrying amount at 31 December	**37,494**	34,253

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28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2023			2022		
	Effective interest (%)	**Maturity**	**RMB'000**	Effective interest (%)	Maturity	RMB'000 (Restated)
Current:						
Bank borrowing – secured	**3.75–9.0**	**2024**	**246,900**	3.85–5.75	2023	461,210
Bank borrowing – unsecured	**3.95**	**2024**	**3,000**	–	–	–
Other borrowings – secured	**–**	**–**	**–**	2.39–5.93	2023	41,146
Current portion of long-term bank and other borrowings:						
Bank borrowings – secured	**3.65–4.6**	**2024**	**508,070**	4.00–5.88	2023	47,919
Other borrowings – secured	**3.7–10.0**	**2024**	**722,180**	3.7–6.2	2023	548,529
			1,480,150			1,098,804
Non-current:						
Bank borrowings – secured	**3.65–5.50**	**2025–2026**	**234,800**	4.65–5.88	2024–2029	537,870
Other borrowings – secured	**3.7–6.2**	**2025–2026**	**674,943**	3.7–6.2	2024–2025	613,700
			909,743			1,151,570
			2,389,893			2,250,374

	2023 RMB'000	2022 RMB'000 (Restated)
Analysed into:		
Bank and other borrowings repayable:		
Within one year	**1,480,150**	1,098,804
In the second year	**595,739**	851,983
In the third to fifth years, inclusive	**314,004**	284,587
Beyond five years	**–**	15,000
	2,389,893	2,250,374

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28. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

The carrying amounts of borrowings are denominated in the following currencies:

	2023 RMB'000	2022 RMB'000 (Restated)
RMB	**2,389,893**	2,250,374
Total	**2,389,893**	2,250,374

Notes:

(i) Certain of the Group's bank and other borrowings were secured by the following:

(a) As at 31 December 2023, the Group had pledged buildings amounting to RMB560,358,000 (2022: RMB534,480,000) (note 13);

(b) As at 31 December 2023, the Group had pledged a right-of-use asset amounting to RMB16,310,000 (2022: RMB16,967,000) (note 15);

(c) As at 31 December 2023, the Group had pledged time deposits amounting to RMB159,041,000 (2022: RMB149,000,000) (note 24);

(d) As at 31 December 2023, the Group had pledged inventories amounting to RMB21,918,000 (2022: RMB7,045,000) (note 19);

(e) As at 31 December 2023, the Group had pledged certain machinery amounting to RMB23,464,000 (2022: RMB89,802,000) (note 13);

(f) As at 31 December 2023, the Group had no pledged construction in progress (2022: RMB54,211,000) (note 13);

(g) As at 31 December 2023, the Group had no pledged investment properties (2022: RMB209,100,000) (note 14).

In addition, the Company's ultimate holding company and a fellow subsidiary have provided guarantees of up to RMB1,816,175,000 (2022: RMB2,950,840,000) and RMB60,000,000 (2022: nil) to secure certain of the Group's bank and other borrowings as at the end of the reporting period, respectively.

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29. DEFERRED TAX

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

Deferred tax liabilities

	Revaluation of properties RMB'000	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Right-of-use assets RMB'000	Resumption of land use rights RMB'000	Fair value adjustments of financial assets at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2022 (restated)	72,268	1,242	–	292,974	–	366,484
Deferred tax credited to other comprehensive income during the year (restated)	(8,099)	–	–	–	–	(8,099)
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10) (restated)	8,008	(595)	–	(224,759)	1,195	(216,151)
Exchange realignment (restated)	4,642	85	–	–	–	4,727
Gross deferred tax liabilities at 31 December 2022 and 1 January 2023 (restated)	76,819	732	–	68,215	1,195	146,961
Deferred tax credited to other comprehensive income during the year	5,781	–	–	–	–	5,781
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	(3,008)	(732)	10,647	–	677	7,584
Gross deferred tax liabilities at 31 December 2023	**79,592**	**–**	**10,647**	**68,215**	**1,872**	**160,326**

At 31 December 2023, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Chinese Mainland. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Chinese Mainland for which deferred tax liabilities have not been recognised approximately RMB441,351,000 at 31 December 2023 (2022: RMB577,509,000).

During the year, the Group had no adjusted deferred tax liabilities due to a change in the estimation of the previous land resumption (2022: RMB60,932,000).

During the year, the Group had no non-cash transactions in the decrease of land resumption due from the government and the deferred tax liabilities are RMBNil (2022: RMB117,623,000).

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29. DEFERRED TAX (Continued)

Deferred tax assets

	Unrealised profits RMB'000	Provision RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2022 (restated)	6,439	15,603	–	22,042
Deferred tax credited to the statement of profit or loss during the year (note 10) (restated)	5,576	116	–	5,692
Gross deferred tax assets at 31 December 2022 and 1 January 2023 (restated)	12,015	15,719	–	27,734
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	5,110	(10,320)	11,818	6,608
Gross deferred tax assets at 31 December 2023	**17,125**	**5,399**	**11,818**	**34,342**

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2023 RMB'000	2022 RMB'000 (Restated)
Net deferred tax assets recognised in the consolidated statement of financial position	**23,731**	27,734
Net deferred tax liabilities recognised in the consolidated statement of financial position	**149,715**	146,961

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30. SHARE CAPITAL

Shares

	2023 RMB'000	2022 RMB'000 (Restated)
Authorised:		
4,000,000,000 (2022: 4,000,000,000), ordinary shares of HK$0.10 each	**423,932**	423,932
Issued and fully paid:		
2,598,561,326 (2022: 2,598,561,326) ordinary shares of HK$0.10 each	**221,592**	221,592

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

	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 31 December 2021 and 1 January 2022 (restated)	2,598,561,326	221,592	1,069,479	1,291,071
2021 final dividend (restated)	–	–	(111,472)	(111,472)
At 31 December 2022 and 1 January 2023 (restated)	2,598,561,326	221,592	958,007	1,179,599
2022 final dividend	–	–	(23,493)	(23,493)
At 31 December 2023	**2,598,561,326**	**221,592**	**934,514**	**1,156,106**

NOTES TO FINANCIAL STATEMENTS

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31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 56 to 57 of the financial statements.

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

32. AMOUNTS DUE FROM ASSOCIATES/LOAN FROM AN ASSOCIATE/THE IMMEDIATE HOLDING COMPANY/THE ULTIMATE HOLDING COMPANY/NON-CONTROLLING INTERESTS/ A DIRECTOR

As at 31 December 2023, the loan from an associate amounting to RMB53,000,000 is unsecured and bearing interest at a rate of 5.8% per annum, and repayable within one year. As at 31 December 2022, the loan from an associate amounting to RMB150,173,000 is unsecured, except for the aggregate amount of RMB157,000 which is interest-free, the remaining amounts bearing interest at a rate of 8.3% per annum, and repayable on demand or expected to be settled within one year.

As at 31 December 2023, the amounts due from associates is unsecured and repayable on demand or expected to be settled within one year. Except for the aggregate amount of RMB237,872,000 which is interest-free, the remaining amounts bear interest at a rate of range from 8% to 12.5% per annum.

As at 31 December 2022, the amounts due from associates is unsecured and repayable on demand or expected to be settled within one year. Except for the aggregate amount of RMB184,616,000 which is interest-free, the remaining amounts bear interest at a rate of 8% per annum.

As at 31 December 2023, the loan from the immediate holding company amounting to RMB95,113,000 is unsecured and bearing interest rate at a rate of 5.5% per annum and will be repayable after one year. As at 31 December 2022, the loan from the immediate holding company amounting to RMB144,497,000 is unsecured, bears interest rate at a rate of 5.5% per annum and will be repayable within one year.

As at 31 December 2023, the loan from the ultimate holding company amounting to RMB79,000,000 is unsecured and bearing interest rate at a rate of 8% per annum and will be repayable within one year.

As at 31 December 2023, the loan from non-controlling interests amounting to RMB45,013,000 is unsecured and bearing interest at a rate of 6.15% per annum and will be repayable within one year. As at 31 December 2022, the loan from non-controlling interests amounting to RMB41,478,000 is unsecured and bearing interest at a rate of 6.15% per annum, in which RMB5,300,000 will be repayable within one year.

As at 31 December 2023, the loan from a director amounting to RMB18,969,000 is unsecured, bears interest rate at a rate of 8% per annum and will be repayable within one year.

NOTES TO FINANCIAL STATEMENTS

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33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash transactions in: (i) the additions to right-of-use assets and lease liabilities of RMB8,322,000 (2022: RMB46,020,000), respectively, in respect of lease arrangements for leasehold land and buildings; (ii) gain on debt restructuring of RMB7,827,000 (2022: nil); (iii) capital contributions by non-controlling shareholders from debt-to-equity swap of RMB46,061,000 (2022: nil); and (iv) offset of trade receivables by fixed assets of RMB7,426,000 (2022: nil).

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

	Bank and other borrowings RMB'000	Medium term bonds RMB'000	Loan from non-controlling interests RMB'000	Loan from a director RMB'000	Loan from an associate RMB'000	Loan from the ultimate holding company RMB'000	Loan from the immediate holding company RMB'000	Lease liabilities RMB'000
At 1 January 2023	2,250,374	34,253	41,478	-	150,173	-	144,497	59,483
Changes from financing cash flows	15,442	(615)	(311)	16,470	(100,340)	77,910	(56,370)	(18,629)
New leases	-	-	-	-	-	-	-	8,322
Reassessment of a lease term arising from a decision not to exercise the extension option	-	-	-	-	-	-	-	(5,151)
Revision of a lease term arising from a change in the non-cancellable period of a lease	-	-	-	-	-	-	-	548
Foreign exchange movement	-	1,020	-	115	-	-	2,743	71
Interest expense	124,077	2,836	3,846	2,384	3,167	1,090	4,243	3,027
At 31 December 2023	2,389,893	37,494	45,013	18,969	53,000	79,000	95,113	47,671

	Bank and other borrowings RMB'000 (Restated)	Medium term bonds RMB'000 (Restated)	Loan from non-controlling interests RMB'000 (Restated)	Loan from a director RMB'000 (Restated)	Loan from an associate RMB'000 (Restated)	Loan from the immediate holding company RMB'000 (Restated)	Lease liabilities RMB'000 (Restated)
At 1 January 2022	1,909,946	29,646	39,254	72,831	–	77,504	40,868
Changes from financing cash flows	233,051	(459)	316	(77,820)	150,000	54,961	(25,767)
New leases	–	–	–	–	–	–	46,020
Disposal	–	–	–	–	–	–	(4,349)
Foreign exchange movement	–	2,460	–	3,760	–	8,260	68
Interest expense	107,377	2,606	1,908	1,229	173	3,772	2,730
Covid-19-related rent concessions from lessors	–	–	–	–	–	–	(87)
At 31 December 2022	2,250,374	34,253	41,478	–	150,173	144,497	59,483

NOTES TO FINANCIAL STATEMENTS

31 December 2023

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

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

	2023 **RMB'000**	2022 RMB'000 (Restated)
Within operating activities	**5,482**	1,380
Within financing activities	**18,629**	25,767
Carrying amount at 31 December	**24,111**	27,147

34. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2023 **RMB'000**	2022 RMB'000 (Restated)
Guarantees given to banks in connection with facilities granted to an associate	**333,000**	320,000

During the year, the Group has pledged a 40% equity interest in an associate Gangke to secure general banking facilities granted to Gangke. In the opinion of the directors, the fair value of the guarantees at initial recognition and the ECL allowance are not significant.

35. COMMITMENTS

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

	2023 **RMB'000**	2022 RMB'000 (Restated)
Contracted, but not provided for:		
Acquisition of equity investment	**–**	48,500
Property, plant and equipment	**–**	10,000
Construction in progress	**36,197**	3,403
	36,197	61,903

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36. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	2023 **RMB'000**	2022 RMB'000 (Restated)
Science City and the then affiliates:		
Sales of products to Science City	**69,735**	17,856
Installation and other ancillary services	**8,679**	25,586
Purchases of consultation services	**–**	320
Purchases of construction services	**7,312**	1,398
Rental expense	**337**	796
Loan from the ultimate holding company	**79,000**	–
Loan from the immediate holding company	**94,957**	155,922
Loan from an associate	**53,000**	394,000
Loan from an associate of the ultimate holding company	**100,119**	70,000
Interest expense	**10,476**	7,719
Guarantee fees	**39,429**	5,943
	463,044	679,540
Morris Home and the then affiliates:		
Sales of raw material	**–**	8,297
	–	8,297
Other related parties:		
Sales of products	**16,286**	5,064
Rental Income	**703**	4,168
Installation and other ancillary services	**12,090**	17,834
Loan from non-controlling interests	**3,846**	–
Loan to an associate	**99,871**	–
Loan from a director	**18,855**	4,290
Interest income from an associate	**51,425**	32,490
Interest expense	**5,820**	4,364
	208,896	68,210

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36. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

During the year, the Group has pledged a 40% equity interest in an associate Gangke to secure general banking facilities granted to Gangke amounting to RMB333,000,000 (2022: RMB320,000,000).

During the year, the Company's ultimate holding company and a fellow subsidiary have provided guarantees of up to RMB1,816,175,000 (2022: RMB2,950,840,000) and RMB60,000,000 (2022: nil) to secure certain of the Group's bank and other borrowings as at the end of the reporting period, respectively, as disclosed in note 28.

(b) Outstanding balances with related parties

	2023 RMB'000	2022 RMB'000 (Restated)
Trade receivables due from related parties:		
The ultimate holding company	**13,689**	7,573
Fellow subsidiaries	**9,845**	8,858
Associates	**19,391**	18,117
Morris Home and the then affiliates	**–**	14,202
	42,925	48,750
Other receivables due from related parties:		
Science City and the then affiliates	**35,000**	–

(c) Compensation of key management personnel of the Group

	2023 RMB'000	2022 RMB'000 (Restated)
Short term employee benefits	**11,856**	14,721
Pension scheme contributions	**226**	414
Total compensation paid to key management personnel	**12,082**	15,135

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

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37. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

2023

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	236,378	236,378
Financial assets included in prepayments, deposits and other receivables	–	189,336	189,336
Amounts due from associates	–	1,003,530	1,003,530
Cash and cash equivalents	–	29,270	29,270
Financial assets at fair value through profit or loss:			
Put option	20,885	–	20,885
Restricted cash	–	233,258	233,258
	20,885	1,691,772	1,712,657

2022

	Financial assets at fair value through profit or loss RMB'000 (Restated)	Financial assets at amortised cost RMB'000 (Restated)	Total RMB'000 (Restated)
Trade receivables	–	202,106	202,106
Financial assets included in prepayments, deposits and other receivables	–	201,267	201,267
Amounts due from associates	–	852,216	852,216
Cash and cash equivalents	–	356,829	356,829
Financial assets at fair value through profit or loss:			
Contingent consideration receivables	4,778	–	4,778
Restricted cash	–	217,372	217,372
	4,778	1,829,790	1,834,568

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37. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	2023 Financial liabilities at amortised cost RMB'000	2022 Financial liabilities at amortised cost RMB'000 (Restated)
Trade payables	**220,658**	128,378
Financial liabilities included in other payables and accruals	**166,519**	109,676
Medium term bonds	**37,494**	34,253
Interest-bearing bank and other borrowings	**2,389,893**	2,250,374
Loan from an associate	**53,000**	150,173
Loan from the immediate holding company	**95,113**	144,497
Loan from non-controlling interests	**45,013**	41,478
Loan from a director	**18,969**	–
Lease liabilities	**37,130**	45,099
	3,063,789	2,903,928

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		**Fair values**	
	2023 RMB'000	2022 RMB'000 (Restated)	**2023 RMB'000**	2022 RMB'000 (Restated)
Medium term bonds	**37,494**	34,253	**37,115**	33,636

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

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

The fair values of the non-current portion of interest-bearing bank and other borrowing, a loan from non-controlling interests, loan from the immediate holding company and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for the interest-bearing bank and other borrowings as at 31 December 2023 were assessed to be insignificant.

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

As at 31 December 2023, the Group's financial instruments which comprised financial assets/liabilities at fair value through profit or loss were measured at fair value. The fair values of put option have been estimated using the allocation model with Black-Scholes option pricing formula. The models incorporate various market observable inputs including risk-free interest rate as well as other unobservable inputs.

Below is a summary of significant unobservable input to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2023 and 2022:

	Valuation technique	**Significant unobservable input**	**Weighted average**	**Sensitivity of fair value to the input**
Financial assets at fair value through profit or loss: Put option	Black-Scholes Options Pricing Model	Risk-free interest rate	2.02% (2022: Nil)	5% increase/decrease in risk-free interest rate would have no material impact on the fair value (2022: Nil)
		Volatility	28.20% (2022: Nil)	5% increase/decrease in volatility would have no material impact on the fair value (2022: Nil)
Financial assets at fair value through profit or loss: Contingent consideration receivables	Discounted future cash flow method	Discount rate	Nil (2022: 8.54%)	Nil (2022: 5% increase/ decrease in discount rate would result in decrease/ increase in fair value by RMB5,000)

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38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following table illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 31 December 2023

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Put option	**–**	**–**	**20,885**	**20,885**

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Restated)	Significant observable inputs (Level 2) RMB'000 (Restated)	Significant unobservable inputs (Level 3) RMB'000 (Restated)	Total RMB'000 (Restated)
Contingent consideration receivables	–	–	4,778	4,778

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2022: Nil).

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(i) Interest rate risk

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

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

2023

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax RMB'000**	**Increase/ (decrease) in equity* RMB'000**
RMB	**25**	**(6,702)**	**–**
RMB	**(25)**	**6,702**	**–**

2022

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000 (Restated)	Increase/ (decrease) in equity* RMB'000 (Restated)
RMB	25	(3,452)	–
RMB	(25)	3,452	–

* Excluding retained profits

(ii) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 0.7% (2022: 0.8%) of the Group's sales are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% (2022: 100%) of costs are denominated in the units' functional currencies. The Group does not use any forward currency contracts to eliminate the foreign currency exposures and the Group does not enter into any hedge derivatives.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iii) Credit risk

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iv) Liquidity risk

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

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

	2023				
	Less than one year RMB'000	More than one year but not exceeding two years RMB'000	More than two years but not exceeding five years RMB'000	More than five years RMB'000	Total RMB'000
Trade payables	220,658	–	–	–	220,658
Other payables and accruals	199,040	–	–	–	199,040
Medium term bonds	637	–	–	662,113	662,750
Interest-bearing bank and other borrowings	1,580,090	637,547	326,597	–	2,544,234
Loan from the ultimate holding company	80,344	–	–	–	80,344
Loan from the immediate holding company	5,246	95,335	–	–	100,581
Loan from non-controlling interests	45,037	–	–	–	45,037
Loan from a director	19,136	–	–	–	19,136
Loan from an associate	53,393	–	–	–	53,393
Lease liabilities	–	9,347	17,449	18,229	45,025
	2,203,581	742,229	344,046	680,342	3,970,198

NOTES TO FINANCIAL STATEMENTS

31 December 2023

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iv) Liquidity risk (Continued)

	2022				
	Less than one year RMB'000 (Restated)	More than one year but not exceeding two years RMB'000 (Restated)	More than two years but not exceeding five years RMB'000 (Restated)	More than five years RMB'000 (Restated)	Total RMB'000 (Restated)
Trade payables	128,378	–	–	–	128,378
Other payables and accruals	141,357	–	–	–	141,357
Medium term bonds	618	–	–	652,114	652,732
Interest-bearing bank and other borrowings	1,222,881	895,470	340,001	15,000	2,473,352
Loan from the immediate holding company	148,427	–	–	–	148,427
Loan from non-controlling interests	5,300	42,853	–	–	48,153
Loan from an associate	157,401	–	–	–	157,401
Lease liabilities	–	14,767	17,695	22,897	55,359
	1,804,362	953,090	357,696	690,011	3,805,159

(v) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(v) Capital management (Continued)

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

	2023 RMB'000	2022 RMB'000 (Restated)
Trade payables	**220,658**	128,378
Other payables and accruals	**286,134**	178,033
Medium term bonds	**37,494**	34,253
Interest-bearing bank and other borrowings	**2,389,893**	2,250,374
Loan from an associate	**53,000**	150,173
Loan from the ultimate holding company	**79,000**	–
Loan from the immediate holding company	**95,113**	144,497
Loan from non-controlling interests	**45,013**	41,478
Loan from a director	**18,969**	–
Less: Cash and cash equivalents	**(29,270)**	(356,829)
Net debt	**3,196,004**	2,570,357
Equity attributable to owners of the parent	**1,621,200**	2,012,449
Capital and net debt	**4,817,204**	4,582,806
Gearing ratio	**66%**	56%

NOTES TO FINANCIAL STATEMENTS

31 December 2023

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2023 RMB'000	2022 RMB'000 (Restated)
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,024,904**	1,024,904
CURRENT ASSETS		
Due from subsidiaries	**220,591**	302,336
Prepayments	**442**	163
Cash and cash equivalents	**99**	158
Total current assets	**221,132**	302,657
CURRENT LIABILITIES		
Loan from the immediate holding company	**–**	144,497
Other payables and accruals	**6,819**	2,439
Total current liabilities	**6,819**	146,936
NET CURRENT ASSETS	**214,313**	155,721
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,239,217**	1,180,625
NON-CURRENT LIABILITIES		
Loan from the immediate holding company	**95,113**	–
Medium term bonds	**37,494**	34,253
Total non-current liabilities	**132,607**	34,253
Net assets	**1,106,610**	1,146,372
EQUITY		
Share capital	**221,592**	221,592
Reserves (note)	**885,018**	924,780
Total equity	**1,106,610**	1,146,372

NOTES TO FINANCIAL STATEMENTS

31 December 2023

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

Note:

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

	Share premium account* RMB'000	Contributed surplus* RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2022 (restated)	1,069,479	39,887	26,636	(85,815)	1,050,187
Loss for the year (restated)	–	–	–	(14,085)	(14,085)
Translation from functional currency to presentation currency	–	–	150	–	150
2021 final dividend (restated)	(111,472)	–	–	–	(111,472)
At 31 December 2022 and 1 January 2023 (restated)	958,007	39,887	26,786	(99,900)	924,780
Loss for the year	–	–	–	(17,297)	(17,297)
Translation from functional currency to presentation currency	–	–	1,028	–	1,028
2022 final dividend	(23,493)	–	–	–	(23,493)
At 31 December 2023	**934,514**	**39,887**	**27,814**	**(117,197)**	**885,018**

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2024.

FIVE YEARS FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2023 RMB'000	2022 RMB'000 (Restated)	2021 RMB'000 (Restated)	2020 RMB'000 (Restated)	2019 RMB'000 (Restated)
REVENUE	**827,916**	1,461,037	1,267,094	1,283,924	751,297
Gross profit	**26,117**	210,812	264,147	141,426	233,405
(LOSS)/PROFIT BEFORE TAX	**(419,118)**	(96,334)	97,844	925,358	91,445
Income tax credit/(expense)	**33,147**	106,974	(24,550)	(297,278)	(32,201)
(LOSS)/PROFIT FOR THE YEAR	**(385,971)**	10,640	73,294	628,080	59,244
Attributable to:					
Owners of the parent	**(381,536)**	4,673	63,829	635,767	55,527
Non-controlling interests	**(4,435)**	5,967	9,465	(7,687)	3,717
	(385,971)	10,640	73,294	628,080	59,244

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2023 RMB'000	2022 RMB'000 (Restated)	2021 RMB'000 (Restated)	2020 RMB'000 (Restated)	2019 RMB'000 (Restated)
TOTAL ASSETS	**5,305,799**	5,416,952	5,140,692	4,053,965	2,556,082
TOTAL LIABILITIES	**(3,519,275)**	(3,280,704)	(2,912,736)	(1,524,896)	(662,076)
NON-CONTROLLING INTERESTS	**(165,324)**	(123,799)	(119,274)	(111,331)	(126,298)
	1,621,200	2,012,449	2,108,682	2,417,738	1,767,708