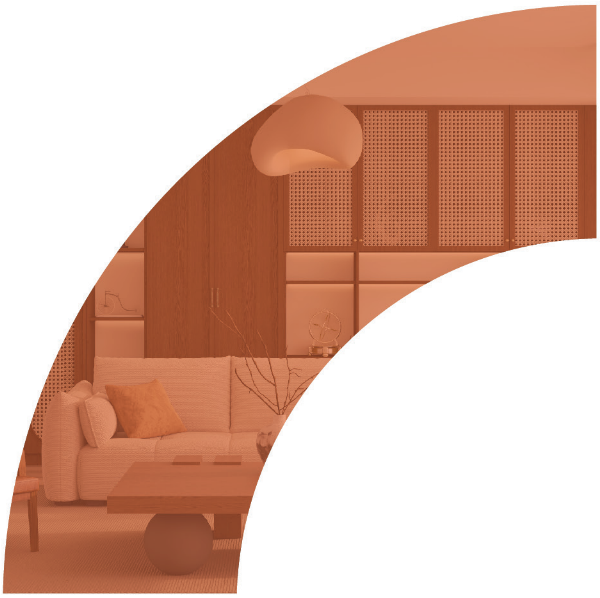
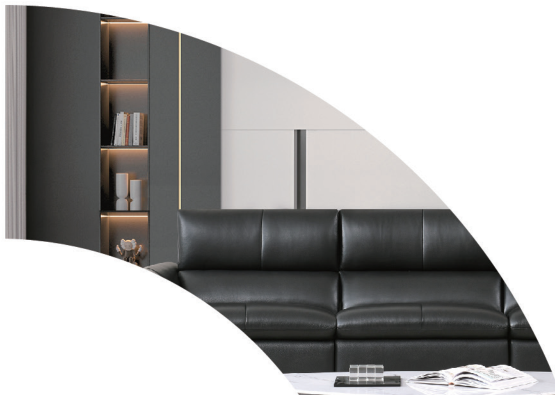
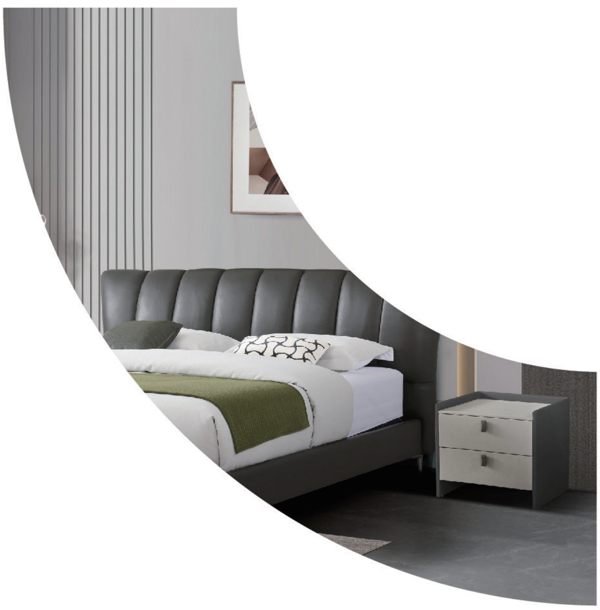
Royal HOME
皇朝家居







2024

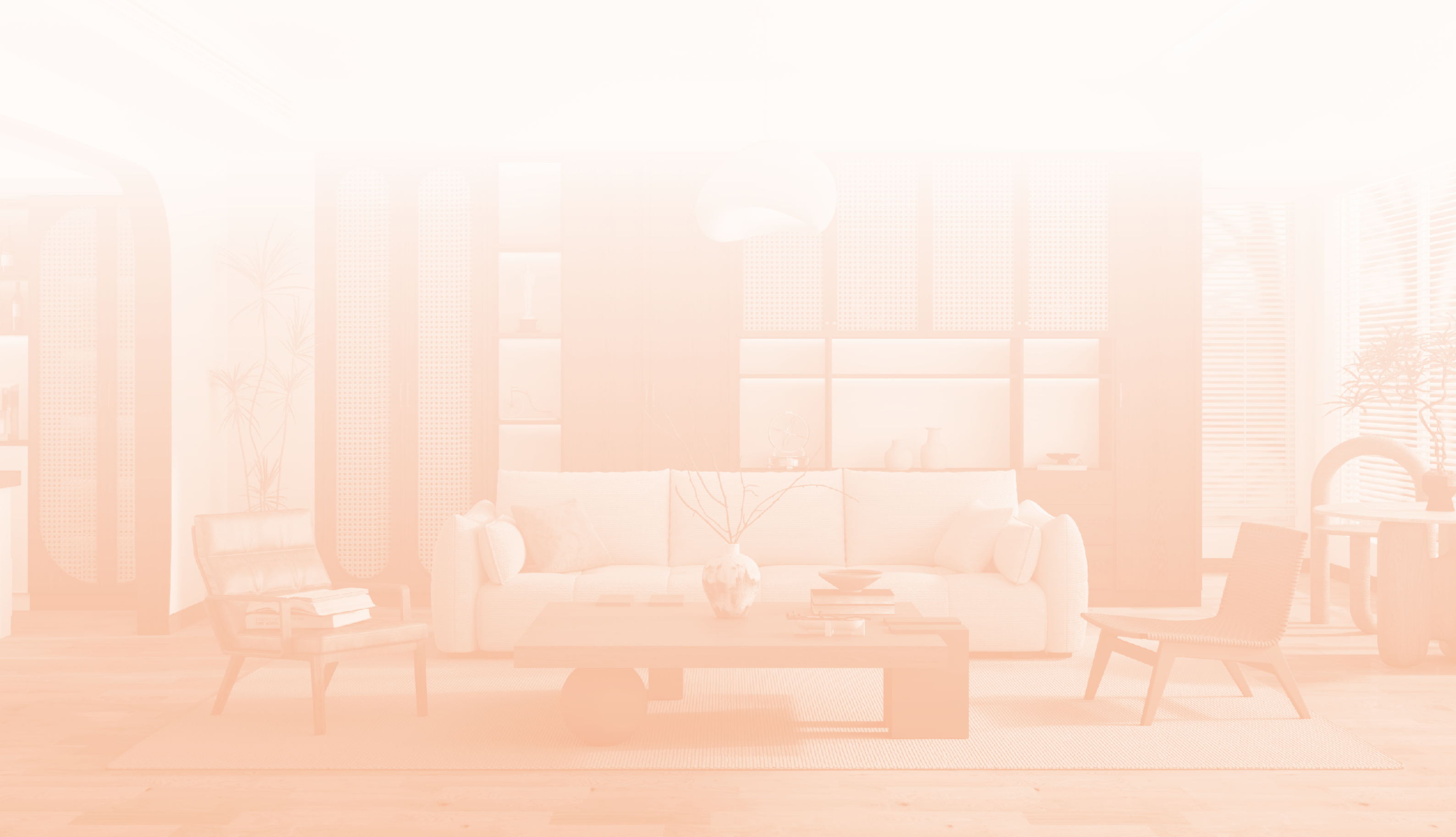
ANNUAL REPORT

Stock Code: 1198

ROYALE HOME HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

CONTENTS



CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Lin Ruhai *(Chairman and Chief Executive Officer)*
Mr. Tse Kam Pang *(Co-Chairman)*

Non-Executive Directors

Mr. Wu Zhongming
Mr. Tao Ying
Ms. Yang Ying
Mr. Yan Weihao (appointed on 19 February 2025)
Mr. Yao Jingming (resigned on 19 February 2025)

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

Grant Thornton Hong Kong Limited

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 Investor Services 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 2024.

REVIEW OF 2024

In the second half of 2024, the government of the People's Republic of China (the "PRC") implemented a series of fiscal stimulus measures aiming to boost the confidence of the society and promote the steady operation and high-quality development of the Mainland China's economy. However, comparing to 2023, the growth rate of household income and consumption decreased, indicating that consumers are more cautious in spending and the downgrading of overall consumption. Among this phenomenon, the adjustment in the real estate market continued, which induce weak demand for resident properties and hence directly affected the demand for furniture. Despite this, the Chinese government has introduced a series of measures to stimulate consumption, such as the "trade-in of old consumer goods" policy for furniture, which to some extent has alleviated the impact of weak consumption for furniture.

Throughout the year, the business of franchise distributors was significantly affected by the weak consumer market. By the end of the year, although the number of retail outlets increased by 0.1% year-on-year to 1,960, the purchase orders from franchisees decreased. Besides, the Group closed three self-operate stores, resulting in a one-off provision of store renovation and opening expenses. However, the timely discontinuation of the business halted monthly losses from these self-operate stores. To further enhance its brand appeal, the Company appointed Ms. Annabel Yao as the new spokesperson for the Group. This move highlights the rejuvenation of Group's youthful brand image, aiming to bridge the gap with younger consumers and convey the Royal brand's youthful, fashionable and energetic identity.

With the support of the controlling shareholder Science City (Guangzhou) Investment Group Co., Ltd* (科學城(廣州)投資集團有限公司) ("Science City", together with its subsidiaries, "Science City Group"), the Group aims at expanding its furniture projects for sizeable commercial clients. In the second half of the year, the Group successfully completed several large-scale furniture projects. However, due to the impact of slow down commercial activities, the furniture projects business also recorded a slight decline. Despite this, the management remains optimistic about the future development of furniture projects business.

The Group's hotel business located in Xiancun Town, Guangzhou Zengcheng District, continued its improvement resulting in an increase of hotel revenue by approximately 30.2% year-on-year. The Group will keep improving the quality in hospitality and brand image in order to strengthen its market competitiveness.

For the year ended 31 December 2024, the Group recorded a decline in sales of 36.5% to approximately RMB525.6 million, while the gross profit margin increased from 3.2% to 6.7%. The Group reported a loss attributable to owners of the parent company of RMB334.4 million, representing a decrease of 12.4% compared to the same period last year.

OUTLOOK

Looking ahead to 2025, the Chinese government is expected to continue implementing policies aimed at maintaining growth, including further elimination of restrictions in the real estate market and promotion of technological innovation. Although the recovery of Chinese economy is anticipated to continue, it will still take some time for the improvement of the consumer market in China.

The Group is determinated to continue allocating resources and proactively develop its home furnishing business. Leveraging its brand strength and the influence of its new spokesperson, the Group aims to expand its sales channels, further optimize its cost structure, streamline administrative expenses, and adjust its workforce to enhance operational efficiency and profitability. These measures are designed to address market challenges and solidify the Group's market position.

* *For identification purposes only*

CHAIRMAN'S STATEMENT

In 2025, the Group will also focus on optimizing its financial structure and strategically divesting assets to repay bank loans. Although it takes time to dispose of assets and debts, the Group is committed to reducing its debt levels and expenditure to lower financial costs and improve cash flow levels.

The Group will closely monitor market developments and remain flexible in adjusting its business strategies to navigate the complex and ever-changing market environment. These efforts are aimed at creating long-term value for shareholders of the Group.

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 2025

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDENDS

The Board has resolved not to declare a final dividend for the year ended 31 December 2024 (2023: HK$nil 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 Wednesday, 11 June 2025 to Monday, 16 June 2025, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on Monday, 16 June 2025, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Tuesday, 10 June 2025.

FINANCIAL REVIEW

For the year ended 31 December 2024, the Group recorded revenue of RMB525.6 million (2023: RMB827.9 million), representing a decrease of 36.5% from last year. The decrease in revenue was attributable to a weak consumer market and the Group's cessation of the commodities trading business during the year. The Group's overall gross profit margin increased from 3.2% in 2023 to 6.7% in 2024, primarily due to a slight improvement in the gross profit margin of the furniture business and the cessation of the low-margin commodities trading business during the year. For the furniture business, the gross profit margin increased from 7.4% in 2023 to 8.7% in 2024.

Loss for the year was RMB348.3 million (2023: loss for the year of RMB386.0 million), representing a decrease of 9.8%. Loss attributable to owners of the parent for the year was RMB334.4 million (2023: loss attributable to owners of the parent of RMB381.5 million), representing a decrease of 12.4%. The slight improvement was a result of the Group's enhanced gross profit margin, reduced operating expenses and reversal of over-provision of income tax, but offset by an increase in impairment of trade receivables and financial assets included in prepayments, deposits and other receivables, increase in finance costs and increase in share of losses of associates.

For the year ended 31 December 2024, selling and distribution expenses decreased by 39.4% to approximately RMB100.2 million (2023: RMB165.4 million), which was mainly due to a significant reduction in sales promotions and exhibition activities, as well as lower salaries and commissions resulting from a weak consumer market and reduced sales force, and the Group's closure of self-operated stores.

Administrative expenses decreased by 18.0% to RMB128.9 million (2023: RMB157.2 million), which was mainly attributable to a reduction in guarantee fees for bank and other loan financing, along with the implementation of the Group's cost-saving policy during the year.

Finance costs during the year increased by 18.7% to RMB171.7 million (2023: RMB144.7 million) due to an increase in average borrowings and average interest rate during the year.

Share of profits and losses of associates during the year increase from share of losses of RMB12.0 million for the year ended 31 December 2023 to share of losses of RMB16.3 million for the year ended 31 December 2024, which was mainly attributable to an increase in the 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 RMB83.3 million (2023: RMB33.1 million) has been recorded for the year ended 31 December 2024, which mainly represented adjustment in respect of current tax of previous periods and deferred tax credit during the year.

* *For identification purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the second half of 2024, the government of the People's Republic of China (the "PRC") implemented a series of fiscal stimulus measures aiming to boost the confidence of the society and promote the steady operation and high-quality development of the Mainland China's economy. However, comparing to 2023, the growth rate of household income and consumption decreased, indicating that consumers are more cautious in spending and the downgrading of overall consumption. Among this phenomenon, the adjustment in the real estate market continued, which induce weak demand for resident properties and hence directly affected the demand for furniture. Despite this, the Chinese government has introduced a series of measures to stimulate consumption, such as the "trade-in of old consumer goods" policy for furniture, which to some extent has alleviated the impact of weak consumption for furniture.

Throughout the year, the business of franchise distributors was significantly affected by the weak consumer market. By the end of the year, although the number of retail outlets increased by 0.1% year-on-year to 1,960, the purchase orders from franchisees decreased. Besides, the Group closed three self-operate stores, resulting in a one-off provision of store renovation and opening expenses. However, the timely discontinuation of the business halted monthly losses from these self-operate stores. To further enhance its brand appeal, the Company appointed Ms. Annabel Yao as the new spokesperson for the Group. This move highlights the rejuvenation of Group's youthful brand image, aiming to bridge the gap with younger consumers and convey the Royal brand's youthful, fashionable and energetic identity.

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The Group's hotel business located in Xiancun Town, Guangzhou Zengcheng District, continued its improvement resulting in an increase of hotel revenue by approximately 30.2% year-on-year. The Group will keep improving the quality in hospitality and brand image in order to strengthen its market competitiveness.

Inventory and prepayments, deposits and other receivables

The Group's inventory decreased by 10.3% to approximately RMB271.4 million as at 31 December 2024 (2023: RMB302.4 million), which was mainly due to provision for slow-moving inventories. Prepayments, deposits and other receivables increased by 9.6% to RMB442.6 million (2023: RMB404.0 million) mainly resulting from an increase in other receivables.

Working capital

The Group had net current liabilities of RMB699.2 million at the end of the year (2023: net current liabilities of RMB96.1 million). The Group will continue to take initiatives to manage its cashflow and capital commitments.

* *For identification purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

The Group had cash and cash equivalents amounting to RMB20.5 million as at 31 December 2024 (2023: RMB29.3 million). As at 31 December 2024, the Group's current ratio (current assets to current liabilities) decreased to 0.74 (2023: 0.96) and net current liabilities increased to RMB699.2 million (2023: net current liabilities of RMB96.1 million). As at 31 December 2024, the interest-bearing bank and other borrowings amounted to RMB1,690.6 million (2023: RMB2,389.9 million), all denominated in Renminbi, loan from the immediate holding company, loan from the ultimate holding company, loan from fellow subsidiaries, loan from an associate, loan from non-controlling interests and medium term bonds are total amount of RMB1,209.1 million (2023: 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). Approximately 87.3% 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 72% as at 31 December 2024 (2023: 66%).

Pledge of assets

As at 31 December 2024, the Group pledged (i) buildings and a right-of-use asset which had aggregate carrying values of approximately RMB564,464,000 (2023: RMB576,668,000); (ii) time deposits amounting to RMB5,031,000 (2023: RMB159,041,000); (iii) inventories amounting to RMBNil (2023: RMB21,918,000); (iv) certain machineries amounting to RMB19,986,000 (2023: RMB23,464,000); (v) deposits in other receivables amounting to RMB46,075,000 (2023: RMB53,000,000) to secured certain bank and other borrowings granted to the Group; and (vi) 40% equity interest in an associate of approximately RMB672,858,000 (2023: RMB715,622,000) to secure general banking facilities granted to the associate.

Significant investments, acquisitions and disposals

On 5 December 2024, Royal Finance Lease Limited (皇朝融資租賃有限公司), an indirect wholly-owned subsidiary of the Company, entered into a capital injection agreement (the "Capital Injection Agreement") with Science City and Science City (Guangzhou) Financial Leasing Co., Ltd.* (科學城(廣州)融資租賃有限公司) ("SC Financial Leasing"). Pursuant to the Capital Injection Agreement, Science City has agreed to make a capital injection of RMB500 million into SC Financial Leasing in cash to its shareholding percentage in SC Financial Leasing. Royal Finance Lease Limited has agreed to waive its preemptive rights in making capital injection in proportion to its shareholding percentage in SC Financial Leasing in connection with the capital injection.

Upon completion of the capital injection, SC Financial Leasing's equity interest will be held as to 81.94% by Science City and 18.06% by Royal Finance Lease Limited, and the total registered capital of SC Finance and Lease will be increased from RMB1,300 million to RMB1,800 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Particulars of significant investments in associates held by the Group as at 31 December 2024 are set out as follows:

Name	Principal activities	Percentage of equity interest held	Carrying amount as at 31 December 2024 RMB'000	Carrying amount as at 31 December 2023 RMB'000	Percentage to the Group's audited total assets as at 31 December 2024
Guangzhou Fu Yue Design Company Limited ("Fuyue Design")	Design services	50%	**67,879**	70,297	**1.35%**
Sky Walk Limited ("Sky Walk")	Investment	42.42%	**107,264**	107,363	**2.13%**
Gangke	Real Estate	40%	**672,858**	718,223	**13.38%**
SC Financial Leasing	Financial Leasing	18.06%	**362,271**	381,083	**7.20%**

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 during the year.

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

Looking ahead to 2025, the Chinese government is expected to continue implementing policies aimed at maintaining growth, including further elimination of restrictions in the real estate market and promotion of technological innovation. Although the recovery of Chinese economy is anticipated to continue, it will still take some time for the improvement of the consumer market in China.

The Group is determinated to continue allocating resources and proactively develop its home furnishing business. Leveraging its brand strength and the influence of its new spokesperson, the Group aims to expand its sales channels, further optimize its cost structure, streamline administrative expenses, and adjust its workforce to enhance operational efficiency and profitability. These measures are designed to address market challenges and solidify the Group's market position.

In 2025, the Group will also focus on optimizing its financial structure and strategically divesting assets to repay bank loans. Although it takes time to dispose of assets and debts, the Group is committed to reducing its debt levels and expenditure to lower financial costs and improve cash flow levels.

The Group will closely monitor market developments and remain flexible in adjusting its business strategies to navigate the complex and ever-changing market environment. These efforts are aimed at creating long-term value for shareholders of the Group.

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 2024 (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.

CORPORATE GOVERNANCE REPORT

C. THE BOARD

Roles and responsibilities

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

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

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

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

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

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

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 *(Chairman and Chief Executive Officer)*
Mr. Tse Kam Pang *(Co-Chairman)*

*Non-Executive directors (the "**Non-executive Directors**"):*
Mr. Wu Zhongming
Mr. Tao Ying
Ms. Yang Ying
Mr. Yan Weihao (appointed on 19 February 2025)
Mr. Yao Jingming (resigned on 19 February 2025)

*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 2024, 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 26 to 29 of this annual report.

CORPORATE GOVERNANCE REPORT

Relationship among Directors

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

Chairman and Chief Executive Officer

Code Provision 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.

During the year ended 31 December 2024, Mr. Lin Ruhai has taken both the positions as Chairman and CEO. Mr. Lin Ruhai, 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. Mr. Lin Ruhai has extensive experience and his duties of overseeing the Group's operations are considered to be beneficial to the Group. The Company considers having 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 21 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	1/1	21/21			
Mr. Tse Kam Pang	1/1	21/21			
Non-executive Directors					
Mr. Wu Zhongming	1/1	21/21			
Mr. Tao Ying	1/1	21/21			
Ms. Yang Ying	1/1	21/21			
Mr. Yao Jingming (resigned on 19 February 2025)	1/1	21/21			
Independent Non-executive Directors					
Mr. Lau Chi Kit	1/1	21/21	4/4	1/1	1/1
Mr. Yue Man Yiu Matthew	1/1	21/21	4/4	1/1	1/1
Mr. Chan Wing Tak Kevin	1/1	21/21	4/4	1/1	1/1

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

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

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

CORPORATE GOVERNANCE REPORT

Term of appointment of Non-Executive Directors

Mr. Lau Chi Kit and Mr. Yue Man Yiu Matthew, the Independent Non-executive Directors, have been re-appointed with fixed term of three years with the Company on 14 June 2024. 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. Yao Jingming and Ms. Yang Ying, the Non-executive Directors, have been re-appointed with fixed term of three years with the Company on 14 June 2024. 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. The Company still considers the Independent Non-executive Directors to be independent taking into account the independence requirements pursuant to Rule 3.13 of the Listing Rules.

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	✓	✓	✓
Mr. Tse Kam Pang	✓	✓	✓
Non-Executive Directors			
Mr. Wu Zhongming	✓	✓	✓
Mr. Tao Ying	✓	✓	✓
Ms. Yang Ying	✓	✓	✓
Mr. Yao Jingming (resigned on 19 February 2025)	✓	✓	✓
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 2024, 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 four meetings of the Audit Committee held in 2024. Details of the members' attendance record in the Year are set out on page 12 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 2023 and the interim results for the six months ended 30 June 2024. 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.

CORPORATE GOVERNANCE REPORT

(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 2024, 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 was one meeting of the Remuneration Committee held in 2024. Details of the members attendance record in the Year are set out on page 12 of this annual report. Details of the remuneration of each Director for 2024 is set out in the Note 9 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

(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 2024.

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.

CORPORATE GOVERNANCE REPORT

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 was one meeting of Nomination Committee meeting held in 2024. Details of the members attendance record in the Year are set out on page 12 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.

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 2024, 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.

CORPORATE GOVERNANCE REPORT

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 2024, 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 RMB348 million for the year ended 31 December 2024 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB699 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 RMB1,334 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 the 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 2024, the Group also had unpledged investment properties with carrying amount of approximately RMB601 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 in the amount of RMB424 million;

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

(iii) The Group will continue to implement measures to improve its 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 expenses.

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 52 of this annual report.

External auditor's remuneration

The Group's independent external auditor is Grant Thornton Hong Kong Limited. Prior to the commencement of the audit of the Group's 2024 financial statements, for the year ended 31 December 2024 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 2024, the remuneration paid or payable to the external auditor for audit services and non-audit services amounted to RMB2,200,000 (2023: RMB2,170,000) and RMBNil (2023: RMB1,564,000), respectively. Non-audit services include tax consultancy services amounted to RMBNil (2023: RMB226,000), review of financial statements services amounted to RMBNil (2023: RMB796,000) and agreed-upon procedures services amounted to RMBNil (2023: RMB542,000).

CORPORATE GOVERNANCE REPORT

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 risk management and internal control system for the year ended 31 December 2024 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such systems 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.

CORPORATE GOVERNANCE REPORT

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 2024 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.

CORPORATE GOVERNANCE REPORT

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, the Company's capacity to pay from accumulated and future earnings, future commitments at the time of declaration of dividend 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 DOCUMENTS

There had been no change in the memorandum of association and the articles of association of the Company during the Year.

MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. LIN Ruhai ("Mr. Lin"), aged 42, 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 2024. 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. He has been appointed as a director of various subsidiaries of the Company in China and Hong Kong. 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 70, 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 Regal Partners Holdings Limited (formerly known as "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 43, 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. He has been appointed as a director of Guangzhou Wanlibao Industrial Holding Limited* (廣州萬利寶實業控股有限公司), a subsidiary of the Company in China. 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 54, 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

Ms. YANG Ying ("Ms. Yang"), aged 43, 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. She has been appointed as a director of Tianjin Royal Furniture Company Limited* (天津皇朝傢俬有限公司), a subsidiary of the Company in China. 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.

Mr. YAN Weihao ("Mr. Yan"), aged 30, obtained a bachelor degree in economics (major in international economy and trade) from Jinan University in the People's Republic of China in 2017 and a master of science degree (major in international trade, strategy and operations) from the University of Warwick in the United Kingdom in 2018. He is currently a deputy general manager of the asset operations management department of Science City. From 2023 to 2024, he served at Science City (Guangzhou) Information Technology Group Co., Ltd.* (科學城(廣州)信息科技集團有限公司) successively as director and deputy general manager. He has served at SC Financial Leasing from 2018 to 2023 successively as a management trainee, finance manager, deputy manager of marketing department, manager of financial market department and deputy marketing director. Mr. Yan has been appointed as a non-executive Director of the Company since 19 February 2025. Mr. Yan 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. YAO Jingming ("Mr. Yao"), aged 42, 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. Mr. Yao has resigned as a non-executive Director with effect from 19 February 2025.

* *For identification purposes only*

MANAGEMENT PROFILE

Independent Non-executive Directors

Mr. LAU Chi Kit ("Mr. Lau"), aged 80, 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 executive director of Chinlink International Holdings Limited (stock code: 997) with effect from 19 May 2023, a listed public company in Hong Kong. Mr. Lau has been appointed as an independent non-executive Director of the Company since 6 September 2011.

Mr. YUE Man Yiu Matthew ("Mr. Yue"), aged 63, 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 59, 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 and re-appointed for a term of one year from 30 May 2024 to 29 May 2025. From 2023 he is a member of the HKSAR Kowloon City District Fight Crime Committee. He has been appointed as a member to the Independent Police Complaints Council for a term of two years from 1 June 2024 to 31 May 2026. From 5 July 2024, he has been appointed as a member of the Main Board and GEM Listing Review Committee of The Stock Exchange of Hong Kong Limited. 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.

MANAGEMENT PROFILE

SENIOR MANAGEMENT

Mr. CHAN Wing Kit ("Mr. Chan"), aged 53, 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 GEM of the Stock Exchange of Hong Kong Limited since 17 December 2016.

Mr. CHEN Hao ("Mr. Chen"), aged 54, was appointed as Director of subsidiary of the Company in China. He is responsible for the day-to-day operation (including the production and sales) of the Company's 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 45, 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 2024, 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 2024 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 2024 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 53 to 147.

The Board does not recommend the payment of any dividend (2023: Nil) 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 148. 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 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 34 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 2024 (HK$ million)	Net proceeds utilised during the year ended 31 December 2024 (HK$ million)	Amount utilised up to 31 December 2024 (HK$ million)	Unutilised proceeds as at 31 December 2024 (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	4.1	3.2	129.1	0.9	by 31 December 2025 (Note)
Imported machinery for new production facilities	80.0	80.0	40.4	–	39.6	40.4	by 31 December 2025 (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	44.5	3.2	398.9	41.3	

Note: Previously, due to the outbreak of COVID-19, the Group's expansion 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. It is also important to take into account the Group's financial condition together with the prevailing market conditions as a whole to determine the priority of the utilisation of funds. 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 2025.

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 (including sale of treasury shares) 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 42 and note 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2024, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to RMB872,728,000.

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions of RMBnil (2023: RMBnil).

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for approximately 31.5% of the total sales for the year and sales to the largest customer included therein amounted to 16.8%. Purchases from the Group's five largest suppliers accounted for approximately 19.7% of the total purchase for the Year and purchase from the Group's largest supplier included therein amounted to 7.0%.

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 2024 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 2024 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 41 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:
Mr. Lin Ruhai *(Chairman and Chief Executive Officer)*
Mr. Tse Kam Pang *(Co-Chairman)*

Non-Executive Directors:
Mr. Wu Zhongming
Mr. Tao Ying
Ms. Yang Ying
Mr. Yan Weihao (appointed on 19 February 2025)
Mr. Yao Jingming[1] (resigned on 19 February 2025)

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

Note:

1. Mr. Yao Jingming resigned as a non-executive Director due to his other business commitments.

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 considers the independent non-executive Directors, namely, Mr. Lau Chi Kit, Mr. Yue Man Yiu Matthew and Mr. Chan Wing Tak Kevin, to be independent as at the date of this report taking into account the independence requirements pursuant to Rule 3.13 of the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 26 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 9 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 9 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 2024, which provides appropriate cover for the Directors. During the year ended 31 December 2024, 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 40 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 2024.

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

As at 31 December 2024, 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

REPORT OF THE DIRECTORS

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.

(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 2024.

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 2024, 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 2024, 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 2024.

Save as disclosed above, as at 31 December 2024, 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 2023: 120,690,000 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 2023: 4.64%) to the total number of Shares in issue as at the date of this annual report.

During the Year, no Shares (2023: 7,724,000 Shares) were purchased, no share awards (2023: nil) were granted and no share awards (2023: nil) were vested, cancelled or lapsed under the Performance Share Award Plan. There were no outstanding share awards as at 1 January 2024 and as at 31 December 2024. 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 limit of 129,928,066 Shares as at both 1 January 2024 and 31 December 2024 were 129,928,066 (31 December 2023: 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.

The Company had no other share schemes (as defined in Chapter 17 of the Listing Rules) other than the Performance Share Award Plan.

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 2024.

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2024 was 949 (2023: 1,358). 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 2024, 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 9 to the financial statements. The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2024 were within the following bands:

Bands	**Number of Senior Management**
Nil to HK$1,000,000	1
HK$1,000,001 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	–
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 2024.

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	RMB216.7 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	RMB10.0 million
Total	RMB1,095 million						RMB226.7 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 2024 required to be disclosed under Rule 13.22 of the Listing Rules is set out below:

	Statement of financial position RMB'000
Current assets	4,827,300
Non-current assets	1
Current liabilities	2,416,039
Non-current liabilities	541,700
Net assets	1,869,562

The attributable interest of the Group in this affiliated company as at 31 December 2024 are set out in note 19 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 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 2024 was RMB74,000,000. For the year ended 31 December 2024, the actual transaction amount was RMB14,159,000.

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 2024 was RMB74,000,000. For the year ended 31 December 2024, the actual transaction amount was RMB1,787,000.

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.

Grant Thornton Hong Kong Limited ("Grant Thornton"), 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. Grant Thornton have issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions which are subject to annual review in accordance with Rule 14A.56 of the Listing Rules.

REPORT OF THE DIRECTORS

During the year, related party transactions are disclosed in note 40 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 40 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 9 to 25.

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 2024 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

Guangzhou Yuyuan Real Estate Development Co., Ltd.* (廣州御園地產發展有限公司) (an indirect wholly-owned subsidiary of the Company) intends to dispose of 25% equity interest in Dongma (Guangzhou Bonded Area) Grease Chemical Engineering Co., Ltd.* (東馬(廣州保稅區)油脂化工有限公司), through public tender on Guangdong United Assets and Equity Exchange* (廣東聯合產權交易中心) ("GUAEE"). The public tender notice has been published on GUAEE on 20 February 2025.

Saved as disclosed in this report, there are no significant events affecting the Group after the year ended 31 December 2024 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

On 8 November 2024, Ernst & Young resigned as auditors of the Company and Grant Thornton Hong Kong Limited was appointed by the directors as auditors of the Company to fill the casual vacancy so arising. Save as disclosed above, there were no other changes in auditors of the Company during the past three years. A resolution for the re-appointment of Grant Thornton Hong Kong Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

CHANGES IN DIRECTORS AND INFORMATION OF DIRECTORS

Mr. Yan Weihao, who was appointed as a non-executive Director with effect from 19 February 2025, has obtained the legal advice referred to in Rule 3.09D of the Listing Rules on 19 February 2025 and has confirmed he understood his obligations as a director of a listed issuer.

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 2025

INDEPENDENT AUDITOR'S REPORT

Grant Thornton
致同

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 (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2024, 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 2024, 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 describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate 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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Valuation of properties stated at fair value

Refer to notes 2.5, 2.6, 4, 14 and 15 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
As at 31 December 2024, the Group had investment properties and property, plant and equipment using revaluation model amounting to approximately RMB601,178,000 and RMB489,900,000, respectively. For the year ended 31 December 2024, gain arising from change in fair value of investment properties and surplus on revaluation on property, plant and equipment using revaluation model amounting to approximately RMB1,978,000 and RMB5,461,000, respectively was recognised in the consolidated statement of profit or loss and the consolidated statement of comprehensive income, respectively. The valuation of the Group's investment properties and property, plant and equipment using revaluation model requires significant management estimation and judgement taking into account the conditions and locations of the properties as well as the latest market transactions. The Group has engaged independent external valuers ("Valuers") to perform valuations on the investment properties and property, plant and equipment using revaluation model at the end of the reporting period. We identified the valuation of investment properties and property, plant and equipment using revaluation model as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with significant management estimation and judgement associated with when determining the fair value.	Our audit procedures to assess the valuation of investment properties and property, plant and equipment using revaluation model included: – evaluating the competence, capabilities and objectivity of the Valuers; – obtaining an understanding from the Valuers about the valuation methodologies, significant unobservable inputs and critical judgement on key inputs and data used in the valuations; – assessing the reasonableness of valuation methodologies used by the Valuers; – assessing the reasonableness of significant unobservable inputs used by the Valuers by comparing them to publicly available information of similar comparable properties; – evaluating the reasonableness of adjusting factors on the conditions and locations of the properties made by the Valuers by comparing them with historical adjusting factors applied, comparability and other market factors for similar properties; and – discussing the valuations with the Valuers and challenging the key estimates adopted in the valuations.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Impairment of property, plant and equipment and right-of-use assets

Refer to notes 2.5, 2.15, 4, 14 and 17 to the consolidated financial statements

The key audit matter

As at 31 December 2024, the Group had property, plant and equipment using cost model and right-of-use assets amounting to approximately RMB225,772,000 and RMB259,851,000, respectively. For the year ended 31 December 2024, no impairment loss was recognised in the consolidated statement of profit or loss.

The estimation of impairment of property, plant and equipment using cost model and right-of-use assets requires the management to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate.

We identified the measurement of impairment of property, plant and equipment using cost model and right-of-use assets as a key audit matter due to the estimation of impairment involves significant estimates and judgements by the management.

How the matter was addressed in our audit

Our audit procedures to assess the impairment assessment of property, plant and equipment using cost model and right-of-use assets included:

– obtaining the management's procedures on identifying property, plant and equipment and right-of-use assets with impairment indicators;

– discussing indicators of impairment of property, plant and equipment and right-of-use assets with the management, and for cash generating units where such indicators were identified;

– assessing the methodologies used by the external valuer to estimate fair value less cost of disposals and by management to estimate values in use; and

– evaluating the key assumptions adopted in the preparation of the financial forecasts, including projected future growth rates for income and expenses and discount rates with reference to our understanding of the business, historical trends and available industry information and market data.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises all the information included in the 2024 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 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 are assisted by the Audit Committee are responsibilities for overseeing the Group's financial reporting process.

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

- plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and 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.

INDEPENDENT AUDITOR'S REPORT

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

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

Grant Thornton Hong Kong Limited
Certified Public Accountants
11th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong SAR

31 March 2025

Lam Kam Fung
Practising Certificate No.: P07822

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2024

	Notes	2024 RMB'000	2023 RMB'000
REVENUE	6	**525,607**	827,916
Cost of sales		**(490,196)**	(801,799)
Gross profit		**35,411**	26,117
Other income and gains	6	**69,988**	108,249
Selling and distribution expenses		**(100,166)**	(165,352)
Administrative expenses		**(128,942)**	(157,194)
Provision for expected credit loss ("ECL") allowance of trade and other receivables and contract assets		**(70,115)**	(39,545)
Other expenses		**(49,796)**	(34,675)
Finance costs	7	**(171,656)**	(144,670)
Share of results of associates	19	**(16,297)**	(12,048)
LOSS BEFORE INCOME TAX	8	**(431,573)**	(419,118)
Income tax credit	11	**83,267**	33,147
LOSS FOR THE YEAR		**(348,306)**	(385,971)
Loss for the year attributable to:			
Owners of the Company		**(334,391)**	(381,536)
Non-controlling interests		**(13,915)**	(4,435)
		(348,306)	(385,971)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	13		
Basic and diluted (RMB cents)		**(13.495)**	(15.362)

The notes on pages 60 to 147 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2024

	Note	**2024 RMB'000**	2023 RMB'000
LOSS FOR THE YEAR		**(348,306)**	(385,971)
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified subsequently to profit or loss			
Exchange differences on translation of financial statements of foreign operations		**2,665**	7,494
		2,665	7,494
Items that will not be reclassified subsequently to profit or loss			
Translation from functional currency to presentation currency		**1,170**	1,028
Surplus on revaluation of properties held for own use	14	**5,461**	21,135
Income tax relating to items that will not reclassified		**(1,365)**	(5,284)
		5,266	16,879
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**7,931**	24,373
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(340,375)**	(361,598)
Total comprehensive income attributable to:			
Owners of the Company		**(326,460)**	(357,062)
Non-controlling interests		**(13,915)**	(4,536)
		(340,375)	(361,598)

The notes on pages 60 to 147 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

	Notes	2024 RMB'000	2023 RMB'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	14	**715,672**	797,143
Investment properties	15	**601,178**	599,200
Intangible assets	16	**2,056**	700
Right-of-use assets	17(a)	**259,851**	286,240
Goodwill	18	**25,052**	25,052
Investments in associates	19	**1,248,638**	1,339,417
Deferred tax assets	20	**46,000**	23,731
Prepayments, deposits and other receivables	23	**98,697**	73,539
Restricted bank deposits	26	**5,318**	–
		3,002,462	3,145,022
CURRENT ASSETS			
Inventories	21	**271,352**	302,399
Trade receivables	22	**232,020**	236,378
Prepayments, deposits and other receivables	23	**343,898**	330,465
Contract assets	24	**2,173**	4,592
Financial assets at fair value through profit or loss	25	**–**	20,885
Amounts due from associates	31	**1,090,685**	1,003,530
Restricted bank deposits	26	**5,031**	233,258
Cash and cash equivalents	26	**20,452**	29,270
		1,965,611	2,160,777
Assets classified as held for sale	27	**60,000**	–
		2,025,611	2,160,777
CURRENT LIABILITIES			
Trade payables	28	**205,795**	220,658
Other payables and accruals	29	**207,802**	275,593
Lease liabilities	17(b)	**9,656**	10,541
Borrowings	30	**1,105,953**	1,480,150
Loan from the ultimate holding company	31	**924,769**	79,000
Loan from fellow subsidiaries	31	**54,169**	–
Loan from an associate	31	**27,200**	53,000
Loan from non-controlling interests	31	**47,342**	45,013
Loan from a director	31	**–**	18,969
Tax payable		**82,075**	73,961
		2,664,761	2,256,885
NET CURRENT LIABILITIES		**(699,150)**	(96,108)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,363,312**	3,048,914

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

	Notes	2024 RMB'000	2023 RMB'000
NON-CURRENT LIABILITIES			
Medium term bonds	32	**40,729**	37,494
Borrowings	30	**584,616**	909,743
Loan from the immediate holding company	31	**114,888**	95,113
Lease liabilities	17(b)	**19,466**	37,130
Deferred tax liabilities	20	**122,096**	149,715
Deferred government grants	33	**35,368**	33,195
		917,163	1,262,390
Net assets		**1,446,149**	1,786,524
EQUITY			
Share capital	34	**221,592**	221,592
Reserves	35	**1,073,148**	1,399,608
Equity attributable to owners of the Company		**1,294,740**	1,621,200
Non-controlling interests		**151,409**	165,324
Total equity		**1,446,149**	1,786,524

The notes on pages 60 to 147 are an integral part of these consolidated financial statements.

LIN Ruhai
Director

TSE Kam Pang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2024

	Attributable to owners of the parent											
	Share capital RMB'000 (Note 34)	Shares held under share award scheme* RMB'000 (Note 36)	Share premium account* RMB'000 (Note 35)	Capital reserve* RMB'000 (Note 35)	Property revaluation reserve* RMB'000 (Note 35)	Special reserve safety fund* RMB'000	Statutory reserve* RMB'000 (Note 35)	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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/(loss) for the year	–	–	–	–	15,851	–	–	8,623	–	24,474	(101)	24,373
Total comprehensive loss for the year	–	–	–	–	15,851	–	–	8,623	(381,536)	(357,062)	(4,536)	(361,598)
Capital contribution from non-controlling interest	–	–	–	–	–	–	–	–	–	–	46,061	46,061
Acquisition of shares under share award scheme	–	(10,694)	–	–	–	–	–	–	–	(10,694)	–	(10,694)
2022 final dividend (Note 12)	–	–	(23,493)	–	–	–	–	–	–	(23,493)	–	(23,493)
Transfer to reserve	–	–	–	–	–	1,337	776	–	(2,113)	–	–	–
Utilisation of safety fund	–	–	–	–	–	(4,865)	–	–	4,865	–	–	–
Transfer from property revaluation reserve	–	–	–	–	(3,263)	–	–	–	3,263	–	–	–
At 31 December 2023 and 1 January 2024	**221,592**	**(199,655)**	**934,514**	**(7,953)**	**190,118**	**-**	**111,488**	**(31,050)**	**402,146**	**1,621,200**	**165,324**	**1,786,524**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(334,391)**	**(334,391)**	**(13,915)**	**(348,306)**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**4,096**	**-**	**-**	**3,835**	**-**	**7,931**	**-**	**7,931**
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**4,096**	**-**	**-**	**3,835**	**(334,391)**	**(326,460)**	**(13,915)**	**(340,375)**
Appropriation of statutory reserve	**-**	**-**	**-**	**-**	**-**	**-**	**1,422**	**-**	**(1,422)**	**-**	**-**	**-**
Transfer from property revaluation reserve	**-**	**-**	**-**	**-**	**(239)**	**-**	**-**	**-**	**239**	**-**	**-**	**-**
At 31 December 2024	**221,592**	**(199,655)**	**934,514**	**(7,953)**	**193,975**	**-**	**112,910**	**(27,215)**	**66,572**	**1,294,740**	**151,409**	**1,446,149**

* These reserve accounts comprise the consolidated reserves of RMB1,073,148,000 (2023: RMB1,399,608,000) in the consolidated statement of financial position.

The notes on pages 60 to 147 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

	2024 RMB'000	2023 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(431,573)**	(419,118)
Adjustments for:		
Bank interest income	**(5,023)**	(10,458)
Interest income from an associate	**(42,503)**	(51,425)
Compensation income from controlling shareholder of an associate	**(9,467)**	–
Government subsidy	**(2,189)**	–
Compensation from legal case	**(4,000)**	–
Finance costs	**171,656**	144,670
Depreciation of property, plant and equipment	**45,162**	110,785
Written off of property, plant and equipment	**45,021**	–
(Gain)/Loss arising from change in fair value of investment properties	**(1,978)**	2,400
Depreciation of right-of-use assets	**21,672**	26,163
Amortisation of intangible assets	**463**	596
Gain from derecognition of leases upon early termination	**(2,790)**	(515)
Impairment of goodwill	**–**	2,756
Share of results of associates	**16,297**	12,048
Write down to net realisable value for assets classified as held for sale	**4,647**	–
Impairment of investments in associates	**–**	20,884
Loss on deemed disposal of interest in an associate	**9,861**	–
Fair value gains on financial assets at fair value through profit or loss	**–**	(20,885)
Write-down of inventories to net realisable value	**31,049**	4,269
Provision for ECL allowance of trade receivables	**59,627**	15,354
Provision for ECL allowance of other receivables	**10,203**	24,370
Provision/(Reversal of provision of) ECL allowance of contract assets	**285**	(179)
Gains on debt restructuring	**–**	(7,827)
Operating cash flows before working capital changes	**(83,580)**	(146,112)
Changes in inventories	**(2)**	(57,589)
Changes in trade receivables	**(55,269)**	(49,626)
Changes in prepayments, deposits and other receivables	**(61,041)**	(962)
Changes in contract assets	**2,134**	10,462
Changes in trade payables	**(14,863)**	150,798
Changes in other payables and accruals	**(25,119)**	78,686
Cash used in operations	**(237,740)**	(14,343)
Income taxes paid	**(2,544)**	(18,192)
Net cash flows used in operating activities	**(240,284)**	(32,535)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

	Notes	2024 RMB'000	2023 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**5,023**	65
Dividends received from associate		**22,940**	–
Purchase of property, plant and equipment		**(329)**	(24,271)
Purchase of intangible assets		**(1,819)**	(559)
Additions to right-of-use assets		**–**	(36,118)
Proceeds from disposal of property, plant and equipment		**–**	218
Advance to an associate		**(23,936)**	(91,471)
Prepayment for acquisition of subsidiaries		**–**	40,000
Proceed from financial assets at fair value through profit or loss		**–**	4,778
Increase in investments in associates		**–**	(75,000)
Net cash flows from/(used in) investing activities		**1,879**	(182,358)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares under share award scheme		**–**	(10,694)
Dividends paid to owners of the Company		**–**	(23,493)
Proceeds from borrowings		**1,012,562**	1,691,665
Repayment of borrowings		**(1,711,886)**	(1,552,146)
Payment of lease liabilities	17(b)	**(13,182)**	(18,629)
Proceeds from loan from the ultimate holding company		**845,769**	79,000
Proceeds from loan from fellow subsidiaries		**54,000**	–
Repayment of loan from an associate		**(25,800)**	(97,173)
Proceeds from loan from a non-controlling interest		**–**	1,575
(Repayment of)/Proceeds from loan from a director		**(18,969)**	18,855
Proceeds from/(Repayment of) loan from the immediate holding company		**11,866**	(56,370)
Government grant received		**4,362**	–
Interest paid		**(158,578)**	(133,220)
Changes in restricted bank deposits		**222,909**	(15,886)
Net cash flows from/(used in) financing activities		**223,053**	(116,516)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(15,352)**	(331,409)
Cash and cash equivalents at beginning of year		**29,270**	356,829
Effect of foreign exchange rate changes, net		**6,534**	3,850
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	**20,452**	29,270

The notes on pages 60 to 147 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

1. GENERAL INFORMATION

Royale Home Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, the Cayman Islands. The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The Company and its subsidiaries (the "Group") were principally engaged in the manufacture and sale of furniture in the People's Republic of China (the "PRC").

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 limited liability companies and incorporated in Hong Kong and the PRC, respectively.

The consolidated financial statements for the year ended 31 December 2024 were approved for issue by the board of directors on 31 March 2025.

Information about subsidiaries

Particulars of the principal subsidiaries as of 31 December 2024 and 2023 are as follows:

Name of company	Place/Country of incorporation/ registration	Place/Country of operation and business	Type of legal entity	Issued and paid ordinary/ registered share capital	Percentage of ownership interests held by the Company 2024	2023	Principal activities
Chitaly (BVI) Limited	British Virgin Islands ("BVI")	Hong Kong	Limited liability company	US$50,000 ordinary shares	**100**[3]	100[3]	Investment holding
Hong Kong Royal Furniture Holding Limited 香港皇朝傢俬集團有限公司	Hong Kong	Hong Kong	Limited liability company	HK$10,000 ordinary shares	**100**	100	Investment holding
Chitaly Furniture Limited 中意傢俬有限公司	Hong Kong	Hong Kong	Limited liability company	HK$10,000 ordinary shares	**100**	100	Investment holding
Wanlibao (Guangzhou) Supply Chain Limited [1,2] 萬利寶(廣州)供應鏈有限公司[1,2]	The PRC	The PRC	Limited liability company	US$5,700,000 ordinary shares	**100**	100	Trading of commodities
Guangzhou Yufa Furniture Company Limited [1,2] 廣州裕發傢俱有限公司[1,2]	The PRC	The PRC	Limited liability company	Registered capital of RMB500,000,000	**100**	100	Manufacture and sale of furniture
Hong Kong Wong Chiu Furniture Holding Limited	BVI	Hong Kong	Limited liability company	US$50,000 ordinary shares	**100**	100	Dormant
Guangzhou Fuli Furniture Company Limited [1,2] 廣州富利傢俱有限公司[1,2]	The PRC	The PRC	Limited liability company	HK$72,000,000 ordinary shares	**100**	100	Manufacture and sale of furniture

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

1. GENERAL INFORMATION (Continued)

Information about subsidiaries (Continued)

Name of company	Place/Country of incorporation/ registration	Place/Country of operation and business	Type of legal entity	Issued and paid ordinary/ registered share capital	Percentage of ownership interests held by the Company 2024	2023	Principal activities
Realink Investment Group Limited	BVI	Hong Kong	Limited liability company	US$50,000 ordinary shares	**100**	100	Investment holding
Beauty City Holdings Limited	BVI	Hong Kong	Limited liability company	US$50,000 ordinary shares	**100**	100	Investment holding
Jiangxi Furun Furniture Company Limited [2] 江西富潤傢俱有限公司[2]	The PRC	The PRC	Limited liability company	Registered capital of US$26,964,145.47	**63.38**	63.38	Rental of properties
Tianjin Royal Furniture Company Limited [2] 天津皇朝傢俬有限公司[2]	The PRC	The PRC	Limited liability company	Registered capital of RMB150,000,000	**55**	55	Rental of properties
Guangzhou Royal Furniture Company Limited [1, 2] 廣州皇朝家具有限公司[1, 2]	The PRC	The PRC	Limited liability company	Registered capital of RMB100,000,000	**100**	100	Manufacture and sale of furniture
Guangzhou Hong Mian Hong Company Limited [2] 廣州市紅棉紅泡沫塑料有限公司[2]	The PRC	The PRC	Limited liability company	Registered capital of RMB500,000	**80**	80	Manufacture and sale of foam
Guangzhou Zunyi Trading Company Limited [2] 廣州尊益貿易有限公司[2]	The PRC	The PRC	Limited liability company	Registered capital of RMB500,000	**100**	100	Dormant
Guangzhou Runyu Horticulture Company Limited [2] 廣州市潤鬱園藝有限公司[2]	The PRC	The PRC	Limited liability company	Registered capital of RMB300,000	**75**	75	Dormant
Guangzhou Wanlibao Industrial Holding Limited [2] 廣州萬利寶實業控股有限公司[2]	The PRC	The PRC	Limited liability company	Registered capital of RMB1,400,000,000	**100**	100	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

1. GENERAL INFORMATION (Continued)

Information about subsidiaries (Continued)

Name of company	Place/Country of incorporation/ registration	Place/Country of operation and business	Type of legal entity	Issued and paid ordinary/ registered share capital	Percentage of ownership interests held by the Company 2024	2023	Principal activities
Guangzhou Dynasty Zhijia Furniture Co., Ltd. (formerly known as Guangzhou Kemi Zhijia Furniture Co., Ltd.)[2] 廣州皇朝智家家具有限公司 (formerly known as廣州科米智家家具有限公司)[2]	The PRC	The PRC	Limited liability company	Registered capital of RMB8,000,000	**100**	100	Sale of upholstered furniture
Guangzhou Kemi Decoration Co., Ltd.[2] 廣州科米裝飾工程有限公司[2]	The PRC	The PRC	Limited liability company	Registered capital of RMB28,000,000	**100**	100	Decoration services
Jiangsu Huangju Technology Co., Ltd.[1,2] 江蘇皇居科技有限公司[1,2]	The PRC	The PRC	Limited liability company	Registered capital of RMB200,000,000	**100**	100	Manufacture and sale of furniture

Notes:

1 These subsidiaries are wholly-foreign-owned enterprise established under the PRC Law.

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

3 Issued capital held directly by the Company.

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 THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

1. GENERAL INFORMATION (Continued)

Information about subsidiaries (Continued)

The Group includes two subsidiaries with material non-controlling interests ("NCI"), the details and the summarised financial information, before intragroup eliminations, are as follows:

	Tianjin Royal Furniture Co., Ltd. 天津皇朝傢俬有限公司		Jiangxi Furun Furniture Co., Ltd. 江西富潤家具有限公司	
	2024 RMB'000	2023 RMB'000	**2024 RMB'000**	2023 RMB'000
Proportion of ownership interests and voting rights held by the NCI	**45.00%**	45.00%	**36.62%**	36.62%
Current assets	**173**	1,304	**5,509**	6,632
Non-current assets	**394,618**	394,240	**207,824**	206,750
Current liabilities	**(106,318)**	(100,114)	**(19,007)**	(72,459)
Non-current liabilities	**(112,435)**	(91,695)	**(21,939)**	(20,261)
Net assets	**176,038**	203,735	**172,387**	120,662
Carrying amount of NCI	**79,217**	91,681	**63,128**	44,186
Revenue	**29**	29	**–**	–
Expenses	**(27,726)**	(10,690)	**(1,958)**	(2,860)
Loss and total comprehensive expense for the year	**(27,697)**	(10,661)	**(1,958)**	(2,860)
Loss and total comprehensive expense attributable to NCI	**(12,464)**	(4,797)	**(717)**	(1,047)
Net cash (used in)/generated from operating activities	**(1,137)**	731	**(917)**	874
Net (decrease)/increase in cash and cash equivalents	**(1,137)**	731	**(917)**	874

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

2.1 Basis of preparation

These annual consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the accounting principles generally accepted in Hong Kong.

The consolidated financial statements also comply with the applicable disclosures requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The material accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or amended HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 3.

These consolidated financial statements have been prepared on the historical cost basis except for investment properties, certain financial assets and certain buildings classified as property, plant and equipment which have been measured at fair value. Non-current assets held for sale are stated the lower of carrying amount and fair value less costs to sell. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Going concern basis

The Group incurred a loss of approximately RMB348 million during the year ended 31 December 2024 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB699 million, while its cash and cash equivalents amounted to RMB20 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 RMB1,334 million (2023: 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 the existing and new bank and other loans with an aggregated amount of not exceeding RMB2,000 million (2023: 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 2024, the Group also had unpledged investment properties with carrying amount of approximately RMB601 million (2023: 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 in the amount of RMB424 million (2023: RMB356 million);

* *For identification purposes only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Going concern basis (Continued)

(ii) The Group will continue to seek suitable opportunities to dispose of certain equity interest in both associates and subsidiaries to raise the level of liquid funds; and

(iii) The Group will continue to implement measures to improve its 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 expenses.

The board of directors has reviewed the Group's cash flow projections prepared by management, which cover a period of not less than twelve months from 31 December 2024. 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 2024. 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 of continuous financing from the banks and the Group's creditors;

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

(iii) the successful and timely implementation of plans to improve the operation performance, speed up the collection of outstanding sales proceeds and other receivables, and control costs and expenses 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on sales of intra-group asset are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

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

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of reporting period. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.3 Associates

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

In consolidated financial statements, an investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the year includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year. The Group's other comprehensive income for the year includes its share of the associate's other comprehensive income for the year.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associate are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equal or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. At the end of each reporting period, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (i.e. higher of value in use and fair value less costs of disposal) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the end of reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation of monetary assets and liabilities at the end of reporting period are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rates at the transaction date). When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Renminbi. Assets and liabilities have been translated into Renminbi at the closing rates at the end of the reporting period. Income and expenses have been converted into the Renminbi at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the exchange fluctuation reserve in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

Property, plant and equipment (other than construction in progress as described below) are initially recognised at acquisition cost and/or manufacturing cost (including any cost directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Group's management). Except for building held for hotel operation and properties in the course of construction for production as described below, they are subsequently stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Building held for hotel operation is stated at fair value less accumulated depreciation and accumulated impairment losses, if any. Any revaluation surplus is recognised in other comprehensive income and credited to "Property revaluation reserve" in equity. To the extent that any revaluation decrease or impairment loss has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase recognised in other comprehensive income. Downward revaluations are recognised upon appraisal or impairment testing, with the decrease being charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and any remaining decrease is recognised in profit or loss. An annual transfer from the property 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.

Properties in the course of construction for production are carried at cost, less any recognised impairment loss. Costs include professional fees. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost or valuation of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	2.5%–5%
Leasehold improvements	Over the lease terms
Plant and machinery	20%–50%
Furniture, fixtures and office equipment	10%–50%
Motor vehicles and others	20%

Estimates of residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment (Continued)

Gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Any revaluation surplus remaining in equity is transferred to retained profits upon the disposal of land and building carried at revalued amount.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

2.6 Investment properties

Investment properties are land and/or buildings which are owned to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

On initial recognition, investment property is measured at cost, and subsequently at fair value, unless fair value cannot be reliably determined at that time.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised at the end of the reporting period reflect the prevailing market conditions at the end of the reporting period.

Gains or losses arising from either changes in the fair value or the sale of an investment property are included in profit or loss in the period in which they arise.

2.7 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of subsidiaries. Accounting for goodwill arising on acquisition of interest in an associate is set out in note 2.3.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2.21).

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.8 Intangible assets (other than goodwill) and research and development activities

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Patents, licences and software	2–5 years
Customer relationships	5 years

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

Intangible assets with finite useful lives are tested for impairments as described below in note 2.21.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they incur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet all of the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.9 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15 "Revenue from Contracts with Customers", all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the profit or loss.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

– amortised cost; or

– FVTPL.

The classification is determined by both:

– the entity's business model for managing the financial asset; and

– the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within other income and gains and finance costs, except for ECL allowance of financial assets which is presented as a separate item in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.9 Financial instruments (Continued)

Financial assets (Continued)

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

– they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

– the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income and gains in the consolidated statement of profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's trade receivables, deposits and other receivables, amounts due from associates, restricted bank deposits and cash and cash equivalents fall into this category of financial instruments.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is presented as the "Fair value gain on financial assets at fair value through profit or loss" in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.9 Financial instruments (Continued)

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include trade payables, other payables and accruals, borrowings, loans from related parties, medium term bonds and lease liabilities.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs.

Subsequently, financial liabilities (other than lease liabilities) are measured at amortised cost using the effective interest method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within other income and gains and finance costs.

Accounting policies of lease liabilities are set out in note 2.15.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Trade payables, other payables and accruals, medium term bonds and loans from related parties

Trade payables, other payables and accruals, medium term bonds and loans from related parties are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.10 Impairment of financial assets and contract assets

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost, trade receivables and contract assets recognised and measured under HKFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets and contract assets (Continued)

In applying this forward-looking approach, a distinction is made between:

– financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("Stage 1"); and

– financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the end of reporting period.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables and contract assets

For trade receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at the end of each reporting period. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the ECL rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the end of reporting period with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets and contract assets (Continued)

Other financial assets measured at amortised cost (Continued)

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

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

– significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

– existing or forecast adverse changes in regulatory, business, financial, economic conditions, or technological environment that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; and

– an actual or expected significant deterioration in the operating results of the debtor.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than one year past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when (i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group); or (ii) the financial asset is more than three years past due.

Detailed analysis of the ECL assessment of trade receivables, contract assets and other financial assets measured at amortised cost are set out in notes 22 and 23.

2.11 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. It excludes borrowing costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank deposits which are restricted are included in “Restricted bank deposits” of the consolidated statements of financial position.

Bank balances for which use by the Group is subject to third party contractual restrictions are included as part of cash unless the restrictions result in a bank balance no longer meeting the definition of cash. Contractual restrictions affecting use of bank balances are disclosed in note 26.

2.13 Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2.10 and are reclassified to receivables when the right to the consideration has become unconditional.

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

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

2.14 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within “Other payables and accruals”. The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instruments and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assessing the obligations. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

Subsequently, financial guarantees are measured at the higher of the amount determined in accordance with ECL under HKFRS 9 as set out in note 2.10 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised over the guarantee period.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.15 Leases

(a) Definition of a lease and the Group as a lessee

At inception of a contract, the Group considers whether a contract is, or contains a lease. A lease is defined as "a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration". To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contracts contain an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.15 Leases (Continued)

(a) *Definition of a lease and the Group as a lessee* (Continued)

Measurement and recognition of leases as a lessee (Continued)

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments.

For lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

Refundable rental deposits paid are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

(b) *The Group as a lessor*

As a lessor, the Group classifies its leases as operating leases.

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

(c) *The Group as a seller-lessee*

For a transfer that does not satisfy requirements as a sale in accordance with HKFRS 15, the sale and leaseback transaction are in substance a financing arrangement under HKFRS 9. Therefore, the Group as a seller-lessee accounts for the proceeds received as "Borrowings" within the scope of HKFRS 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.16 Provisions and contingent liabilities

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

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

2.17 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2.18 Non-current assets, or disposal groups held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are highly probable to be recovered principally through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Equity accounting of equity-accounted investees ceases once classified as held for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition

(a) Revenue from contracts with customers

Revenue arises mainly from the sales of goods and rendering of services.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer;

2. Identifying the performance obligations;

3. Determining the transaction price;

4. Allocating the transaction price to the performance obligations; and

5. Recognising revenue when/as performance obligation(s) are satisfied.

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

(a) ***Revenue from contracts with customers*** (Continued)

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

Sale of goods

Revenue from sales of goods is recognised when the Group transfers control of the assets to the customer. Control transfers at the point in time when the goods are delivered to the customers. Some contracts provide customers with a right of return within a specified period 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.

Installation and other ancillary services

Revenue from Installation and other ancillary services are recognised upon acceptance by the customer or the progress towards complete satisfaction of performance. Revenue is 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.

Hotel operation income

Hotel operation income 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

Accounting policies for rental income are set out in note 2.15.

Franchise income

Franchise income is recognised on a time proportion basis over the franchise terms.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition (Continued)

(b) Other contract costs

Costs to fulfil a contract

If the costs incurred in fulfilling a contract with a customer which are not capitalised as inventories, property, plant and equipment and intangible assets, the Group capitalises the costs incurred to fulfil a contract with a customer as an asset (included in inventories in the consolidated statement of financial position) 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; and

(c) the costs are expected to be recovered.

An asset is amortised and charged to the profit or loss on a systematic basis (i.e. over the period of Installation and other ancillary services contracts) that is consistent with the transfer to the customer of the goods or services to which the asset relates. The asset is subject to impairment review. Other costs of fulfilling a contract, which are not capitalised, are expensed as incurred.

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of assets are included in liabilities as “Deferred government grants” in the consolidated statement of financial position and are recognised in profit or loss on a straight line basis over the expected lives of the related assets/deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Government grants relating to income is presented in gross under “Other income and gains” in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.21 Impairment of non-financial assets (other than contract assets)

The following assets are subject to impairment testing:

– Goodwill arising on acquisition of subsidiaries;

– Intangible assets;

– Property, plant and equipment;

– Right-of-use assets; and

– The Company's interests in subsidiaries and associates.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Corporate assets are allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose and not be larger than an operating segment.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.22 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans. In addition, the employees employed under the Hong Kong Employment Ordinance are also entitled to long service payment ("LSP") if the eligibility criteria are met. The LSP are defined benefits plans.

(a) Defined contribution plans

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund ("MPF") Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

(b) Defined benefit plans

The amount of long service benefit that an employee will receive on cessation of employment in certain circumstances is defined by reference to the employee's length of service and corresponding salary. The legal obligations for any benefits remains with the Group.

The LSP obligations recognised in the consolidated statement of financial position is the present value of the LSP obligation at the end of the reporting period.

Management estimates the LSP obligations annually. This is based on the discount rate, the salary growth rate, turnover rate and the expected investment return on offsetable MPF accrued benefits. Discount factors are determined close to the end of each annual reporting period by reference to government bonds that are denominated in the currency in which the benefits will be paid and have terms to maturity approximating the terms of the related LSP obligations.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.22 Employee benefits (Continued)

Retirement benefits (Continued)

(b) Defined benefit plans (Continued)

Defined benefit costs are categorised as follows:

- service cost (including current and past service cost, and gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

Service cost on the Group's defined benefit plan is included in employee benefits expense. Employee contributions, all of which are independent of the number of years of service, are treated as a reduction of service cost.

Net interest expense on the net defined benefit liability is included in employee benefits expenses.

Gains and losses resulting from remeasurements of the net defined benefit liability, comprising actuarial gains and losses, are included in other comprehensive income and are not reclassified to profit or loss in subsequent periods.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Share-based employee compensation

The Group grants shares of the Company to employees under its share award scheme. The Group purchase its own shares through the administrative committee of the share award scheme from the open market for the shares to be vested under the share award scheme. The shares purchased by the Group that are not yet vested for this share award scheme were recorded as "Shares held under share award scheme" as a deduction under equity. Upon vesting of the awarded shares, the related costs of the purchased shares are reduced from the "Shares held under share award scheme", and the related fair value of the awarded shares are debited to share award reserve with the difference charged/credited to retained profits.

2.23 Borrowing costs

Borrowing costs are expensed when incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.24 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the end of the reporting period between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss and does not give rise to equal taxable and deductible temporary differences.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

For investment property measured using the fair value model in accordance with the accounting policy above, the measurement of the related deferred tax liability or asset reflects the tax consequences of recovering the carrying amount of the investment property entirely through sale, unless the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies the requirements in HKAS 12 to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to the lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.24 Accounting for income taxes (Continued)

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of the reporting period.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (i) when the existing temporary differences will reverse and (ii) the amount of future taxable profit in those years. The estimate of future taxable profit includes:

– income or loss excluding reversals of temporary differences; and

– reversals of existing temporary differences.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

  (i) the same taxable entity; or

  (ii) 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 THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.25 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

- Manufacture and sale of furniture
- Development properties for sales and property investments
- Hotel operations
- Trading of aluminium ingots and bars

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group used for reporting segment results under HKFRS 8 "Operating Segments" are the same as those used in its financial statements prepared under HKFRSs.

Segment assets include all assets which are not directly attributable to the business activities of any operating segment, which primarily applies to the Group's head office.

Segment liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include bank loans which are not directly attributable to the business activities of any operating segment.

2.26 Related parties

For the purposes of these consolidated financial statements, 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 if that person:

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

(ii) has significant influence over the Group; or

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

2.26 Related parties (Continued)

(b) the party is an entity and if 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 an associate or joint venture of a member of a group of which the other entity is a member).

(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).

(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.

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

3. ADOPTION OF NEW AND AMENDED HKFRSs

3.1 Amended HKFRSs that are effective for annual periods beginning on 1 January 2024

In the current year, the Group has applied for the first time the following amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2024:

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

The adoption of the amended HKFRSs had no material impact on how the results and consolidated financial position of the Group for the current and prior periods have been prepared and presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

3.2 Issued but not yet effective HKFRSs

At the date of authorisation of these consolidated financial statements, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 18	Presentation and Disclosure in Financial Statements[3]
HKFRS 19	Subsidiaries without Public Accountability: Disclosures[3]
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments[2]
Amendments to HKFRS 9 and HKFRS 7	Contracts Referencing Nature-dependent Electricity[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate[4]
Amendments to HKAS 21	Lack of Exchangeability[1]
Amendments to HKFRS Accounting Standards	Annual Improvements to HKFRS Accounting Standards – Volume 11[2]
Amendments to Hong Kong Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[3]

1 Effective for annual periods beginning on or after 1 January 2025
2 Effective for annual periods beginning on or after 1 January 2026
3 Effective for annual periods beginning on or after 1 January 2027
4 Effective date not yet determined

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning on or after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 18 "Presentation and Disclosure in Financial Statements" and related amendments to Hong Kong Interpretation 5

HKFRS 18 replaces HKAS 1 "Presentation of Financial Statements". It carries forward many of the existing requirements in HKAS 1, with limited changes, and some HKAS 1 requirements will be moved to HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and HKFRS 7 "Financial Instruments: Disclosures".

HKFRS 18 will not impact the recognition and measurement of financial statements items but the presentation of them. It introduces three major new requirements, including:

- reporting newly defined subtotals (namely "operating profits" and "profits before financing and income tax"), and classifying items into five newly defined categories (namely "operating", "investing", "financing", "income tax" and "discontinued operation"), depending on the reporting entity's main business activities, in the statement of profit or loss;
- disclosure of management-defined performance measures ("MPMs") in a single note to the financial statements; and
- enhanced guidance of aggregation and disaggregation of information in the financial statements.

3. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

3.2 Issued but not yet effective HKFRSs (Continued)

HKFRS 18 "Presentation and Disclosure in Financial Statements" and related amendments to Hong Kong Interpretation 5 (Continued)

Besides, narrow-scope amendments have been made to HKAS 7 "Statement of Cash Flows", which includes:

- using "operating profit or loss" as the starting point for indirect method for the presentation of operating cash flows purposes; and
- the option for classifying interest and dividend cash flows as operating activities is eliminated.

In addition, there are consequential amendments to several other standards.

HKFRS 18, and the amendments to the other HKFRSs, are effective for annual period beginning on or after 1 January 2027 and must be applied retrospectively with specific transition provisions. The directors of the Group are still in the process of assessing the impact of HKFRS 18, particularly with respect to the structure of the Group's consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the additional disclosures required for MPMs. The Group is also assessing the impact of how information is grouped in the consolidated financial statements, including the items currently labelled as "Other".

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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.

Estimation of impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment loss, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value of future cash flows projections, used in the impairment test. The carrying amounts of property, plant and equipment and right-of-use assets at the reporting date are set out in notes 14 and 17 to the consolidated financial statements respectively.

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 2024, the amount of write-down of inventory provision in the statement of profit or loss was RMB31,049,000 (2023: RMB4,269,000). As at 31 December 2024, the carrying amount of the write-down of the inventories was RMB271,352,000 (2023: RMB302,399,000).

Provision for ECL allowance on trade receivables, other receivables, contract assets and amounts due from associates

The Group uses a provision matrix to calculate ECL allowance for trade receivables, other receivables, contract assets and amounts due from associates. 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for ECL allowance on trade receivables, other receivables, contract assets and amounts due from associates (Continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECL allowance is a significant estimate. The amount of ECL allowance 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 ECL allowance on the Group's trade receivables, other receivables, contract assets and amounts due from associates is disclosed in note 22, 23, 24 and 31 to the financial statements, respectively.

As at 31 December 2024, the aggregate carrying amounts of trade receivables, other receivables, contract assets and amounts due from associates amounted to RMB232,020,000 (2023: RMB236,378,000) (net of ECL allowance of RMB81,569,000 (2023: RMB21,942,000)), RMB249,740,000 (2023: RMB204,219,000) (net of ECL allowance of RMB53,912,000 (2023: RMB43,709,000)), RMB2,173,000 (2023: RMB4,592,000) (net of ECL allowance of RMB318,000 (2023: RMB33,000)) and RMB1,090,685,000 (2023: RMB1,003,530,000) (net of ECL allowance of Nil (2023: Nil)), respectively.

Estimation of fair value of properties

The fair value of the 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 and property, plant and equipment using revaluation model was recognised in the consolidated statement of profit or loss and the consolidated statement of comprehensive income, respectively.

As at 31 December 2024, the carrying amount of investment properties and property, plant and equipment using revaluation model were RMB601,178,000 (2023: RMB599,200,000) and RMB489,900,000 (2023: RMB501,200,000), respectively. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

Deferred taxation on investment properties

For investment properties located in the PRC, deferred taxes are recognised on the fair value changes of investment properties as the Group is subject to capital gain tax upon disposal of the relevant investment properties.

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted.

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. As at 31 December 2024, the carrying amount of goodwill at 31 December 2024 was RMB25,052,000 (2023: RMB25,052,000). Further details are given in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

5. 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.

The Group has four reportable segments as follows:

(a) Manufacture and sale of furniture

(b) Development properties for sales and property investments

(c) Hotel operations

(d) 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 2024

	Manufacture and sale of furniture RMB'000	Development properties for sales and property investments RMB'000	Hotel operations RMB'000	Trading of aluminium ingots and bars RMB'000	Total RMB'000
Segment revenue					
Sale to external customers	505,306	–	15,206	5,095	525,607
Segment results	43,807	–	(8,170)	(226)	35,411
Loss before tax	(352,381)	(31,631)	(19,521)	(28,040)	(431,573)
Segment assets	2,970,555	1,688,565	184,229	184,724	5,028,073
Segment liabilities	2,594,500	240,266	146,041	601,117	3,581,924

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

5. OPERATING SEGMENT INFORMATION (Continued)

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 of aluminium ingots and bars RMB'000	Total RMB'000
Segment revenue					
Sale to external customers	782,825	–	12,838	32,253	827,916
Segment results	57,857	–	(32,847)	1,107	26,117
Loss before tax	(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

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 (2023: Nil).

Geographical information

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

6. REVENUE, OTHER INCOME AND GAINS

The Group's principal activities are disclosed in note 1 to the consolidated financial statements.

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

	2024 RMB'000	2023 RMB'000
Revenue from contracts with customers		
Sale of goods	**407,825**	767,980
Installation and other ancillary services	**102,576**	47,098
Hotel operation income	**15,206**	12,838
	525,607	827,916

Revenue from contracts with customers

(i) Disaggregated revenue information

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major products and services provided:

31 December 2024

	Manufacture and sale of furniture RMB'000	**Hotel operations RMB'000**	**Trading of aluminium ingots and bars RMB'000**	**Total RMB'000**
Revenue recognised at a point in time	**402,730**	**8,415**	**5,095**	**416,240**
Revenue recognised over time	**102,576**	**6,791**	**–**	**109,367**
Total revenue from contracts with customers	**505,306**	**15,206**	**5,095**	**525,607**

31 December 2023

	Manufacture and sale of furniture RMB'000	Hotel operations RMB'000	Trading of aluminium ingots and bars RMB'000	Total RMB'000
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

6. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligation

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:

	2024 RMB'000	2023 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the year	**65,398**	23,376

Other income and gains

	2024 RMB'000	2023 RMB'000
Bank interest income	**5,023**	10,458
Interest income from an associate	**42,503**	51,425
Government subsidy (Note)	**2,189**	4,464
Compensation income from controlling shareholder of an associate	**9,467**	–
Compensation from legal cases	**4,000**	–
Gain arising from change in fair value of investment properties	**1,978**	–
Gain on debt restructuring	**–**	7,827
Fair value gain on financial assets at fair value through profit or loss	**–**	20,885
Gain from derecognition of leases upon early termination	**2,790**	515
Gain on disposal of property, plant and equipment	**–**	236
Rental income	**–**	7,444
Sales of scraps	**–**	452
Others	**2,038**	4,543
	69,988	108,249

Note: The provincial government granted the Group a lump sum for investment in plant and machinery for manufacturing activities. This amount was recognised as deferred government grants and was amortised to profit or loss over 5–30 years being the estimated useful life of the system.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

7. FINANCE COSTS

	2024 RMB'000	2023 RMB'000
Interest on borrowings (including medium term bonds)	**130,461**	126,913
Interest on loans from related parties	**39,055**	14,730
Interest on lease liabilities	**2,140**	3,027
	171,656	144,670

8. LOSS BEFORE INCOME TAX

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

	2024 RMB'000	2023 RMB'000
Cost of inventories sold	**467,880**	755,585
Cost of services provided	**22,316**	41,945
Depreciation of property, plant and equipment	**45,162**	110,785
Depreciation of right-of-use assets	**21,672**	26,163
Amortisation of intangible assets	**463**	596
Research and development costs	**–**	1,933
Lease payments not included in the measurement of lease liabilities	**1,122**	5,482
Auditor's remuneration	**2,200**	3,508
Employee benefit expense (including directors' remuneration)		
– Wages and salaries	**126,574**	166,569
– Pension scheme contributions (Note)	**21,754**	20,422
	148,328	186,991
Fair value gain on financial assets at fair value through profit or loss	**–**	(20,885)
Write-down of inventories to net realisable value	**31,049**	4,269
Write-down of property, plant and equipment	**45,021**	–
Provision/(Reversal of provision of) for ECL allowance		
– Trade receivables	**59,627**	15,354
– Other receivables	**10,203**	24,370
– Contracts assets	**285**	(179)
Impairment of goodwill	**–**	2,756
Write-down to net realisable value for assets classified as held for sale	**4,647**	–
Impairment of investments in associates	**–**	20,884
Fair value (gains)/losses on investment properties	**(1,978)**	2,400
Foreign exchange differences, net	**1,967**	3,675
Compensation, penalties and fines	**2,019**	3,399
Bank interest income	**(5,023)**	(10,458)
Interest income from an associate	**(42,503)**	(51,425)
Share of results of associates	**16,297**	12,048
Gain from derecognition of leases upon early termination	**(2,790)**	(515)
Loss on deemed disposal of interest in an associate	**9,861**	–
Gains on debt restructuring	**–**	(7,827)

Note: As at 31 December 2024, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2023: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

2024

		Other emoluments			
	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)*	–	–	–	–	–
Mr. Tse Kam Pang	274	2,013	–	–	2,287
	274	2,013	–	–	2,287
Non-executive directors:					
Mr. Wu Zhongming*	–	–	–	–	–
Mr. Tao Ying	–	282	–	97	379
Mr. Yao Jingming*	–	–	–	–	–
Ms. Yang Ying	–	266	–	96	362
	–	548	–	193	741
Independent non-executive directors:					
Mr. Lau Chi Kit	219	–	–	–	219
Mr. Yue Man Yiu Matthew	219	–	–	–	219
Mr. Chan Wing Tak Kevin	219	–	–	–	219
	657	–	–	–	657
	931	2,561	–	193	3,685

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

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

2023

		Other emoluments			
	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

* During the year, three of directors have agreed not to receive any directors' remuneration (2023: six).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

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

No emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2024 (2023: Nil).

There were no arrangements under which a director waived or agreed to waive any remuneration during the year ended 31 December 2024 (2023: Nil).

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate of directors and connected entities of directors, and no guarantee or security provided to directors, controlled bodies corporate of directors and connected entities of directors during the year ended 31 December 2024 (2023: Nil).

10. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five highest paid individuals during the year included one (2023: one) director, details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining four (2023: four) highest paid employees who are neither a director nor chief executive of the Company for the year are as follows:

	2024 **RMB'000**	2023 RMB'000
Salaries, allowances and benefits in kind	**4,839**	6,178
Pension scheme contributions	**228**	140
	5,067	6,318

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

	Number of employees	
	2024 **RMB'000**	2023 RMB'000
HK$500,000 to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**–**	2
HK$2,000,001 to HK$2,500,000	**1**	1
	4	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

11. 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 (2023: Nil). Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

	2024 **RMB'000**	2023 RMB'000
PRC Enterprise Income Tax ("EIT")		
– Current tax	**8,639**	3,945
– Adjustment in respect of current tax of previous periods	**(40,653)**	(38,068)
Deferred tax expense (note 20)	**(51,253)**	976
Total income tax credit for the year	**(83,267)**	(33,147)

Reconciliation between tax credit and accounting loss at applicable tax rates is as follow:

	2024 **RMB'000**	2023 RMB'000
Loss before tax	**(431,573)**	(419,118)
Tax at the applicable tax rate at 25% (2023: 25%)	**(107,893)**	(104,779)
Differences in tax rate	**6,455**	9,403
Tax effect of share of profit of associates	**4,074**	3,012
Adjustments in respect of current tax of previous periods	**(40,653)**	(38,068)
Expenses not deductible for tax purposes	**448**	221
Tax effect of tax losses/deductible temporary differences not recognised	**87,388**	97,839
Utilisation of tax losses/deductible temporary differences previously not recognised	**(33,086)**	(775)
Tax credit at the Group's effective rate	**(83,267)**	(33,147)

The Group has aggregate tax losses arising in Hong Kong of RMB119,090,000 (2023: RMB116,070,000) 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 PRC of RMB531,982,000 (2023: RMB308,020,000) 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 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

12. DIVIDENDS

No dividend has been declared and paid by the Company during the year ended 31 December 2024 (2023: Nil).

13. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share amount is based on the loss for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue less shares held under share award scheme during the year of 2,477,877,326 (2023: 2,483,566,389).

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2024 and 2023. The calculations of basic and diluted loss per share are based on:

	2024 **RMB'000**	2023 RMB'000
Loss		
Loss attributable to owners of the Company	**(334,391)**	(381,536)

	Number of shares	
	2024	2023
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 per share calculation	**2,477,877,326**	2,483,566,389

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

14. PROPERTY, PLANT AND EQUIPMENT

31 December 2024

	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 1 January 2024:							
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
At 1 January 2023, net of accumulated depreciation	595,046	93,064	86,684	2,237	1,687	18,425	797,143
Additions	–	–	353	130	3	2,760	3,246
Surplus on revaluation	5,461	–	–	–	–	–	5,461
Written off	–	(44,968)	–	–	(53)	–	(45,021)
Depreciation provided during the year	(18,938)	(8,808)	(16,419)	(536)	(461)	–	(45,162)
Exchange realignment	–	–	–	–	5	–	5
At 31 December 2024, net of accumulated depreciation	581,569	39,288	70,618	1,831	1,181	21,185	715,672
At 31 December 2024:							
Cost or valuation	654,171	108,489	209,109	15,722	9,074	21,185	1,017,750
Accumulated depreciation	(72,602)	(69,201)	(138,491)	(13,891)	(7,893)	–	(302,078)
Net carrying amount	581,569	39,288	70,618	1,831	1,181	21,185	715,672

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

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 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 or written off	–	–	(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

The Group's certain buildings and certain machinery in the PRC with carrying amounts of RMB546,794,000 (2023: RMB560,358,000) and RMB19,986,000 (2023: RMB23,464,000) respectively have been pledged to secure borrowings (note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Fair value measurement

The following table shows the Group's building held for own use and investment properties measured at fair value in the consolidated statement of financial position on a recurring basis, categorised into three levels of a fair value hierarchy. The levels are based on the observability and significance of inputs to the measurements, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and not using significant unobservable inputs.

Level 3: significant unobservable inputs for the asset or liability.

	2024 Level 3 RMB'000	2023 Level 3 RMB'000
Fair value on a recurring basis		
Building held for own use		
– Hotel located outside Hong Kong	**489,900**	501,200
Investment properties		
– Industrial properties located outside Hong Kong	**601,178**	599,200

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 (2023: Nil).

The Group's hotel located in the PRC were revalued by an independent valuer, Stern Appraisal Limited (2023: Stern Appraisal Limited). Surplus on revaluation on hotel is recognised in "Property revaluation reserve" in the consolidated statement of other comprehensive income.

The Group's investment properties include two industrial properties located in the PRC, which were revalued by an independent valuer, Guangdong Guozheng Land Real Estate Appraisal and Surveying Co., Ltd.* (廣東國政土地房地產評估測繪有限公司) (2023: Stern Appraisal Limited). Fair value adjustments in investment properties are included in "Other income and gains/Other expenses" in the consolidated statement of profit or loss.

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.

* *For identification purpose only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Fair value measurement (Continued)

Below is a summary of the valuation technique used and the key inputs to the valuation of hotel and investment properties categorised under Level 3 fair value hierarchy:

	Valuation technique	Significant unobservable inputs	Range 2024	Range 2023
Hotel	Market comparison approach (note a)	Discount on characteristics of the property	**-10% to 15%**	-1.5% to 6.5%
Industrial properties	Discounted cash flow method (note b)	Estimated rental value (per sq.m. per month)	**RMB11.0 to RMB13.0**	RMB15.3 to RMB27.91
		Rent growth (p.a.)	**3.5%**	-3% to 10%
		Long term vacancy rate	**3%**	10%
		Discount rate	**3% to 4%**	7% to 8%
	Market comparison approach (note a)	Discount on characteristics of the property	**2.5% to 6%** (note c)	N/A

Notes:

(a) The fair value of investment properties was carried out using a market comparison approach that reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the properties, including plot size, location, encumbrances and current use.

The significant unobservable input is the premium/discount on quality of the buildings. The extent and direction of the premium/discount depends on the number and characteristics of the observable market transactions in similar properties that are used as the starting point for valuation. Although this input is a subjective judgement, management considers that the overall valuation would not be materially affected by reasonably possible alternative assumptions. Generally, an increase in premium/discount on the quality of the buildings would result in a higher/lower fair value measurement.

(b) The fair values of the investment properties are estimated using an income approach which capitalises the estimated rental income stream, net of projected operating costs, using a discount rate derived from market yields implied by recent transactions in similar properties. When actual rent differs materially from the estimated rents, adjustments have been made to the estimated rental value. The estimated rental stream takes into account current occupancy level, estimates of future vacancy levels, the terms of in-place leases and expectations for rentals from future leases over the remaining economic life of the buildings.

The most significant inputs, all of which are unobservable, are the estimated rental value, assumptions about vacancy levels, and discount rate. The estimated fair value increases if the estimated rental increases, vacancy levels decline or if discount rate (market yields) decline. The overall valuations are sensitive to all three assumptions. Management considers the range of reasonably possible alternative assumptions is greatest for rental values and vacancy levels and that there is also an interrelationship between these inputs.

(c) The valuation techniques have been changed from income approach to market comparison approach as the management of the Company considered that there were market comparables for similar properties that were appropriate to assess the fair value of the properties for the year ended 31 December 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

15. INVESTMENT PROPERTIES

	2024 **RMB'000**	2023 RMB'000
At 1 January	**599,200**	601,600
Gain/(Loss) arising from change in fair value of investment properties	**1,978**	(2,400)
At 31 December	**601,178**	599,200

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 17 to the financial statements.

Details of the fair value measurements of the investment properties are set out in note 14.

16. INTANGIBLE ASSETS

31 December 2024

	Patents, licences and software RMB'000	**Customer relationships RMB'000**	**Total RMB'000**
At 1 January 2024			
Cost	**8,322**	**12,194**	**20,516**
Accumulated amortisation	**(7,622)**	**(12,194)**	**(19,816)**
Net carrying amount	**700**	**–**	**700**
Cost at 1 January 2024, net of accumulated amortisation	**700**	**–**	**700**
Addition	**1,819**	**–**	**1,819**
Amortisation provided during the year	**(463)**	**–**	**(463)**
Cost at 31 December 2024, net of accumulated amortisation	**2,056**	**–**	**2,056**
At 31 December 2024			
Cost	**10,141**	**12,194**	**22,335**
Accumulated amortisation	**(8,085)**	**(12,194)**	**(20,279)**
Net carrying amount	**2,056**	**–**	**2,056**

16. INTANGIBLE ASSETS (Continued)

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

The amortisation charge for the year is included in "Administrative expenses" in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

17. LEASES

The Group as a lessee

Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 38 to 50 years (2023: 38 to 50 years), and no ongoing payments will be made under the terms of these land leases.

The Group has lease contracts for buildings and a motor vehicle for different uses in its operations. Leases of buildings and motor vehicle generally have lease terms between 1.5 to 14.5 years (2023: 1.5 to 14.5 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	**Buildings**	**Motor vehicle**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2023	216,603	54,027	1,344	271,974
Addition	36,120	8,322	–	44,442
Termination	–	(4,635)	–	(4,635)
Modification	–	546	–	546
Depreciation charge	(9,522)	(16,013)	(628)	(26,163)
Exchange realignment	–	41	35	76
At 31 December 2023 and 1 January 2024	**243,201**	**42,288**	**751**	**286,240**
Addition	**–**	**18,174**	**–**	**18,174**
Termination	**–**	**(24,475)**	**–**	**(24,475)**
Modification	**–**	**1,585**	**–**	**1,585**
Depreciation charge	**(8,890)**	**(12,148)**	**(634)**	**(21,672)**
Exchange realignment	**–**	**(5)**	**4**	**(1)**
As at 31 December 2024	**234,311**	**25,419**	**121**	**259,851**

The Group's right-of-use assets with carrying amounts of RMB17,852,000 (2023: RMB16,310,000) have been pledged to secure borrowings (note 30).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

17. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	2024 **RMB'000**	2023 RMB'000
Total minimum lease payments:		
Due within one year	**11,029**	13,450
Due in the second to fifth year	**17,091**	21,219
Due after the fifth year	**4,727**	23,283
	32,847	57,952
Future finance charges on leases liabilities	**(3,725)**	(10,281)
Present value of leases liabilities	**29,122**	47,671

	2024 **RMB'000**	2023 RMB'000
Present value of minimum lease payments:		
Due within one year	**9,656**	10,541
Due in the second to fifth year	**15,238**	16,887
Due after the fifth year	**4,228**	20,243
	29,122	47,671
Less:		
Portion due within one year included under current liabilities	**(9,656)**	(10,541)
Portion due after one year included under non-current liabilities	**19,466**	37,130

As at 31 December 2024, lease liabilities amounting to RMB29,122,000 (2023: RMB47,671,000) are effectively secured by the related underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

During the year ended 31 December 2024, the total cash outflows for the leases are RMB13,182,000 (2023: RMB18,629,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

17. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities (Continued)

Details of the lease activities

As at 31 December 2024 and 2023, the Group has entered into leases for warehouses, factories and office premises.

Types of right-of-use assets	Financial statements items of right-of-use assets included in	Number of leases	Range of remaining lease term	Particulars
Warehouses	Right-of-use assets	7 (2023: 11)	0.17 to 2.4 years (2023: 0.5 to 3.4 years)	Certain contracts contain an option to renew the lease for additional years after the end of the contract by giving notice to landlord before the end of the contract Leases subject to monthly/quarterly/annually rental payment
Factories	Right-of-use assets	2 (2023: 2)	2.4 to 8.7 years (2023: 0.5 to 9.7 years)	Certain contracts contain an option to renew the lease for additional years after the end of the contract by giving notice to landlord before the end of the contract Leases subject to monthly/quarterly/annually rental payment
Office premises	Right-of-use assets	1 (2023: 2)	1.5 years (2023: 1.6 to 2.4 years)	Certain contracts contain an option to renew the lease for additional years after the end of the contract by giving notice to landlord before the end of the contract Leases subject to monthly/quarterly/annually rental payment
Shop	Right-of-use assets	Nil (2023: 5)	Nil (2023: 2.2 to 8.4 years)	Certain contracts contain an option to renew the lease for additional years after the end of the contract by giving notice to landlord before the end of the contract Leases subject to monthly/quarterly/annually rental payment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

17. LEASES (Continued)

The Group as a lessee (Continued)

(b) *Lease liabilities* (Continued)

Details of the lease activities (Continued)

The Group considered that no extension option or termination option would be exercised at the lease commencement date.

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

	2024 **RMB'000**	2023 RMB'000
Interest on lease liabilities	**2,140**	3,027
Depreciation charge of right-of-use assets	**21,672**	26,163
Expense relating to short-term leases	**1,122**	5,482
Total amount recognised in profit or loss	**24,934**	34,672

(d) The total cash outflows for leases are disclosed in note 37 to the financial statements.

The Group as a lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms within one year. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

18. GOODWILL

	RMB'000
At 31 December 2023 and 2024	
Cost	27,808
Accumulated impairment	(2,756)
Net carrying amount at 31 December 2023 and 2024	25,052
Cost at 1 January 2023 and 2024	27,808
Impairment during the year	(2,756)
Net carrying amount at 31 December 2023 and 2024	25,052

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% (2023: 15.4%) and cash flows beyond the five-year period were extrapolated using a growth rate of 6% (2023: 2.3%).

Assumptions were used in the value in use calculation of the manufacture and sale of foam cash-generating unit for 31 December 2024. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

19. INVESTMENTS IN ASSOCIATES

	2024 RMB'000	2023 RMB'000
Cost of investments in associates	**997,000**	1,047,000
Share of post-acquisition profits and other comprehensive income, net of dividends received	**221,960**	256,742
Goodwill on acquisition	**29,678**	56,559
	1,248,638	1,360,301
Provision for impairment (Note)	**–**	(20,884)
	1,248,638	1,339,417

Note: At 31 December 2023, in view of the loss-making of an associate, namely Dongma (Guangzhou free trade zone) Grease Chemical Co., LTD.* ("Dongma") 東馬(廣州保稅區)油脂化工有限公司("東馬"), the directors assessed the recoverable amounts of investments in Dongma by the fair value less costs of disposal ("FVLCD") for the purpose of impairment testing. 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. Based on these assessments, the directors concluded that impairment loss of RMB20,884,000 was recognised.

The Group's trade receivables with associates are disclosed in note 40(b) to the consolidated financial statements.

* *For identification purposes only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

19. INVESTMENTS IN ASSOCIATES (Continued)

Particulars of the material associate are as follows:

Name of associates	Country/Place of incorporation/ registration and business	Issued and fully paid share capital	Percentage of ownership Interest held 2024	Percentage of ownership Interest held 2023	Principal activity
Guangzhou Gangke Real Estate Co., Ltd.* ("Gangke")[1, 2] 廣州港科置業有限公司(「港科」)[1, 2]	PRC	RMB2,000,000,000	**40%**	40%	Real estate
Science City (Guangzhou) Financial Leasing Co., Ltd. ("Financial Leasing")[2, 4] 科學城(廣州)融資租賃有限公司(「融資租賃」)[2, 4]	PRC	RMB1,800,000,000 (2023: RMB1,300,000,000)	**18.06%**[4]	25%[4]	Financial leasing
Sky Walk Limited ("Sky Walk")[1] 天行有限公司(「天行」)[1]	BVI/Hong Kong	USD10,000	**42.42%**	42.42%	Investment
Guangzhou Fu Yue Design Company Limited* ("Fuyue Design")[1, 2, 3] 廣州富悦設計有限公司(「富悦設計」)[1, 2, 3]	PRC	RMB300,000	**50%**[3]	50%[3]	Design services
Guangzhou Technology and Innovation Ruixiang No. One Venture Investment Fund Partnership Enterprise (Limited Partnership)* ("Ruixiang")[2] 廣州科創瑞祥壹號創業投資基金合夥企業(有限合夥)(「瑞祥」)[2]	PRC	RMB240,000,000	**15.42%**	15.42%	Investment
Zhicheng (Guangzhou) Design and Decoration Engineering Co., Ltd.[1, 2] ("Zhicheng") 知城(廣州)設計裝修工程有限公司(「知城」)[1, 2]	PRC	RMB50,000,000	**30%**	30%	Building decoration
Dongma[1, 2, 5] 東馬[1, 2, 5]	PRC	RMB128,293,704	**25%**[5]	25%[5]	Chemical product manufacturing

* *For identification purposes only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

19. INVESTMENTS IN ASSOCIATES (Continued)

Notes:

1. The statutory financial statements of these companies for the year were not audited by Grant Thornton Hong Kong Limited or another member firm of the Grant Thornton global network.

2. 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.

3. 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.

4 During the year ended 31 December 2024, the Group's equity interest in Financial Leasing was diluted from 25.00% to 18.06% by capital injection from an existing shareholder of Financial Leasing. Therefore, the investment in Financial Leasing was deemed disposed, resulted in a loss on deemed disposal of interests in an associate of RMB9,861,000 recognised in the consolidated statement of profit or loss.

   The Group is entitled to appoint one of Financial Leasing's board of directors out of a total of three. The management has assessed the Group's involvement in Financial Leasing and concluded that it has significant influence over Financial Leasing.

5 Guangzhou Yuyuan Real Estate Development Co., Ltd. 廣州御園地產發展有限公司 ("Yuyuan Real Estate"), an indirect wholly-owned subsidiary of the Company intended to dispose the investment in Dongma and was taking necessary and appropriate step to realise the disposal, including public tender. The Group expects the disposal will be completed within the next twelve months and the proceeds of disposal to be approximately RMB60,000,000. Accordingly, the investment of Dongma was reclassified as assets classified as held for sale during the year ended 31 December 2024 (Note 27).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

19. INVESTMENTS IN ASSOCIATES (Continued)

Set out below are the summarised financial information of each of the material associates which are accounted for using the equity method:

2024

	Gangke RMB'000	Financial Leasing RMB'000	Sky Walk RMB'000	Fuyue Design RMB'000	Total RMB'000
Current assets	4,827,300	5,478,847	276,438	4	10,582,589
Non-current assets	1	2,500,967	4,280	104,883	2,610,131
Current liabilities	2,416,039	2,740,616	25,328	464	5,182,447
Non-current liabilities	541,700	3,308,505	–	–	3,850,205
Net assets	1,869,562	1,930,693	255,390	104,423	4,160,068
Reconciliation to the Group's interest in the associate:					
Proportion of the Group's ownership	40%	18.06%	42.42%	50%	
Group's share of net assets of the associate, excluding goodwill	747,825	348,683	107,264	52,212	1,255,984
Elimination of unrealised profits and loss on downstream transactions	(74,967)	–	–	–	(74,967)
Goodwill on acquisition	–	13,588	–	15,667	29,255
Carrying amount of the investment	672,858	362,271	107,264	67,879	1,210,272
Revenue	1,103	406,687	–	–	407,790
(Loss)/Profit and total comprehensive (loss)/profit for the year	(55,122)	55,703	(88)	(4,837)	(4,344)
Share of the associates' (loss)/profit for the year	(22,049)	13,926*	(37)	(2,418)	(10,578)
Dividends received	–	(22,877)	(63)	–	(22,940)

* The Group shared 25% of loss amounting to RMB13,926,000 for period from January to December 2024 before deemed disposal of interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

19. INVESTMENTS IN ASSOCIATES (Continued)

2023

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

For the year ended 31 March 2023, all associates did not declare any dividend.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

19. INVESTMENTS IN ASSOCIATES (Continued)

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

	2024 **RMB'000**	2023 RMB'000
Share of the associates' (loss)/profit for the year	**(78)**	1,198
Share of the associates' total comprehensive (loss)/profit	**(78)**	1,198
Carrying amount of the Group's investments in the associates	**38,366**	62,451

20. DEFERRED TAX

The movement during the year in the deferred tax (assets)/liabilities is as follows:

	2024 **RMB'000**	2023 RMB'000
At 1 January	**125,984**	119,227
Recognised in profit or loss	**(49,888)**	6,757
At 31 December	**76,096**	125,984

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

20. DEFERRED TAX (Continued)

The movement in deferred tax (assets)/liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is 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
Gross deferred tax liabilities at 1 January 2023	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 (credited)/charged to the statement of profit or loss during the year	(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**
Deferred tax credited to other comprehensive income during the year	**1,365**	**–**	**–**	**–**	**–**	**1,365**
Deferred tax (credited)/charged to the statement of profit or loss during the year	**24,759**	**–**	**(4,644)**	**(53,135)**	**(667)**	**(33,687)**
Gross deferred tax liabilities at 31 December 2024	**105,716**	**–**	**6,003**	**15,080**	**1,205**	**128,004**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

20. DEFERRED TAX (Continued)

Deferred tax assets

	Unrealised profits RMB'000	Provision RMB'000	Lease liabilities RMB'000	Others RMB'000	Total RMB'000
At 1 January 2023	12,015	15,719	–	–	27,734
Deferred tax (charged)/credited to the statement of profit or loss during the year	5,110	(10,320)	11,818	–	6,608
Gross deferred tax assets at 31 December 2023	**17,125**	**5,399**	**11,818**	**–**	**34,342**
Deferred tax (charged)/credited to the statement of profit or loss during the year	**229**	**19,315**	**(4,913)**	**2,935**	**17,566**
Gross deferred tax assets at 31 December 2024	**17,354**	**24,714**	**6,905**	**2,935**	**51,908**

The amounts recognised in the consolidated statement of financial position are as follows:

	2024 RMB'000	2023 RMB'000
Deferred tax assets	**(46,000)**	(23,731)
Deferred tax liabilities	**122,096**	149,715
	76,096	125,984

At 31 December 2024, deferred tax liabilities of RMB19,829,000 (2023: RMB44,135,000) have not 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 PRC. 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 PRC for which deferred tax liabilities have not been recognised approximately RMB198,290,000 at 31 December 2024 (2023: RMB441,351,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

21. INVENTORIES

	2024 RMB'000	2023 RMB'000
Raw materials	**94,737**	94,416
Work in progress	**6,386**	3,180
Finished goods	**225,129**	228,654
Less: Write-down of inventories to net realisable value	**(54,900)**	(23,851)
	271,352	302,399

The Group manufactures and sells furniture and is subject to changing consumer demands. The management assess write-down of inventories to net realisable value based the ageing of the balances, type of furniture, forecasted inventory usage or sales and any other available information.

As at 31 December 2024, the Group had no pledged inventories (2023: RMB21,918,000) to secure borrowings (note 30).

22. TRADE RECEIVABLES

	2024 RMB'000	2023 RMB'000
Trade receivables		
– Third parties	**278,902**	215,395
– Related parties (note 40 (b))	**34,687**	42,925
	313,589	258,320
Less: ECL allowance	**(81,569)**	(21,942)
Trade receivables, net	**232,020**	236,378

The directors of the Group consider that the fair values of trade receivables are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

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 RMB34,687,000 (2023: RMB42,925,000) which are due from related parties are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

22. TRADE RECEIVABLES (Continued)

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

	2024 RMB'000	2023 RMB'000
Within 1 year	**146,007**	166,023
1 to 2 years	**44,320**	70,355
Over 2 years	**41,693**	–
	232,020	236,378

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

	2024 RMB'000	2023 RMB'000
At 1 January	**21,942**	6,588
ECL allowance recognised during the year	**59,627**	15,354
At 31 December	**81,569**	21,942

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 2024				
Expected credit loss rate	**4.61%**	**43.62%**	**49.10%**	**26.01%**
Gross carrying amount (RMB'000)	**153,067**	**78,606**	**81,916**	**313,589**
Expected credit losses (RMB'000)	**7,060**	**34,285**	**40,224**	**81,569**
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

23. PREPAYMENTS, DEPOSITS AND RECEIVABLES

	Notes	2024 RMB'000	2023 RMB'000
Non-current assets			
Prepayment for acquisition of subsidiaries	i	**56,000**	56,000
Prepayment for acquisition of non-controlling interests	ii	**14,500**	14,500
Deposits and other receivables	iii	**28,075**	–
Prepayment for property, plant and equipment		**122**	3,039
		98,697	73,539
Current assets			
Prepayments to suppliers		**71,304**	69,451
Land resumption due from the government		**122,859**	122,859
Deposits and other receivables			
– Third parties	iii	**193,903**	146,864
– Related parties (Note 40(b))		**9,744**	35,000
		397,810	374,174
Less: ECL allowance		**(53,912)**	(43,709)
		343,898	330,465

Notes:

(i) The prepayment is for the acquisition of a 50% interest in Fuyue Design, an associate of the Company from an independent third party individual.

(ii) The prepayment is for the acquisition of a 25% interest in a company from a non-controlling interest.

(iii) As at 31 December 2024, deposit in other receivables amounting to RMB46,075,000 (2023: RMB53,000,000) was pledged for other borrowings (Note 30).

As at 31 December 2024, ECL allowance 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 2024 ranged from 0.2% to 100% (2023: 0.1% to 100%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

24. CONTRACT ASSETS

	2024 RMB'000	2023 RMB'000
Contract assets arising from installation and other ancillary services	2,491	4,625
Less: ECL allowance	(318)	(33)
	2,173	4,592

The Group's installation and other ancillary services contracts include payment schedules which require progress payments over the services period once certain specified milestones are reached. The Group agrees to a one year retention period for 5% of the contract value. This amount is included in contract assets until the end of retention period as the Group's entitlement to this final payment is conditional on the Group's satisfactory work.

The amount of contract assets that is expected to be recovered in one year, all of which relates to retentions.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2024 RMB'000	2023 RMB'000
Put option	–	20,885

According to the Capital Injection Agreement entered into between Yuyuan Real Estate, Lvshang Technology and Dongma, Yuyuan Real Estate has been granted a put option, pursuant to which Yuyuan Real Estate has the right (but not an obligation) to request Lvshang Technology to acquire all the equity interest held by Yuyuan Real Estate 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.

As at 31 December 2023, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

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:

	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%	5% increase/decrease in risk-free interest rate would have no material impact on the fair value
		Volatility	28.20%	5% increase/decrease in volatility would have no material impact on the fair value

The following table illustrate the fair value measurement hierarchy 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

During the year ended 31 December 2023, 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.

Yuyuan Real Estate intended to exercise put option and dispose the investment in Dongma. Accordingly, the financial assets was reclassified as assets classified as other receivables under held for sale during the year ended 31 December 2024 (Note 27).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

26. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	2024 **RMB'000**	2023 RMB'000
Non-current assets		
Restricted bank deposits (note i)	**5,318**	–
Current assets		
Restricted bank deposits (note i)	**5,031**	233,258
Cash and bank balances (note ii)	**20,452**	29,270
	30,801	262,528

Notes:

(i) As at 31 December 2024, restricted bank deposits include pledged time deposits amounting to RMB5,031,000 (2023: RMB159,041,000) for bank borrowings (Note 30), guarantee deposits for contracts with customers amounting to RMB3,833,000 (2023: RMB6,411,000) and frozen bank balances by a court order amounting to RMB1,485,000 (2023: RMB67,806,000).

The time deposits in banks earn 2% interest per annum (2023: 2.75% to 3.3%). They have a maturity of 1 year (2023: 3 years) and are eligible for immediate cancellation without receiving any interest for the last deposit period. The directors of the Group considered that the fair value of the short-term bank deposits is not materially different from their carrying amount because of the short maturity period on their inception.

(ii) Cash at banks earns interest at floating rates based on daily bank deposit rates.

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to RMB26,890,000 (2023: RMB258,416,000). The RMB is not freely convertible into other currencies, however, under PRC'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 authorised to conduct foreign exchange business.

The bank balances and restricted bank deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

27. ASSETS CLASSIFIED AS HELD FOR SALE

As described in note 19 and 25, the Group is seeking to dispose of its interests in Dongma, an associate of the Company and anticipates that the disposal will be completed in 2025.

	2024 **RMB'000**	2023 RMB'000
Investments in associates	**20,965**	–
Other receivables	**43,682**	–
Less: Write-down of to net realisable value for assets classified as held for sale	**(4,647)**	–
	60,000	–

28. TRADE PAYABLES

	2024 **RMB'000**	2023 RMB'000
Trade payables		
– Third parties	**151,114**	186,015
– Related parties (Note 40(b))	**54,681**	34,643
	205,795	220,658

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

	2024 **RMB'000**	2023 RMB'000
Within 1 month	**28,360**	87,801
1 to 3 months	**75,677**	52,501
3 to 6 months	**16,015**	19,600
6 to 12 months	**42,201**	33,921
More than 1 year	**43,542**	26,835
	205,795	220,658

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

All amounts are short term and hence the carrying amounts of the Group's trade payables are considered to be a reasonable approximation of fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

29. OTHER PAYABLES AND ACCRUALS

	Notes	2024 RMB'000	2023 RMB'000
Contract liabilities	i	**54,199**	73,154
Accruals	ii	**7,053**	80,106
Other payables		**146,550**	122,333
		207,802	275,593

Notes:

(i) Contract liabilities include unsatisfied performance obligations resulting from contracts of installation and other ancillary services for which the Group has received consideration at the end of the reporting period. The Group requires customers to pay deposits, 3% of total contract sum, as part of its credit risk management policies. Contract liabilities are recognised as revenue upon the Group satisfying its performance obligations under the relevant contracts.

All deposits received are expected to be settled within one to two years.

The significant decrease of contract liabilities as at 31 December 2024 is mainly due to the decrease in the deposits received as a result of lesser orders received from customers during the reporting period.

(ii) Certain subsidiaries of the Group were 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

30. BORROWINGS

	2024			2023		
	Effective interest (%)	**Maturity**	**RMB'000**	Effective interest (%)	Maturity	RMB'000
Current:						
Bank borrowings – secured	**2.275–6.8**	**2025**	**219,759**	3.75–9.0	2024	246,900
Bank borrowings – unsecured	**3.95**	**2024**	**–**	3.95	2024	3,000
Current portion of long-term borrowings:						
Bank borrowings – secured	**4.6–5.98**	**2025**	**216,080**	3.65–4.6	2024	508,070
Other borrowings – secured	**5.04–13.84**	**2025**	**670,114**	3.7–10.0	2024	722,180
			1,105,953			1,480,150
Non-current:						
Non-current portion of long-term borrowings:						
Bank borrowings – secured	**2.275–6.8**	**2026–2027**	**209,600**	3.65–5.50	2025–2026	234,800
Other borrowings – secured	**5.04–13.84**	**2026–2027**	**375,016**	3.72–6.2	2025–2026	674,943
			584,616			909,743
			1,690,569			2,389,893

30. BORROWINGS (Continued)

	2024 **RMB'000**	2023 RMB'000
Analysed into:		
Borrowings repayable:		
Within one year	**1,105,953**	1,480,150
In the second year	**503,385**	595,739
In the third to fifth years, inclusive	**81,231**	314,004
	1,690,569	2,389,893

Notes:

Certain of the Group's borrowings were secured by the following:

(i) As at 31 December 2024, the Group had pledged buildings and certain machinery amounting to RMB546,794,000 (2023: RMB560,358,000) and RMB19,986,000 (2023: RMB23,464,000), respectively (note 14);

(ii) As at 31 December 2024, the Group had pledged a right-of-use asset amounting to RMB17,852,000 (2023: RMB16,310,000) (note 17(a));

(iii) As at 31 December 2024, the Group had no pledged inventories (2023: RMB21,918,000) (note 21);

(iv) As at 31 December 2024, the Group had pledged deposit in other receivables amounting to RMB46,075,000 (2023: RMB53,000,000) (Note 23); and

(v) As at 31 December 2024, the Group had pledged time deposits amounting to RMB5,031,000 (2023: RMB159,041,000) (note 26).

In addition, the Company's ultimate holding company and a fellow subsidiary have provided guarantees of up to RMB1,334,115,000 (2023: RMB1,816,175,000) and RMB85,000,000 (2023: RMB60,000,000) to secure certain of the Group's borrowings as at the end of the reporting period, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

31. AMOUNTS DUE FROM/(TO) RELATED PARTIES

As at 31 December 2024, 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 RMB331,428,000 (2023: RMB237,872,000) which is interest-free, the remaining amounts bear interest at a rate of range from 8% to 12.5% per annum (2023: 8% to 12.5% per annum).

As at 31 December 2024, the loan from the ultimate holding company amounting to RMB924,769,000 (2023: RMB79,000,000) is unsecured and bearing interest rate at a rate of 8% per annum (2023: 8% per annum) and will be repayable within one year.

As at 31 December 2024, the loan from fellow subsidiaries amounting to RMB54,169,000 (2023: Nil) is unsecured and bearing interest rate at a rate of 6% to 6.25% per annum (2023: Nil) and will be repayable within one year.

As at 31 December 2024, the loan from an associate amounting to RMB27,200,000 (2023: RMB53,000,000) is unsecured and bearing interest at a rate of 5.8% per annum (2023: 5.8% per annum), and repayable within one year.

As at 31 December 2024, the loan from non-controlling interests amounting to RMB47,342,000 (2023: RMB45,013,000) is unsecured and bearing interest at a rate of 6.15% per annum (2023: 6.15% per annum) and will be repayable within one year.

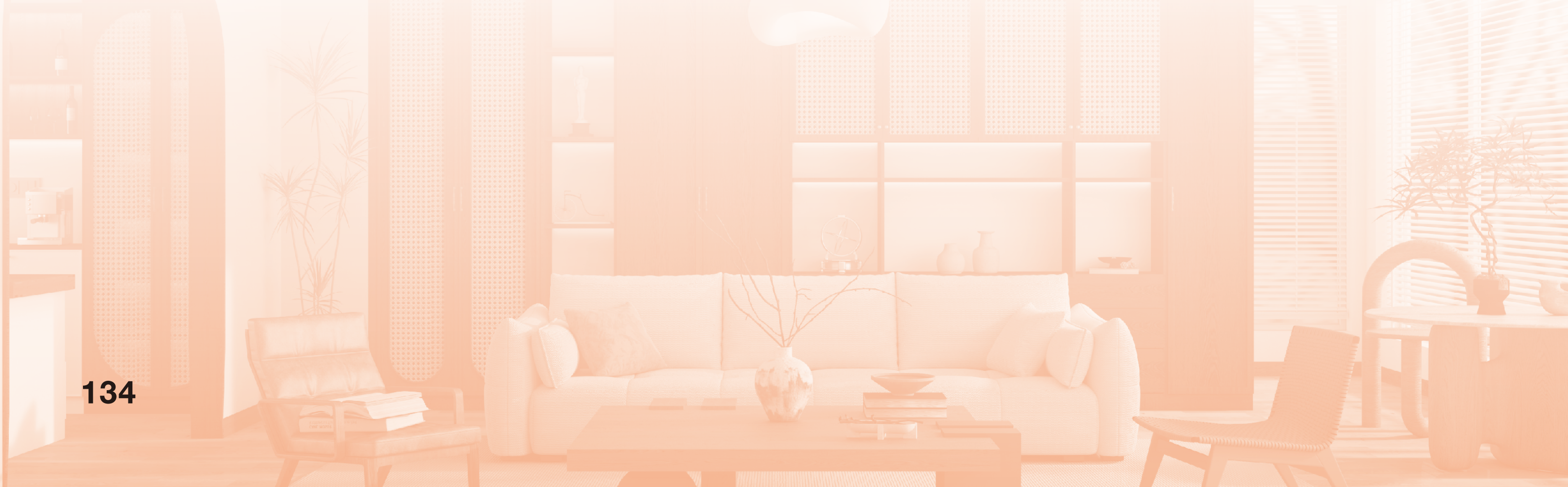
As at 31 December 2023, the loan from a director amounting to RMB18,969,000 is unsecured, bears interest rate at a rate of 8% per annum and will be repayable within one year.

As at 31 December 2024, the loan from the immediate holding company amounting to RMB114,888,000 (2023: RMB95,113,000) is unsecured and bearing interest rate at a rate of 5.5% per annum (2023: 5.5% per annum) and will be repayable after one year.

32. 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 2024, the Company has issued the medium-term bonds (the "Bonds") with a principal amount in aggregate of HK$700,000,000 (2023: 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 include early redemption right subject to not less than 450 days' written notice. 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

32. MEDIUM TERM BONDS (Continued)

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

	2024 RMB'000	2023 RMB'000
Carrying amount at 1 January	**37,494**	34,253
Accrued interest expenses	**3,056**	2,836
Payment for interest	**(539)**	(615)
Exchange realignment	**718**	1,020
Carrying amount at 31 December	**40,729**	37,494

33. DEFERRED GOVERNMENT GRANTS

Deferred income represents government grants received by subsidiaries for reimbursements of capital expenditure spent on manufacturing activities. Deferred income is released to profit or loss over the periods to match the related cost.

34. SHARE CAPITAL

	2024 RMB'000	2023 RMB'000
Authorised:		
4,000,000,000 (2023: 4,000,000,000) ordinary shares of HK$0.10 each	**423,932**	423,932
Issued and fully paid:		
2,598,561,326 (2023: 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 1 January 2023	2,598,561,326	221,592	958,007	1,179,599
2022 final dividend	–	–	(23,493)	(23,493)
At 31 December 2023, 1 January 2024 and 31 December 2024	2,598,561,326	221,592	934,514	1,156,106

35. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2024 and 2023 are presented in the consolidated statement of changes in equity of the consolidated financial statements.

Share premium

The share premium represents the difference between the par value of the shares of the Company and net proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to the shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

Capital reserve

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.

Property revaluation reserve

The property revaluation reserve arose from a revaluation surplus resulting from the building revaluation.

Statutory reserve

In accordance with the PRC Company Law and the articles of association of the Group's PRC subsidiaries, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of this reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after these usages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

36. SHARE AWARD SCHEME

On 14 May 2021, a share award scheme was approved and adopted by the Board of directors of the Company. Unless otherwise cancelled or amended, the share award scheme will remain valid and effective for 5 years from the date of adoption.

The number of shares to be award under the share award scheme throughout its duration is limited to 5% of the total number of issued shares of the Company from time to time. The maximum number of shares which may be awarded to a selected participant under the scheme shall not exceed 1% of the total number of issued shares of the Company in any 12-month period.

The Board has full discretion to determine the amount of the share award to be vested to eligible employees at the end of a performance period in accordance with the performance criteria approved by the Board.

During the year ended 31 December 2024, no share awards were purchased on the Stock Exchange. During the year ended 31 December 2023, a sum of RMB10,694,000 has been used to acquire 7,724,000 shares from the open market by the trustee of the Scheme.

During the year ended 31 December 2024 and 2023, no shares were allotted, issued, vested and granted under the share award scheme of the Company.

As at 31 December 2024, 120,690,000 (31 December 2023: 120,690,000) shares of the Company are held by the trustee and have yet to be awarded and the carrying amount of Shares held for Share Award Scheme was approximately RMB199,655,000 (2023: RMB199,655,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2024, the Group had non-cash transactions of the additions and modifications to right-of-use assets and lease liabilities of RMB18,174,000 and RMB1,585,000, respectively, in respect of lease arrangements for buildings.

During the year ended 31 December 2023, the Group had non-cash transactions in: (i) the additions to right-of-use assets and lease liabilities of RMB8,322,000, respectively, in respect of lease arrangements for leasehold land and buildings; (ii) gain on debt restructuring of RMB7,827,000; (iii) capital contributions by non-controlling shareholders from debt-to-equity swap of RMB46,061,000; and (iv) offset of trade receivables by fixed assets of RMB7,426,000.

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

	Lease liabilities	Borrowings	Medium term bonds	Loan from the ultimate holding company	Loan from fellow subsidiaries	Loan from an associate	Loan from non-controlling interests	Loan from a director	Loan from the immediate holding company	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023	59,483	2,250,374	34,253	–	–	150,173	41,478	–	144,497	2,680,258
Cash flows:										
– Repayment	(18,629)	(1,552,146)	–	–	–	(97,173)	–	–	(56,370)	(1,724,318)
– Proceeds	–	1,691,665	–	79,000	–	–	1,575	18,853	–	1,791,093
– Interest paid	–	(124,077)	(615)	(1,090)	–	(3,167)	(1,886)	(2,383)	–	(133,218)
Non-cash:										
– Finance costs (note 7)	3,027	124,077	2,836	1,090	–	3,167	3,846	2,384	4,243	144,670
– Derecognition of leases upon early termination	(5,151)	–	–	–	–	–	–	–	–	(5,151)
– Lease modification	8,322	–	–	–	–	–	–	–	–	8,322
– Revision of a lease term arising from a change in the non-cancellable period of a lease	548	–	–	–	–	–	–	–	–	548
– Exchange difference	71	–	1,020	–	–	–	–	115	2,743	3,949
At 31 December 2023 and 1 January 2024	**47,671**	**2,389,893**	**37,494**	**79,000**	**-**	**53,000**	**45,013**	**18,969**	**95,113**	**2,766,153**
Cash flows:										
– Repayment	**(13,182)**	**(1,711,886)**	**-**	**-**	**-**	**(25,800)**	**-**	**(18,969)**	**-**	**(1,769,837)**
– Proceeds	**-**	**1,012,562**	**-**	**845,769**	**54,000**	**-**	**-**	**-**	**11,866**	**1,924,197**
– Interest paid	**-**	**(127,405)**	**(539)**	**(25,915)**	**(2,244)**	**(2,475)**	**-**	**-**	**-**	**(158,578)**
Non-cash:										
– Finance costs (note 7)	**2,140**	**127,405**	**3,056**	**25,915**	**2,413**	**2,475**	**2,329**	**-**	**5,923**	**171,656**
– Entering into new leases	**18,174**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,174**
– Derecognition of leases upon early termination	**(27,265)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(27,265)**
– Lease modification	**1,585**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,585**
– Exchange difference	**(1)**	**-**	**718**	**-**	**-**	**-**	**-**	**-**	**1,986**	**2,703**
At 31 December 2024	**29,122**	**1,690,569**	**40,729**	**924,769**	**54,169**	**27,200**	**47,342**	**-**	**114,888**	**2,928,788**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

38. CONTINGENT LIABILITIES

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

	2024 **RMB'000**	2023 RMB'000
Guarantees given to banks in connection with facilities granted to an associate	**333,000**	333,000

During the year, the Group has pledged a 40% equity interest in an associate Gangke to secure general banking facilities granted to Gangke.

Under the guarantee, the Group would be liable to pay the bank if the bank is unable to recover the loan. The original loan amount was RMB832,500,000. At the end of the reporting period, the outstanding balance of the bank loans was RMB566,700,000 (2023: RMB561,133,000) and the Group's maximum exposure under the financial guarantee contract was RMB226,680,000 (2023: RMB224,453,000).

In the opinion of the directors, the fair value of the guarantees at initial recognition and the ECL allowance are not significant on the basis of low applicable default rates due to the Gangke is in strong financial positions as disclosed in note 19.

39. COMMITMENTS

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

	2024 **RMB'000**	2023 RMB'000
Contracted, but not provided for:		
Construction in progress	**32,083**	36,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

40. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	2024 RMB'000	2023 RMB'000
Science City Affiliates Group		
Sale of goods (Note)	**14,159**	69,735
Decoration services (Note)	**1,787**	8,679
Construction services (Note)	**–**	7,312
Interest expense	**34,251**	10,476
Guarantee fees	**15,373**	39,429

Note: These transactions constitute connected transactions or continuing connected transactions under the Listing Rules.

	2024 RMB'000	2023 RMB'000
Other related parties		
Sale of goods	**4,075**	16,266
Installation and other ancillary services	**–**	12,090
Rental Income	**–**	703
Interest income	**42,503**	51,425
Interest expense	**4,804**	5,820

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

40. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

	2024 RMB'000	2023 RMB'000
Trade receivables:		
The ultimate holding company	**1,198**	13,689
Fellow subsidiaries	**13,482**	9,845
Associates	**17,484**	19,391
Non-controlling interest	**2,523**	–
	34,687	42,925
Other receivables:		
Fellow subsidiaries	**3,482**	35,000
Non-controlling interest	**6,262**	–
	9,744	35,000
Trade payables:		
The ultimate holding company	**54,681**	34,643

(c) Compensation of key management personnel of the Group

Key management of the Group are members of the board of directors, as well as members of the "management board" of the parent company. Key management personnel remuneration includes the following expenses:

	2024 RMB'000	2023 RMB'000
Short term employee benefits	**8,331**	11,856
Pension scheme contributions	**421**	226
Total compensation paid to key management personnel	**8,752**	12,082

Further details of directors' emoluments are included in note 9 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate 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.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

41.1 Categories of financial assets and liabilities

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

	2024 RMB'000	2023 RMB'000
Financial assets		
Financial assets at FVTPL	–	20,885
Financial assets at amortised cost		
Trade receivables	232,020	236,378
Prepayments, deposits and other receivables	300,669	261,014
Amounts due from associates	1,090,685	1,003,530
Restricted bank deposits	10,349	233,258
Cash and cash equivalents	20,452	29,270
	1,654,175	1,784,335
Financial liabilities		
Financial liabilities at amortised cost		
Trade payables	205,795	220,658
Other payables and accruals	104,076	155,978
Lease liabilities	29,122	47,671
Borrowings	1,690,569	2,389,893
Medium term bonds	40,729	37,494
Loan from the ultimate holding company	924,769	79,000
Loan from fellow subsidiaries	54,169	–
Loan from an associate	27,200	53,000
Loan from non-controlling interests	47,342	45,013
Loan from a director	–	18,969
Loan from the immediate holding company	114,888	95,113
	3,238,659	3,142,789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

41.2 Foreign currency risk

The Group operates in the PRC and majority of transactions are denominated in RMB. The Group is not exposed to significant foreign exchange risk arises from commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the Group entities.

41.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from borrowings, medium term bonds, lease liabilities and loans from related parties bearing fixed rates expose the Group to fair value interest rate risk. The exposure to interest rates for the Group's short term bank deposits is considered immaterial.

41.4 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 bank deposits 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.

The credit risks on pledged time deposits and cash and cash equivalents are considered to be insignificant because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and other financial assets included in prepayments, deposits and other receivables are disclosed in notes 22 and 23 to the financial statements, respectively.

41.5 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. However, as explained in note 2.1, certain events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Various plans and measures as explained in note 2.1 have been in process to help mitigate the Group's liquidity and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

41.5 Liquidity risk (Continued)

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:

	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
2024						
Non-derivative financial liabilities						
Trade payables	**205,795**	**–**	**–**	**–**	**205,795**	**205,795**
Other payables and accruals	**104,076**	**–**	**–**	**–**	**104,076**	**104,076**
Lease liabilities	**11,029**	**10,095**	**6,996**	**4,727**	**32,847**	**29,122**
Borrowings	**1,153,180**	**516,695**	**82,625**	**–**	**1,752,500**	**1,690,569**
Medium term bonds	**648**	**648**	**1,944**	**645,616**	**648,856**	**40,729**
Loan from the ultimate holding company	**998,751**	**–**	**–**	**–**	**998,751**	**924,769**
Loan from fellow subsidiaries	**57,555**	**–**	**–**	**–**	**57,555**	**54,169**
Loan from an associate	**28,778**	**–**	**–**	**–**	**28,778**	**27,200**
Loan from non-controlling interests	**50,254**	**–**	**–**	**–**	**50,254**	**47,342**
Loan from the immediate holding company	**6,190**	**118,743**	**–**	**–**	**124,933**	**114,888**
	2,616,256	**646,181**	**91,565**	**650,343**	**4,004,345**	**3,238,659**
Derivative financial liabilities						
Financial guarantees issued (Note)						
Maximum amount guaranteed	**10,000**	**–**	**216,680**	**–**	**226,680**	**226,680**
2023						
Non-derivative financial liabilities						
Trade payables	220,658	–	–	–	220,658	220,658
Other payables and accruals	155,978	–	–	–	155,978	155,978
Lease liabilities	13,450	9,347	11,872	23,283	57,952	47,671
Borrowings	1,580,090	637,547	326,597	–	2,544,234	2,389,893
Medium term bonds	637	–	–	662,113	662,750	37,494
Loan from the ultimate holding company	80,344	–	–	–	80,344	79,000
Loan from an associate	53,393	–	–	–	53,393	53,000
Loan from non-controlling interests	45,037	–	–	–	45,037	45,013
Loan to a director	19,136	–	–	–	19,136	18,969
Loan from the immediate holding company	5,246	95,335	–	–	100,581	95,113
	2,173,969	742,229	338,469	685,396	3,940,063	3,142,789
Derivative financial liabilities						
Financial guarantees issued (Note)						
Maximum amount guaranteed	224,453	–	–	–	224,453	224,453

Note: The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the directors considered that it was not probable that the borrower of the loan would default the repayment of the loan and therefore no provision for the Group's obligation under the guarantee has been made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

41.6 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 2024 and 2023.

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, borrowings, medium term bonds, loans from related parties, 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:

	2024 **RMB'000**	2023 RMB'000
Trade payables	**205,795**	220,658
Other payables and accruals	**207,802**	275,593
Borrowings	**1,690,569**	2,389,893
Medium term bonds	**40,729**	37,494
Loan from the ultimate holding company	**924,769**	79,000
Loan from fellow subsidiaries	**54,169**	–
Loan from an associate	**27,200**	53,000
Loan from non-controlling interests	**47,342**	45,013
Loan from a director	**–**	18,969
Loan from the immediate holding company	**114,888**	95,113
Less: Cash and cash equivalents	**(20,452)**	(29,270)
Net debt	**3,292,811**	3,185,463
Equity attributable to owners of the parent	**1,294,740**	1,621,200
Capital and net debt	**4,587,551**	4,806,663
Gearing ratio	**72%**	66%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2024 RMB'000	2023 RMB'000
ASSETS AND LIABILITIES		
Non-current assets		
Interests in subsidiaries	**1,024,904**	1,024,904
Current assets		
Due from subsidiaries	**226,797**	220,591
Prepayments	**179**	442
Cash and cash equivalents	**69**	99
	227,045	221,132
Current liabilities		
Other payables and accruals	**2,012**	6,819
Net current assets	**225,033**	214,313
Total assets less current liabilities	**1,249,937**	1,239,217
Non-current liabilities		
Loan from the immediate holding company	**114,888**	95,113
Medium term bonds	**40,729**	37,494
	155,617	132,607
Net assets	**1,094,320**	1,106,610
EQUITY		
Share capital	**221,592**	221,592
Reserves (note)	**872,728**	885,018
Total equity	**1,094,320**	1,106,610

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

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

Note:

The movement of the Company's reserves are 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 2023	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**
Loss for the year	**–**	**–**	**–**	**(13,460)**	**(13,460)**
Translation from functional currency to presentation currency	**–**	**–**	**1,170**	**–**	**1,170**
At 31 December 2024	**934,514**	**39,887**	**28,984**	**(130,657)**	**872,728**

* 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.

43. EVENTS AFTER THE REPORTING PERIOD

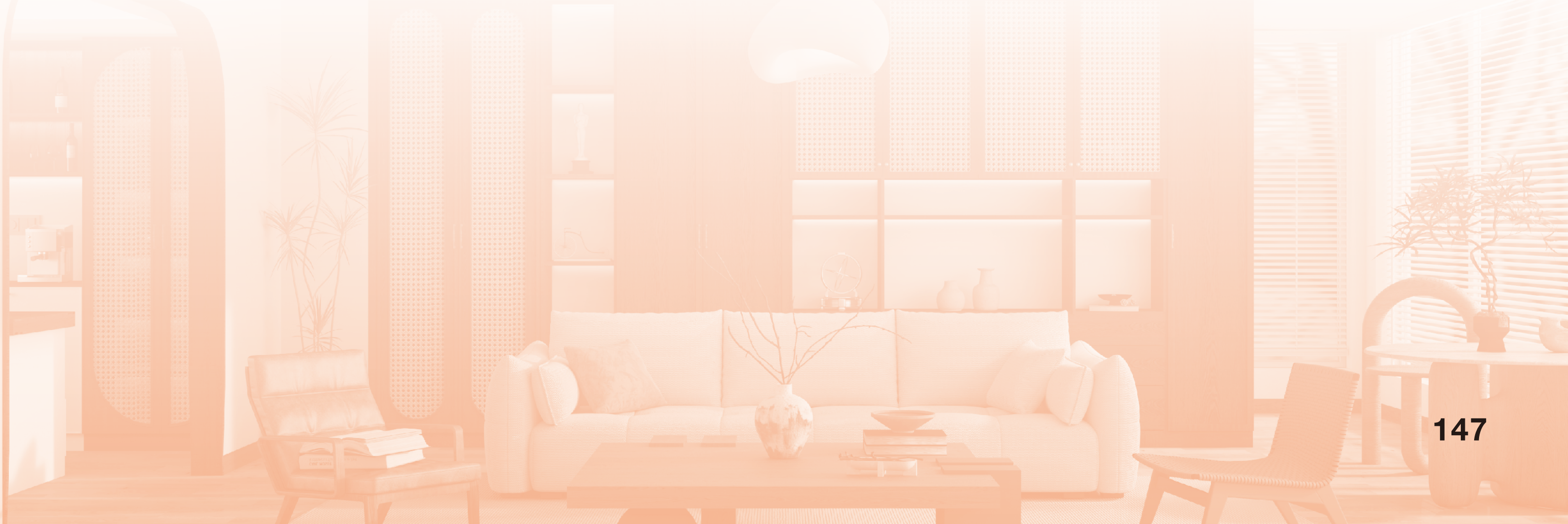
Disposal of 25% of equity interest in Dongma

As described in notes 19, 25 and 27, Yuyuan Real Estate intends to dispose 25% equity interest in Dongma, through public tender on Guangdong United Assets and Equity exchange.

For further details, please refer to the announcement dated 20 February 2025 of the Company.

44. 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				
	2024 RMB'000	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000
REVENUE	**525,607**	827,916	1,461,037	1,267,094	1,283,924
Gross profit	**35,411**	26,117	210,812	264,147	141,426
(LOSS)/PROFIT BEFORE TAX	**(431,573)**	(419,118)	(96,334)	97,844	925,358
Income tax credit/(expense)	**83,267**	33,147	106,974	(24,550)	(297,278)
(LOSS)/PROFIT FOR THE YEAR	**(348,306)**	(385,971)	10,640	73,294	628,080
Attributable to:					
Owners of the parent	**(334,391)**	(381,536)	4,673	63,829	635,767
Non-controlling interests	**(13,915)**	(4,435)	5,967	9,465	(7,687)
	(348,306)	(385,971)	10,640	73,294	628,080

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2024 RMB'000	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000
TOTAL ASSETS	**5,028,073**	5,305,799	5,416,952	5,140,692	4,053,965
TOTAL LIABILITIES	**(3,581,924)**	(3,519,275)	(3,280,704)	(2,912,736)	(1,524,896)
NON-CONTROLLING INTERESTS	**(151,409)**	(165,324)	(123,799)	(119,274)	(111,331)
	1,294,740	1,621,200	2,012,449	2,108,682	2,417,738