皇朝家居

ROYALE HOME HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

2021 ANNUAL REPORT

Stock Code: 1198

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Wu Zhongming
Mr. Wu Dingliang
Ms. Qin You
Mr. Chen Yisheng (appointed on 7 September 2021)
Mr. Liu Zhijun (resigned on 7 September 2021)

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chui See Lai

AUDITOR

Ernst & Young

SOLICITORS

Jeffrey Mak Law Firm

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

1198

INVESTOR RELATIONS

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

I hereby present the annual results of Royale Home Holdings Limited ("Royale Home" or the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2021.

REVIEW OF 2021

During the year under review, the Group's principal business continued to rebound. Although the overall business environment in the People's Republic of China ("PRC") was still affected by the outbreak of sporadic cases of Coronavirus disease ("COVID-19"), daily life in the PRC tended to be normalized thanks to sound and effective measures introduced by the PRC government to prevent and control the COVID-19. The Group capitalised on the opportunities brought about by the orderly recovery of the market and increased marketing efforts to actively expand its home furnishings business and develop its interior decoration materials business. During the year, the Winter Olympic Games was held in Beijing, the Mainland China, which attracted world-wide attention. The Group sponsored the 2021 Beijing Winter Olympic Games following its sponsorship of the 2008 Beijing Olympic Games and the 26th Summer Universiade 2011 in Shenzhen, providing highquality household products for certain venues.

Science City Group became the Group's strategic controlling shareholder in 2019. In the past two years, Science City Group and the Group have conducted extensive cooperation in various aspects to explore development opportunities in various fields, including property investment, finance leasing and industrial fund investment. Leveraging on the abundant capital advantage of Science City Group as a state-owned enterprise and its extensive political and business network, the Group received support from various parties in 2021, which clearly set the future direction of Royale Home and established a sound and stable foundation for its development.

During the year ended 31 December 2021, the Group recorded a year-on-year increase of 5.8% to HK$1,526.5 million in sales. Gross profit margin rebounded to a good level, improving to 20.8% from 11.0% last year. The Group recorded a net profit for the year attributable to owners of the parent of HK$76,897,000, achieving the operational turnaround from the adjusted loss for the year attributable to owners of the parent of HK$18,380,000 before deducting gain on disposal of land parcels in the last year.

In celebration of the Group's 20th anniversary of listing, the Group continues to share its performance results with its shareholders. The Board recommends the payment of final dividend and special dividend of HK1.0 cent per share and HK4.0 cents per share respectively in cash for the year ended 31 December 2021 (2020: HK4.0 cents per share for final dividend and HK6 cents per share for special dividend).

OUTLOOK

In 2022, the Group will continue to deepen its commitments in the market of furniture and household products, while deepening and expending the presence of its home furnishing business. To capitalise on the growth of the furniture market in Mainland China, the Group will support the store expansion plans of its distributors nationwide by strengthening assistance to them in various aspects and enhancing promotion efforts. The Group has entered into strategic development cooperation with certain well-known home furnishing mall operators in Mainland China to arrange for its distributors to open their stores in premium locations of home furnishing mall to increase the exposure of its brands. Apart from continuing to update its current range of complete furnishing solution, sofas and custom-made furniture, the Group is also actively furthering the expansion of its product lines of home furnishings, and developing more interior decoration materials products and household accessories, to establish a one-stop supply platform with branded home furnishing business through the construction of a full product supply chain.

CHAIRMAN'S STATEMENT

In addition to the existing projects from commercial customers, the Group is planning to cooperate with renovation and interior design companies on effectively strengthening the solicitation of more potential customers for home furnishings products at the early stage. In the future, the Group also plans to strengthen its internet marketing and continue to attract more younger user groups through online promotion. After the successful launch of home textile e-commerce business in 2021, the Group is pleased that the new business has started to generate revenue within a short period of time, and expects a continual growth.

The development of commercial and residential projects by a joint venture of the Group with an indirect wholly-owned subsidiary of Ganglong China Property Group Limited ("Ganglong", stock code: 6968.HK) in Zengcheng District, Guangzhou, was conducted as scheduled.

In light of increasingly deepened collaboration with the controlling shareholder, Science City Group, the Group will be presented with more exploration and development of home furnishings, which will help further its core business expansion.

Our motto is "giving back to the society". In early 2022 when the healthcare system in Hong Kong was under tremendous pressure arising from the spread of COVID-19, the Group responded to the Central Government's call to action and donated 24,000 high-quality mattresses within two weeks through rapid deployment of production to help the Hong Kong government build shelter hospitals, so as to curb the further spread of COVID-19. As COVID-19 has not yet completely subsided at present, the Group will continue to contribute to our society in the coming year and do its best to help our society overcome the COVID-19 as soon as possible.

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.

TSE Kam Pang
Chairman

Hong Kong, 31 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDENDS

The Board recommends the payment of final dividend and special dividend of HK1 cent per share and HK4 cents per share respectively in cash for the year ended 31 December 2021 (2020: HK4 cents per share and HK6 cents for final dividend and special dividend respectively). Such final dividend and special dividend will not be subject to any withholding tax in Hong Kong.

DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

Subject to the approval of shareholders of the Company at the forthcoming annual general meeting, the final dividend and special dividend will be distributed on or about Friday, 29 July 2022 to shareholders of the Company whose names appear on the register of members of the Company on Thursday, 7 July 2022. The register of members of the Company will be closed from Monday, 4 July 2022 to Thursday, 7 July 2022, both days inclusive, during which period no share transfer will be effected. In order to qualify for the proposed final dividend and special dividend, all share transfer documents accompanied by the relevant share certificates shall be lodged not later than 4:30 p.m. on Thursday, 30 June 2022 with the Company's share registrar in Hong Kong, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

ANNUAL GENERAL MEETING AND CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 30 May 2022 to Thursday, 2 June 2022, both days inclusive. In order to be eligible to attend and vote at the forthcoming annual general meeting to be held on Monday, 6 June 2022, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 27 May 2022.

FINANCIAL REVIEW

For the year ended 31 December 2021, the Group recorded revenue of HK$1,526.5 million (2020: HK$1,443.5 million), representing an increase of 5.8% from last year. The increase in revenue was due to the increased activities for trading commodities and increased income from hotel operations for epidemic prevention. The Group's overall gross profit margin increased from 11.0% for 2020 to 20.8% for 2021 due to recovery of furniture business. For the furniture business, the gross profit margin increased from 17.6% in 2020 to 37.9% in 2021 was due to partial recovery from the serious impact of the Coronavirus disease ("COVID-19") epidemic in 2020 and operations have resumed normal under the effective control of the epidemic by government of the People's Republic of China ("PRC"), as well as increased sales of high gross profit margin bespoke product line and furniture projects.

Profit for the year was HK$88.3 million (2020: HK$706.1 million), representing a decrease of 87.5%. Profit attributable to owners of the parent for the year was HK$76.9 million (2020: HK$714.8 million), representing a decrease of 89.2%. The significant decrease was a result of the Group recognised the land resumption net income before tax of HK$1,063 million during the financial year 2020.

For the year ended 31 December 2021, selling and distribution expenses increased by 16.4% to approximately HK$97.1 million (2020: HK$83.5 million), which was mainly due to an increase in commission, payroll expenses and pension scheme contribution for increased headcount to cope with increasing sales in furniture business and bespoke product line.

Administrative expenses increased by 30.4% to HK$125.5 million (2020: HK$96.2 million), which was attributable to the increase in wages and salaries and pension scheme contribution for increased headcount in management and property development business and increased investment in research and development activities.

Finance costs during the year increased by 296.9% to HK$123.5 million (2020: HK$31.1 million) as the Group has increased debt for financing the property development project and investment in the financial leasing business.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

With the noticeable positive results of the prevention and control of COVID-19 in Mainland China under the leadership of the Central Government, various industries saw orderly resumption of work and production in 2021, and the economy of Mainland China experienced a strong recovery during the period. Thanks to the rebound of the household product market in Mainland China, the Group also reported continuous improvement in its business performance. In order to seize the growth opportunities in the market, the Group made a number of adjustments to its operation strategy during the year to further expand and optimize its distribution store network and the influence of its brand and promote the diversification of its comprehensive furniture business.

Looking back in 2021, the Group actively expanded the home furnishings business and developed interior decoration materials business. During the year, the Winter Olympic Games was held in Beijing, the Mainland China, which attracted world-wide attention. The Group sponsored the 2021 Beijing Winter Olympic Games following its sponsorship of the 2008 Beijing Olympic Games and the 26th Summer Universiade 2011 in Shenzhen, providing high-quality household products for certain venues.

In the past two years, the Group pursued in-depth cooperation with its controlling shareholder, Science City Group, in various aspects. Besides furthering the expansion of home furnishings business, the Group undertook a number of investment and acquisition projects during the year, thereby increasing its finance costs.

Management system reform

With diversified expansion in different business areas, the Group manages its business operations through various independent departments. The Group has a solid and effective internal management system to help senior management and managers of various business departments understand their business performance and their own weaknesses in real time before making appropriate and effective performance management decisions in due course. In order to facilitate the Group's accelerated strategic development in the field of smart new retail, the Group will continue to deepen the reform of its management system, introduce young management and comprehensively strengthen the construction of a technology innovation platform. The Group has implemented targeted incentive policies to support the recruitment and retention of talents, and to stimulate and unleash the enthusiasm, initiative and creativity of its employees, so as to continuously inject growth momentum into the Group.

Brand management

Adhering to its multi-brand strategy, the Group has a number of best-selling brands in Mainland China, including 皇朝傢俬, 皇朝沙發, 皇朝定制+, 皇朝軟床 and 皇朝整裝. At the same time, the Asian celebrity Ms. Lin Chi Ling will continue be the spokesperson of the Group in line with the Group's "consumer-oriented" strategy. To capitalize on the rebound of the furniture market in Mainland China, we continued to expand its brand influence.

Inventory and prepayments, deposits and other receivables

The Group's inventory decreased by 4.4% to approximately HK$254.1 million as at 31 December 2021 (2020: HK$265.9 million), which was mainly due to the Group implements tight control on inventory level of finished goods. Prepayments, deposits and other receivables decreased by 73.3% to HK$472.5 million (2020: HK$1,769.9 million), which was mainly due to receipt of a portion of land resumption proceeds from the People's Government of Shitan Town Zengcheng District of Guangzhou City.

Working capital

The Group had net current assets of HK$714.8 million at the end of the year (2020: net current assets of HK$1,165.6 million). The Group will continue to take initiatives to manage its cashflow and capital commitments.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

The Group had cash and cash equivalents amounted to HK$146.5 million as at 31 December 2021 (2020: HK$236.9 million). As at 31 December 2021, the Group's current ratio (current assets to current liabilities) decreased to 1.37 (2020: 2.02) and the net current assets amounted to HK$714.8 million (2020: net current assets of HK$1,165.6 million). As at 31 December 2021, the interest-bearing bank and other borrowings amounted to HK$2,341.1 million (2020: HK$341.3 million), loan from the immediate holding company, loan from non-controlling interests, loan from a director and medium term bonds are total amount of HK$268.7 million (2020: loan from an associate, loan from the ultimate holding company, loan from non-controlling interests, loan from a director and medium term bonds are total amount of HK$505.8 million). Approximately 98.2% of the Group's cash and bank balances and time deposits were denominated in Renminbi with the remaining balance were denominated in Hong Kong Dollars. The exposure to the foreign exchange rate fluctuation during the year has been minimal since both of our operating cash inflow and outflow are predominantly in Renminbi. Currently, the Group does not maintain any hedging policy with respect to these foreign currency exposures.

Capital structure

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

Gearing ratio

The gearing ratio is defined as net debt divided by capital plus net debt was 51% as at 31 December 2021 (2020: 24%).

Pledge of assets

As at 31 December 2021, the Group pledged (i) a building and a right-of-use asset which had aggregate carrying values of approximately HK$646,785,000 (2020: HK$604,327,000); (ii) time deposits amounting to HK$735,561,000 (2020: Nil); (iii) inventories amounting to HK$27,244,000 (2020: Nil); (iv) certain machinery amounting to HK$111,671,000 (2020: Nil); (v) an investment property amounting to HK$154,076,000 (2020: Nil) to secured certain bank and other borrowings granted to the Group; and (vi) 40% equity interest in an associate of approximately HK$936,018,000 (2020: Nil) to secure general banking facilities granted to the associate.

Significant investments, acquisitions and disposals

On 10 December 2021, Royal Finance Lease Limited (皇朝融資租賃有限公司) (formerly known as Comfort Sofa Limited (舒適梳化有限公司)), an indirect wholly-owned subsidiary of the Company, entered into a capital injection agreement (the "Capital Injection Agreement") with China Finance Leasing Limited ("China Finance Lease"), Science City and Science City (Guangzhou) Finance and Leasing Co., Limited* (科學城(廣州)融資租賃有限公司) ("SC Finance and Lease"). Pursuant to the Capital Injection Agreement, Science City has agreed to make a pro-rata capital injection of RMB300 million into SC Finance and Lease in cash in proportion to its shareholding percentage in SC Finance and Lease. China Finance Leasing has agreed to waive its pre-emptive rights in making capital injection in proportion to its shareholding percentage in SC Finance and Lease in connection with the capital injection (the "Waived Capital Injection"). Royal Finance Lease Limited has agreed to make the Capital Injection of RMB100 million into SC Finance and Lease in cash, comprising a pro-rata capital injection of RMB90 million in proportion to its shareholding percentage in SC Finance and Lease before the capital injection and the Waived Capital Injection of RMB10 million.

Upon completion of the capital injection, SC Finance and Lease's equity interest will be held as to 75% by Science City, 23.5% by Royal Finance Lease Limited and 1.5% by China Finance Leasing, and the total registered capital of SC Finance and Lease will be increased from RMB600 million to RMB1,000 million.

* *For identification purposes only*

MANAGEMENT DISCUSSION AND ANALYSIS

Particulars of material investments in associates held by the Group as at 31 December 2021 are set out as follows:

Name	Principal activity	Percentage of equity interest held	Carrying amount as at 31 December 2021 HK$'000	Carrying amount as at 31 December 2020 HK$'000
Guangzhou Fu Yue Design Company Limited ("Fuyue Design")	Design services	50%	**92,095**	92,025
Sky Walk Limited ("Sky Walk")	Investment	42.42%	**144,470**	147,858
Guangzhou Gangke Real Estate Co., Ltd. ("Gangke")	Real Estate	40%	**936,018**	366,048
Science City (Guangzhou) Financial Leasing Co., Ltd. ("Financial Leasing")	Financial Leasing	23.5% (2020: 20%)	**311,541**	88,396

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

Contingent liabilities

Certain subsidiaries of the Group are currently defendant in a lawsuit brought by an independent third-party lessee alleging that a warehouse built on the leased land by the lessee was tore down by the subsidiaries without consent of termination of the lease contract by the lessee. The total compensation claimed amounted to HK$166,225,000. As at 31 December 2021, the bank deposit of HK$83,113,000 has been frozen following a court order.

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

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT

In 2022, the Group will continue to deepen its commitments in the market of furniture and household products, while deepening and expending the presence of its home furnishing business. To capitalise on the growth of the furniture market in Mainland China, the Group will support the store expansion plans of its distributors nationwide by strengthening assistance to them in various aspects and enhancing promotion efforts. The Group has entered into strategic development cooperation with certain well-known home furnishing mall operators in Mainland China to arrange for its distributors to open their stores in premium locations of home furnishing mall to increase the exposure of its brands. Apart from continuing to update its current range of complete furnishing solution, sofas and custom-made furniture, the Group is also actively furthering the expansion of its product lines of home furnishings, and developing more interior decoration materials products and household accessories, to establish a one-stop supply platform with branded home furnishing business through the construction of a full product supply chain.

In addition to the existing projects from commercial customers, the Group is planning to cooperate with renovation and interior design companies on effectively strengthening the solicitation of more potential customers for home furnishings products at the early stage. In the future, the Group also plans to strengthen its internet marketing and continue to attract more younger user groups through online promotion. After the successful launch of home textile e-commerce business in 2021, the Group is pleased that the new business has started to generate revenue within a short period of time, and expects a continual growth.

The development of commercial and residential projects by a joint venture of the Group with an indirect wholly-owned subsidiary of Ganglong China Property Group Limited ("Ganglong", stock code: 6968.HK) in Zengcheng District, Guangzhou, was conducted as scheduled.

In light of increasingly deepened collaboration with the controlling shareholder, Science City Group, the Group will be presented with more exploration and development of home furnishings, which will help further its core business expansion.

CORPORATE GOVERNANCE REPORT

A. CORPORATE GOVERNANCE PRACTICES

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

The Corporate Governance Code (the "CG Code") is set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). For the financial year of the Company ended 31 December 2021 (the "Year") under review, save as disclosed in this Corporate Governance Report, the Company has complied with the applicable code provisions (the "Code Provisions") and principles under the CG Code as set out in Appendix 14 to the Listing Rules on the Stock Exchange.

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

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

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

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

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

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

B. DIRECTORS' SECURITIES TRANSACTIONS

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

C. THE BOARD

Roles and responsibilities

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

Board composition

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

*Executive directors (the "**Executive Directors**"):*
Mr. Tse Kam Pang *(Chairman)*
Mr. Yang Jun *(Chief Executive Officer)*

*Non-Executive Directors (the "**Non-executive Directors**"):*
Mr. Wu Zhongming
Mr. Wu Dingliang
Ms. Qin You
Mr. Chen Yisheng (appointed on 7 September 2021)
Mr. Liu Zhijun (resigned on 7 September 2021)

*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 2021, 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 23 to 25 of this annual report.

Relationship among Directors

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

Chairman and Chief Executive Officer

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

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

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

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

CORPORATE GOVERNANCE REPORT

Board meeting and procedure

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

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

	General meeting	Board meetings	Audit Committee meetings	Remuneration Committee meeting	Nomination Committee meeting
Executive Directors					
Mr. Tse Kam Pang	1/1	14/14			
Mr. Yang Jun	1/1	14/14			
Non-executive Directors					
Mr. Wu Zhongming	1/1	14/14			
Mr. Wu Dingliang	1/1	14/14			
Ms. Qin You	1/1	14/14			
Mr. Chen Yisheng (appointed on 7 September 2021)	0/0	5/5			
Mr. Liu Zhijun (resigned on 7 September 2021)	1/1	9/9			
Independent Non-executive Directors					
Mr. Lau Chi Kit	1/1	14/14	2/2	1/1	1/1
Mr. Yue Man Yiu Matthew	1/1	14/14	2/2	1/1	1/1
Mr. Chan Wing Tak Kevin	1/1	14/14	2/2	1/1	1/1

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

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

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

CORPORATE GOVERNANCE REPORT

Code provision A.4.1 provides that Non-executive Directors should be appointed for a specific term and subject to re-election. Mr. Lau Chi Kit and Mr. Chan Wing Tak Kevin are the Independent Non-executive Directors and have been reappointed with fixed term of three years with the Company on 1 June 2020 respectively. Mr. Yue Man Yiu Matthew, the Independent Non-executive Director, has been re-appointed with fixed term of three years with the Company on 31 May 2021. Mr. Wu Zhongming and Ms. Qin You are the Non-executive Directors and have been appointed with fixed term of three years with the Company on 1 June 2020 respectively. Mr. Wu Dingliang, the Non-executive Director, has been re-appointed with fixed term of three years with the Company on 31 May 2021, Mr. Chen Yisheng, the Non-executive Director, has been appointed with fixed term of three years with the Company on 7 September 2021. However, they are eligible for re-appointment and subject to retirement by rotation at least once every three years in accordance with the articles of association of the Company. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and it still considers the Independent Non-executive Directors to be independent.

Skills, knowledge, experience and attributes of Directors

All Directors served in office during the Year. Every Director commits to give sufficient time and attention to the affairs of the Company. The Directors also demonstrate their understanding and commit to standards of corporate governance. The Executive Directors bring their perspectives to the Board through 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 Chairman on a regular basis to report business performance and operational and functional issues of the Group. This will allow the Group's management to allocate resources more efficiently for its decision-making and facilitate its daily operations.

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

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

CORPORATE GOVERNANCE REPORT

Induction and training

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

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

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

	Reading regulatory updates and directors' duties	**Reading materials relating to business and industry**	**Attending professional briefings/seminars/ conferences relevant to directors' duties, regulatory updates and business**
Executive Directors			
Mr. Tse Kam Pang	✓	✓	✓
Mr. Yang Jun	✓	✓	✓
Non-Executive Directors			
Mr. Wu Zhongming	✓	✓	✓
Mr. Wu Dingliang	✓	✓	✓
Ms. Qin You	✓	✓	✓
Mr. Chen Yisheng (appointed on 7 September 2021)	✓	✓	✓
Mr. Liu Zhijun (resigned on 7 September 2021)	✓	✓	✓
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.

Company secretary

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

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

D. BOARD COMMITTEES

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

Audit Committee

As at 31 December 2021, the audit committee of the Board (the "Audit Committee") consisted of three Independent Non-executive Directors, namely Mr. Yue Man Yiu Matthew, who is the chairman of the Audit Committee, Mr. Lau Chi Kit and Mr. Chan Wing Tak Kevin. The members of the Audit Committee meet regularly, normally twice a year, with the senior financial management and meet with external auditor for final result reviews.

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

CORPORATE GOVERNANCE REPORT

The main duties of the Audit Committee include the following:

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

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

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

There were two meetings of the Audit Committee held in 2021. 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 2020 and the interim results for the six months ended 30 June 2021. It evaluated and made recommendations to the Board about the appropriateness of accounting policies and practices, areas of judgment, compliance with Hong Kong Financial Reporting Standards and other legal requirements, and the results of external audit. It reviewed interim and annual financial statements of the Company, reported its work and findings to the Board and made recommendations on specific actions or decision for the Board to consider after each Audit Committee's meeting. Minutes of the Audit Committee's meetings were made available to all Directors for inspection.

(b) The Audit Committee also managed the relationship with the external auditor on behalf of the Board. It made recommendation to the Board on the appointment of the external auditor and the relevant terms of engagement, including remuneration. The Audit Committee was required to review the integrity, independence and objectivity of the external auditor. Also, it examined the external auditor' independence including its engagement of non-audit services. Based on the review of the Audit Committee, the Board was satisfied that the external auditor was independent. During the year ended 31 December 2021, there was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

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

Remuneration Committee

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

There was one meeting of the Remuneration Committee held in 2021. 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 2021 is set out in the Note 8 to this annual report.

CORPORATE GOVERNANCE REPORT

Roles and functions

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

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

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

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

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

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

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

Principles of remuneration policy

The principles of the Group's remuneration policy:

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

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

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

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

CORPORATE GOVERNANCE REPORT

Remuneration structure

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

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

(b) competitive benefit programs; and

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

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

Nomination Committee

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

There was one meeting of Nomination Committee meeting held in 2021. 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.

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

Board diversity policy

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

E. ACCOUNTABILITY AND AUDIT

Directors' responsibility for the accounts

The Directors acknowledge their responsibility for the preparation of the accounts of the Group and ensure that the accounts are in accordance with statutory requirements and applicable accounting standards. The accounts are prepared on a going concern basis, the members of the Board have selected appropriate accounting policies and apart from those new and amended accounting policies disclosed in the notes to the accounts during the year ended 31 December 2021, have applied consistently with previous financial periods. The statement of our auditor about their responsibility on the accounts is included in the Independent Auditor's Report. For the annual reports and accounts, the Company's finance department is responsible for clearing them with the external auditor and then the Audit Committee. In addition, all new accounting standards and requirements adopted by the Group have been discussed and approved by the Audit Committee.

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

The statement of the external auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 39 to 43 of this annual report.

External auditor's remuneration

The Group's independent external auditor is Ernst & Young, Certified Public Accountants. The Company have not changed in its external auditor in any of the preceding three years. Prior to the commencement of the audit of the Group's 2021 financial statements, for the year ended 31 December 2021 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 2021, the remuneration paid or payable to the external auditor for audit services and non-audit services amounted to HK$2,220,000 (2020: HK$2,140,000) and HK$1,873,000 (2020: HK$2,060,000), respectively. Non-audit services include tax consultancy services amounted to HK$243,000 (2020: HK$200,000), review of financial statements services amounted to HK$830,000 (2020: HK$560,000) and agreed-upon procedures services amounted to HK$800,000 (2020: HK$1,300,000).

Risk management and internal controls

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

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

The Board, through the internal audit department and the Audit Committee, has conducted a review of the effectiveness of the Group's internal control system for the year ended 31 December 2021 covering all material financial, operational and compliance controls and risk management functions, and is satisfied that such system are effective and adequate.

F. COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

Constructive use of AGMs

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

The Chairman and a majority of the other Directors along with key executives and the external auditor attended the 2021 AGM and addressed concerns raised by a number of Shareholders about the resolutions being proposed and the Company's business. The Directors in attendance included those who were chairing the Audit Committee, the Nomination Committee and the Remuneration Committee on the date of the meeting.

Shareholders' rights

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

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

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

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

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

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

(c) *Enquiries to the Board*

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

CORPORATE GOVERNANCE REPORT

G. DIVIDEND POLICY

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

H. INVESTOR RELATIONS

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

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

MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. TSE Kam Pang ("Mr. Tse"), aged 67, is the Chairman of the Company. Prior to the founding of the Group in 1997, he previously held the position of the Deputy Managing Director in a public listed company in Hong Kong. He has over 30 years of experience in the international trade and China trade business. He has been appointed as a Director of subsidiaries of the Company in China and Hong Kong. He is a vice chairman of Hong Kong Furniture Association. Mr. Tse is the sole director of Crisana, Charming Future and Leading Star, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr. Tse has been appointed as the chairman of the board and a non-executive director of Ace Eight Acquisition Corporation on 10 February 2022.

Mr. YANG Jun ("Mr. Yang"), aged 50, graduated from the Hubei Xianning Finance and Taxation Accounting School Finance in 1991, and graduated from Zhongnan University of Economics and Law in 2001, majoring in accounting. Mr. Yang is a qualified accountant and has over 28 years of working experience in accounting and corporate finance. Mr. Yang has been the deputy general manager of the financial asset management department of Science City Group since January 2018. Mr. Yang has been appointed as a non-executive Director on 29 August 2019. He has been re-designated from a non-executive Director to an executive Director and Chief Executive Officer with effect from 11 October 2019. Mr. Yang holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Non-Executive Directors

Mr. WU Zhongming ("Mr. Wu"), aged 39, 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 a employee director of Science City Group since March 2018. Mr. Wu has been appointed as a non-executive Director of the Company since 29 August 2019. He has been an assistant to the general manager of Science City Group since August 2020. He has also served as a member of the Party Committee of Science City Group since January 2021. Mr. Wu holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. WU Dingliang ("Mr. Wu"), aged 57, graduated from Sichuan Yongchuan Finance and Trade Cadre School in 1981 with a major in accounting, and graduated through part-time education from Jiangxi University of Finance and Economics (formerly known as Jiangxi College of Finance and Economics) in 1987 with a major in accounting. He is a non-practicing member of Chinese Institute of Certified Public Accountants and has over 30 years of working experience in accounting and finance. Mr. Wu has been general manager of the planning and finance department of Science City Group since 2018. Mr. Wu has been appointed as a non-executive Director of the Company since 11 October 2019. Mr. Wu holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Ms. QIN You ("Ms. Qin"), aged 43, obtained the degree of bachelor of laws in international economic laws from the Zhongnan University of Economics and Law in 1999, and obtained the degree of master of laws in economic laws in Jinan University in 2004. Ms. Qin is a qualified corporate legal counsel and has over 20 years of working experience in the corporate legal field. Ms. Qin has been the general manager of the legal and risk control department of Science City Group since October 2019. Ms. Qin has been appointed as a non-executive Director of the Company since 29 August 2019. Ms. Qin holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

MANAGEMENT PROFILE

Mr. CHEN Yisheng ("Mr. Chen"), aged 46, is currently the general manager of the financial planning department of Science City (Guangzhou) Investment Group Co., Ltd.* (科學城（廣州）投資集團有限公司) ("Science City"), a controlling shareholder of the Company. Mr. Chen was the deputy general manager of the financial planning department of Science City from 2018 to 2020. He worked at Guangzhou Hongkang Real Estate Co., Ltd.* (廣州宏康房地產有限公司) from 2010 to 2018, with last position as finance manager designated by Guangzhou Development Zone Construction and Development Group co., Ltd.* (廣州開發區建設發展集團有限公司). From 2009 to 2010, Mr. Chen worked with Science City Exhibition Centre Co., Ltd.* (科學城會展中心有限公司) as a deputy finance manager; and from 1997 to 2009, he was a deputy director of Guangzhou Zhengkai Certified Public Accountants Co., Ltd.* (廣州市正開會計師事務所有限公司). Mr. Chen holds a bachelor's degree in economics from Sun Yat-sen University in the People's Republic of China (the "PRC"). He also holds the qualification of intermediate accountant in the PRC. Mr. Chen has been appointed as a non-executive Director of the Company since 7 September 2021. Mr. Chen holds positions within the Science City Group, which has an interest in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Independent Non-executive Directors

Mr. LAU Chi Kit ("Mr. Lau"), aged 77, retired from The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in December 2000 after more than 35 years of service. Among the major positions in HSBC, he was the assistant general manager and head of Personal Banking Hong Kong and assistant general manager and head of Strategic Implementation, Asia-Pacific Region. He is a fellow of the Hong Kong Institute of Bankers ("Institute"). He was the chairman of the Institute's Executive Committee (from January 1999 to December 2000) and is currently the honorary advisor of the Institute's Executive Committee. He served as a member on a number of committees appointed by the Government of the Hong Kong Special Administration Region, including the Advisory Council on the Environment (from October 1998 to December 2001), the Advisory Committee on Human Resources Development in the Financial Services Sector (from June 2000 to May 2001), the Corruption Prevention Advisory Committee of the Independent Commission Against Corruption (from January 2000 to December 2003), the Environment and Conservation Fund Committee (from August 2000 to October 2006), the Innovation and Technology Fund (Environment) Projects Vetting Committee (from January 2000 to December 2004) and the Law Reform Commission's Privacy Sub-committee (from February 1990 to March 2006). He also served as chairman of the Business Environment Council Limited (from September 1998 to December 2001). Currently, he is an executive director of Chinlink International Holdings Limited (stock code: 997), an independent non-executive director of Leoch International Technology Limited (stock code: 842) and Hin Sang Group (International) Holding Company Limited (stock code: 6893). Mr. Lau has been appointed as an independent non-executive Director of the Company since 6 September 2011. Mr. Lau has resigned as an independent non-executive director of Century Sunshine Group Holdings Limited (stock code: 509) with effect from 30 June 2021, which being a listed public company in Hong Kong.

Mr. YUE Man Yiu Matthew ("Mr. Yue"), aged 60, has been the chief financial officer of Ko Shi Wai Holdings Limited since September 2009. He has been a director of China-Link Capital Management Limited since September 2009 and was the chief financial officer of the same firm from August 2005 to August 2009. He is currently an independent non-executive director of a Hong Kong listed company, namely, Classified Group (Holdings) Limited (Stock Code: 8232). He graduated from the Chinese University of Hong Kong with a bachelor degree in business administration in 1984. He is a fellow of the Association of Chartered Certified Accountants, a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. He has extensive experience in financial control, project analysis and management functions and has the related financial expertise. Mr. Yue has been appointed as an independent non-executive Director of the Company since 17 November 2011. During the last three years, Mr. Yue was an independent non-executive director of Asia Cassava Resources Holdings Limited (Stock Code: 841) and China Suntien Green Energy Corporation Limited (Stock Code: 956), all being listed public companies in Hong Kong.

* *For identification purposes only*

MANAGEMENT PROFILE

Mr. CHAN Wing Tak Kevin ("Mr. Chan"), aged 56, 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 member 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. From 22 October 2021 to 21 October 2026, he is a member of the Finance subsector of the Sixth Election Committee of the Hong Kong Special Administrative Region. Mr. Chan has been appointed as an independent non-executive director of China Communications Construction Company Limited (stock code: 1800), a listed public company in Hong Kong, with effect from 25 February 2022. Mr. Chan has been appointed as an independent non-executive Director of the Company since 5 November 2019.

SENIOR MANAGEMENT

Mr. CHAN Wing Kit ("Mr. Chan"), aged 50, was appointed as Chief Financial Officer on 1 November 2019. He holds a bachelor of commerce degree from Monash University in Australia. He has over twenty years of business and financial experience in overseas and in China. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of CPA Australia. Mr. Chan was the executive director from March 2016 to August 2019. Prior to joining the Group in October 2001, he worked as an auditor with Nelson Wheeler and Ernst & Young. He was also the company secretary and financial controller of the Company from October 2001 to May 2011. Mr. Chan is also the independent non-executive director of Zhi Sheng Group Holdings Limited (stock code: 8370), a company whose shares are listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited since 17 December 2016.

Mr. CHEN Hao ("Mr. Chen"), aged 51, was appointed as Director of subsidiary of the Company in China. He is responsible for the day-to-day management, administration and manufacturing operation of the Company's major subsidiaries in China. He has extensive experience in enterprise management mainly focusing in manufacturing. He joined the Group in 2000.

Mr. CHUI See Lai ("Mr. Chui"), aged 42, 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 2021, 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 2021 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 profit for the year ended 31 December 2021 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 44 to 127.

The Board recommended the payment of a final dividend of HK1 cent per share (2020: HK4 cents per share) and a special dividend of HK4 cents per share (2020: HK6 cents per share) for the financial year.

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

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 128. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

REPORT OF THE DIRECTORS

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 30 and 31 to the financial statements.

PRE-EMPTIVE RIGHTS

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

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

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

References are made to the (i) the circular of the Company dated 8 July 2019; (ii) the 2019 annual report of the Company published on 28 April 2020; (iii) the 2020 interim report of the Company published on 9 September 2020; (iv) the 2020 annual report of the Company published on 28 April 2021; and (v) the 2021 interim report of the Company published on 29 September 2021. 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 (HK$ million)	Revised use of proceeds (HK$ million)	Unutilised net proceeds as at 1 January 2021 (HK$ million)	Net proceeds utilised during the year ended 31 December 2021 (HK$ million)	Amount utilised up to 31 December 2021 (HK$ million)	Unutilised proceeds as at 31 December 2021 (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	115.0	68.0	83.0	47.0	by 31 December 2022 (Note)
Imported machinery for new production facilities	80.0	80.0	60.0	16.5	36.5	43.5	by 31 December 2022 (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	175.0	84.5	349.7	90.5	

Note: As disclosed in the 2021 Interim Report, due to the outbreak of COVID-19, the Group's plan in relation to the construction of new production facilities and imported machinery for new production facilities had been delayed. The part of the actual net proceeds which were expected to be utilised by 1 August 2021 was not fully utilised in view of the delayed progress. The Board considers that it is appropriate to extend the expected timeline for the application of such unutilised proceeds to 31 December 2022.

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 41 and note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company's reserves available for distribution, calculated in accordance with the provision of the Companies Law of the Cayman Islands, amounted to HK$1,170,151,000.

CHARITABLE CONTRIBUTIONS

During the Year, the Group did not make any charitable contributions (2020: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for approximately 43% of the total sales for the year and sales to the largest customer included therein amounted to 41%. Purchases from the Group's five largest suppliers accounted for approximately 45% of the total purchase for the Year and purchase from the Group's largest supplier included therein amounted to 15%.

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.

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 2021 or subsisted at the end of the year.

REPORT OF THE DIRECTORS

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 40 to the financial statements.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:
Mr. Tse Kam Pang *(Chairman)*
Mr. Yang Jun *(Chief Executive Director)*

Non-Executive Directors:
Mr. Wu Zhongming
Mr. Wu Dingliang
Ms. Qin You
Mr. Chen Yisheng (appointed on 7 September 2021)
Mr. Liu Zhijun (resigned on 7 September 2021)

REPORT OF THE DIRECTORS

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

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

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Group are set out on pages 23 to 25 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REMUNERATION

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

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 2021, which provides appropriate cover for the Directors. During the year ended 31 December 2021, no claims were made against the Directors.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 37 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 2021.

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

As at 31 December 2021, the interests and short positions of the Directors and Chief Executive Officer in the shares and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in shares and underlying shares of the Company:

		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")	(b)	282,948,047	427,580,269	1,234,862,964	1,945,391,280	74.86
Mr. Yue Man Yue Matthew		3,000,000	–	–	3,000,000	0.12

Notes:

(a) On 24 May 2019, SCHK, Mr. Tse, Leading Star Global Limited ("Leading Star"), Crisana International Inc. ("Crisana") and Charming Future Holdings Limited ("Charming Future") entered into an acting in concert arrangement. SCHK, Mr. Tse, Leading Star, Crisana and Charming Future are parties acting in concert (having the meaning ascribed to it under the Takeovers Code). As such, SCHK, Mr. Tse, Leading Star (being wholly owned by Mr. Tse), Crisana (being wholly owned by Mr. Tse) and Charming Future (being wholly owned by Mr. Tse) are deemed to be interested in 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 2021.

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 2021, none of the Directors had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

INTEREST IN COMPETING BUSINESS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in the share option scheme disclosures in note 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

No share option was outstanding as at 31 December 2021 (2020: Nil).

There were no options granted during the year (2020: Nil).

OTHER MATTERS RELATING TO THE BOARD

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2021, the following persons who were interested in 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions:

		Number of Shares and underlying Shares held, capacity and nature of interest				**Percentage of the Company's issued share capital**
Name	Notes	**Directly beneficially owned**	**Interest held through controlled corporation**	**Interest held jointly with other persons** (Note e)	**Total**	(Note f)
Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團有限公司)	(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

REPORT OF THE DIRECTORS

Notes:

(a) SCHK is wholly owned by Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團有限公司), a company established in the PRC with limited liability on 21 August 1984. As such, Science City (Guangzhou) Investment Group Co., Ltd.* (科學城(廣州)投資集團有限公司) was deemed to be interested in 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 2021.

Save as disclosed above, as at 31 December 2021, no person, other than the Director and Chief Executive Officer of the Company, whose interests are set out in the section headed "Directors' and Chief Executive Officer's interests and short positions in shares, underlying shares and debentures" above, had any interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

PUBLIC FLOAT

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

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

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

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

* *For identification purposes only*

REPORT OF THE DIRECTORS

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

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 not subject to the provisions of Chapter 17 of the Listing Rules and is a discretionary scheme of the Company.

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 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

The total number of Shares under the Performance Share Award Plan will not exceed 5% of the total issued Shares on the Adoption Date. 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.

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 a total number of 108,966,000 Shares on the market to hold 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 Shares held by the Trustee immediately after the purchase Shares represents approximately 4.2% to the total number of Shares in issue as at the date of this annual report.

As at the date of this annual report, no Shares have been awarded to any Selected Persons pursuant to the Performance Share Award Plan. 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.

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

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2021 was 1,328 (2020: 1,313). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2021, there were no outstanding share options. In the meantime, the Group adopted the Performance Share Award Plan on 14 May 2021. At 31 December 2021, no Shares have been awarded to any Selected Persons pursuant to the Performance Share Award Plan.

Details of the remuneration of the Directors are set out in note 8 to the financial statements. The emoluments paid to the senior management (excluding the Directors) during the year ended 31 December 2021 were within the following bands:

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

REPORT OF THE DIRECTORS

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULES 13.20 AND 13.22 OF CHAPTER 13 OF THE LISTING RULES

In accordance with the requirements of Rules 13.20 and 13.22 of Chapter 13 of the Listing Rules, the following were the details of advances to an entity and/or financial assistances to affiliated company of the Group and exceed 8% of the Group's total assets as at 31 December 2021 recorded in the audited financial statements of the Group for the year ended 31 December 2021 pursuant to Rules 13.13 and 13.16 thereof.

Pursuant to a letter of confirmation dated 5 January 2022 entered into between Guangzhou Wanlibao Investment Co., Ltd.* (廣州萬利寶投資有限公司) ("Wanlibao"), a wholly-owned subsidiary of the Company and Guangzhou Gangke Real Estate Co., Ltd.* (廣州港科置業有限公司) ("Gangke"), a joint venture the equity interest in which is held as to 40% and 60% by Wanlibao and Jiangsu Ganglong Huayang Real Estate Co., Ltd.* (江蘇港龍華揚置業有限公司), respectively. 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 the 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 Agreement). The Shareholder's Loan is repayable on demand and is not secured by any collateral, with an interest rate of 8% per annum. The Shareholders' Loan is a revolving loan under which more than one drawdown may be made.

A pledge over 40% of the equity interest in Gangke held by Wanlibao (the "Pledge") 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) (the "Lender") 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. For further details please refer to the announcement of the Company dated 29 September 2021.

As at 31 December 2021, the outstanding principal amount under the Shareholders' Loan amounted to HK$817.4 million (i.e. approximately RMB666.9 million). The Pledge given in respect of the bank loan granted to Gangke amounted to HK$392.2 million (i.e. approximately RMB320.0 million). The aggregate amount of the Shareholders' Loan provided to and the Pledge provided in favour of Gangke by Wanlibao amounted to HK$1,209.7 million (i.e. approximately RMB986.9 million), representing 19.2% of the consolidated total assets of the Group of HK$6,298.9 million as at 31 December 2021.

A statement of financial position of the affiliated company as at 31 December 2021 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

	Statement of financial position HK$'000
Current assets	5,469,569
Non-current assets	33,638
Current liabilities	(2,488,433)
Non-current liabilities	(674,729)
Net assets	2,340,045

The attributable interest of the Group in this affiliated company as at 31 December 2021 are set out in note 18 to the consolidated financial statements.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions and continuing connected transactions undertaken by the Group during the year are set out in note 37 to the financial statements.

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

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

During the year, related party transactions are disclosed in note 37 to the consolidated financial statements. Save as disclosed above and in respect of which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with, other related party transactions disclosed in note 37 to the consolidated financial statements do not constitute connected transactions or continuing connected transaction which are subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 10 to 22.

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 2021 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.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACTS

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

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2021 have been audited by Ernst & Young, who will retire, and being eligible and offer themselves for re-appointment at the AGM.

ON BEHALF OF THE BOARD
TSE Kam Pang
Chairman
Hong Kong

31 March 2022

INDEPENDENT AUDITOR'S REPORT

EY 安永

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

OPINION

We have audited the consolidated financial statements of Royale Home Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 44 to 127, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, 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.

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Inventory provision	
The Group manufactures and sells furniture and is subject to changing consumer demands. As at 31 December 2021, the gross amount of inventories and the inventory provision balance amounted to approximately HK$315 million and HK$61 million. Significant management judgement was required to assess whether the carrying amount of these inventories was higher than the net realisable value. Specific factors that management considered in the estimation of the inventories provision included the aging of the balances, type of furniture, forecasted inventory usage or sales and any other available information. The accounting policy, the estimation uncertainty and the details of inventories provision were disclosed in notes 2.4, 3 and 19 to the consolidated financial statements.	We assessed the process, methods and assumptions used to develop the provision for slow-moving, excess or obsolete items and tested the aging of inventories, on a sample basis. We evaluated the inventory's net realisable value on a sample basis, by comparing the forecast selling price to existing contracts and recent market prices. We also observed the condition of inventories in stock-take to inspect obsolete and damaged inventories. We reviewed and assessed the adequacy of the related disclosures in the consolidated financial statements.
Fair value of investment properties	
The Group chooses the fair value model to subsequently measure all investment properties. As at 31 December 2021, the carrying amount of investment properties was HK$590 million and the fair value gain on investment properties recognised during the year was HK$89.5 million. The Group engaged an external valuation expert to perform valuation of the Group's investment properties to estimate the fair values as at 31 December 2021. The fair values of investment properties were determined principally using the discounted cash flow method by estimating the rental income derived from the existing tenancies with due provisions for the reversionary income potential of the properties. The determination of application of the valuation technique, future rental income and rental rate involved significant management judgement and estimates. The accounting policy, the estimation uncertainty and the details of fair value of investment properties were disclosed in notes 2.4, 3, 5 and 14 to the consolidated financial statements.	We assessed the objectivity, independence and competence of the external valuation expert employed by the Company. We assessed the related data used by the external valuation expert as inputs of the valuations by comparing to the historical data and market index. We also involved our internal valuation specialists to assist us in evaluating the valuation methodology and the underlying assumptions which principally included the market unit rental rate and discount rate. We assessed the adequacy of the disclosures of the valuations of investment properties in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

31 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
REVENUE	5	**1,526,506**	1,443,490
Cost of sales		**(1,208,280)**	(1,284,488)
Gross profit		**318,226**	159,002
Other income and gains	5	**192,562**	1,102,889
Selling and distribution expenses		**(97,128)**	(83,472)
Administrative expenses		**(125,529)**	(96,243)
Impairment of trade receivables and financial assets included in prepayments, deposits and other receivables	6	**(28,302)**	(1,055)
Other expenses		**(5,476)**	(3,346)
Finance costs	7	**(123,532)**	(31,121)
Share of losses of associates	6	**(12,945)**	(6,292)
PROFIT BEFORE TAX	6	**117,876**	1,040,362
Income tax expense	10	**(29,576)**	(334,224)
PROFIT FOR THE YEAR		**88,300**	706,138
Attributable to:			
Owners of the parent		**76,897**	714,780
Non-controlling interests		**11,403**	(8,642)
		88,300	706,138
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**HK2.999 cents**	HK27.507 cents
Diluted		**HK2.999 cents**	HK27.507 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	Note	2021 HK$'000	2020 HK$'000
PROFIT FOR THE YEAR		**88,300**	706,138
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**81,376**	142,035
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**81,376**	142,035
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Gains on property revaluation	13	**51,550**	41,085
Income tax effect		**(12,887)**	(10,271)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**38,663**	30,814
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**120,039**	172,849
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**208,339**	878,987
Attributable to:			
Owners of the parent		**195,391**	883,250
Non-controlling interests		**12,948**	(4,263)
		208,339	878,987

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**950,864**	880,617
Investment properties	14	**589,704**	483,063
Right-of-use assets	15	**311,700**	344,863
Goodwill	16	**34,482**	34,482
Intangible assets	17	**3,445**	8,195
Investments in associates	18	**1,583,465**	752,093
Deferred tax assets	29	**24,947**	–
Prepayments	21	**21,790**	–
Contract assets	22	**1,677**	–
Restricted cash	24	**122,574**	–
Total non-current assets		**3,644,648**	2,503,313
CURRENT ASSETS			
Inventories	19	**254,126**	265,850
Trade receivables	20	**187,062**	37,808
Prepayments, deposits and other receivables	21	**450,705**	1,769,874
Contract assets	22	**114**	–
Financial assets at fair value through profit or loss	23	**10,481**	–
Amounts due from associates	33	**909,162**	–
Restricted cash	24	**696,100**	187
Cash and cash equivalents	24	**146,453**	236,930
Total current assets		**2,654,203**	2,310,649
CURRENT LIABILITIES			
Trade payables	25	**106,199**	99,445
Other payables and accruals	26	**153,908**	202,400
Interest-bearing bank and other borrowings	28	**1,406,875**	249,369
Loan from an associate	33	**–**	106,872
Loan from the ultimate holding company	33	**–**	178,121
Loan from non-controlling interests	33	**3,396**	2,740
Loan from a director	33	**89,272**	145,000
Tax payable		**179,733**	161,092
Total current liabilities		**1,939,383**	1,145,039
NET CURRENT ASSETS		**714,820**	1,165,610
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,359,468**	3,668,923

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,359,468**	3,668,923
NON-CURRENT LIABILITIES			
Medium term bonds	27	**36,338**	34,050
Interest-bearing bank and other borrowings	28	**934,223**	91,947
Loan from non-controlling interests	33	**44,718**	39,062
Loan from the immediate holding company	33	**95,000**	–
Lease liabilities	15	**24,790**	49,405
Deferred tax liabilities	29	**449,214**	405,863
Deferred government grant		**45,368**	45,402
Total non-current liabilities		**1,629,651**	665,729
Net assets		**2,729,817**	3,003,194
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	**259,856**	259,856
Reserves	32	**2,323,763**	2,611,135
		2,583,619	2,870,991
Non-controlling interests		**146,198**	132,203
Total equity		**2,729,817**	3,003,194

TSE Kam Pang
Director

YANG Jun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

		Attributable to owners of the parent										
	Note	Issued share capital HK$'000	Shares held under share award scheme HK$'000	Share premium account HK$'000	Capital reserve** HK$'000	Asset revaluation reserve# HK$'000	Statutory reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2021		259,856	-	1,482,883*	(9,444)*	131,714*	115,286*	164,151*	726,545*	2,870,991	132,203	3,003,194
Profit for the year		-	-	-	-	-	-	-	76,897	76,897	11,403	88,300
Other comprehensive income for the year												
Gains on property revaluation, net of tax	13	-	-	-	-	38,663	-	-	-	38,663	-	38,663
Exchange differences related to foreign operations		-	-	-	-	-	-	79,831	-	79,831	1,545	81,376
Total comprehensive income for the year		-	-	-	-	38,663	-	79,831	76,897	195,391	12,948	208,339
Acquisition of shares under share award scheme		-	(222,907)##	-	-	-	-	-	-	(222,907)	-	(222,907)
2020 final dividend		-	-	(259,856)	-	-	-	-	-	(259,856)	-	(259,856)
Capital contributions by a non-controlling shareholder		-	-	-	-	-	-	-	-	-	1,047	1,047
Transfer from asset revaluation reserve		-	-	-	-	(5,525)	-	-	5,525	-	-	-
Appropriations of statutory reserve		-	-	-	-	-	5,285	-	(5,285)	-	-	-
At 31 December 2021		259,856	(222,907)*	1,223,027*	(9,444)*	164,852*	120,571*	243,982*	803,682*	2,583,619	146,198	2,729,817

The asset revaluation reserve arose from a revaluation surplus resulting from the building revaluation on 31 December 2021.

During the current year, the trustee appointed for the Share Award Scheme adopted by the Company acquired 108,966,000 shares of the Company through purchases on the open market at a cost of approximately HK$222,907,000. As at 31 December 2021, 108,966,000 shares of the Company are held by the trustee and have yet to be awarded.

* These reserve accounts comprise the consolidated reserves of HK$2,323,763,000 (2020: HK$2,611,135,000) in the consolidated statement of financial position.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**117,876**	1,040,362
Adjustments for:			
Finance costs	7	**123,532**	31,121
Share of losses of associates	6	**12,945**	6,292
Bank interest income	5	**(8,013)**	(1,535)
Interest income from an associate	5	**(43,898)**	–
Gain on land resumption	5	**–**	(1,062,543)
Gain on disposal of right-of-use assets	5	**(717)**	–
Covid-19-related rent concessions from lessors	15	**(80)**	(57)
Fair value gains on financial assets at fair value through profit or loss	5	**(10,481)**	–
Depreciation of property, plant and equipment	6	**66,752**	58,991
Changes in fair value of investment properties	6	**(89,511)**	(2,401)
Depreciation of right-of-use assets	6	**38,446**	22,511
Amortisation of intangible assets	6	**5,019**	4,267
(Reversal of write-down)/write-down of inventories to net realisable value	6	**(24,912)**	19,823
Impairment of trade receivables and financial assets included in prepayments, deposits and other receivables	6	**28,302**	1,055
		215,260	117,886
Decrease in inventories		**45,204**	28,078
Increase in trade receivables		**(153,020)**	(14,954)
Increase in prepayments, deposits and other receivables		**(11,774)**	(11,390)
Increase in contract assets		**(1,791)**	–
Increase in trade payables		**2,052**	39,109
(Decrease)/increase in other payables and accruals		**(79,026)**	49,219
Cash generated from operations		**16,905**	207,948
Income taxes paid		**–**	(3,449)
Net cash flows from operating activities		**16,905**	204,499
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**8,013**	1,535
Purchases of items of property, plant and equipment		**(99,867)**	(82,524)
Increase in amounts due from associates		**(806,558)**	–
Additions to intangible assets	17	**–**	(337)
Increase in interests in associates		**(887,168)**	(667,789)
Decrease in payable for acquisition of a subsidiary		**–**	89,485
Payment for disbursement relating to resumption of land use right		**–**	(281,352)
Proceeds from land resumption		**1,355,149**	–
Proceeds from disposal of items of property, plant and equipment		**12,932**	9,985
Decrease in restricted cash		**–**	9,600
Net cash used in investing activities		**(417,499)**	(921,397)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Acquisition of shares under share award scheme		**(222,907)**	–
Capital contributions by a non-controlling interest		**1,047**	–
New bank and other borrowings		**2,777,621**	237,494
Repayment of bank and other borrowings		**(804,124)**	(122,094)
Principal portion of lease payments	34(b)	**(28,648)**	(20,111)
(Decrease)/increase in loan from a director		**(60,401)**	145,000
Loan from non-controlling interests		**4,965**	2,671
Loan from an associate		**–**	187,620
Repayment of loan from an associate		**(110,316)**	(80,748)
Repayment of loan from the ultimate holding company		**(178,121)**	178,121
Loan from the immediate holding company		**95,000**	–
Dividend paid		**(259,856)**	–
Interest paid		**(102,997)**	(24,547)
Decrease for acquisition of non-controlling interests		**–**	8,121
Increase in restricted cash		**(802,818)**	–
Net cash flows from financing activities		**308,445**	511,527
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(92,149)**	(205,371)
Cash and cash equivalents at beginning of year		**236,930**	440,468
Effect of foreign exchange rate changes, net		**1,672**	1,833
CASH AND CASH EQUIVALENTS AT END OF YEAR		**146,453**	236,930
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**146,453**	236,930
Non-pledged time deposits with original maturity of less than three months when acquired		**–**	–
		146,453	236,930

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

Particulars of the Company's principal subsidiaries as of 31 December 2021 are as follows:

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration	Place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Sinofull Macao Commercial offshore Limited	Macau	Macau	MOP$100,000	–	100	Sale of furniture
Beauty City Holdings Limited	BVI	Hong Kong	US$50,000	–	100	Investment holding
Jiangxi Furun Furniture Company Limited*	PRC	Mainland China	US$15,000,000	–	100	Rental of properties
Tianjin Royal Furniture Company Limited**	PRC	Mainland China	RMB150,000,000	–	55	Rental of properties
Guangzhou Royal Furniture Company Limited*	PRC	Mainland China	RMB100,000,000	–	100	Manufacture and sale of furniture
Guangzhou Hong Mian Hong Company Limited**	PRC	Mainland China	RMB500,000	–	80	Manufacture and sale of foam
Guangzhou Zunyi Trading Company Limited*	PRC	Mainland China	RMB500,000	–	100	Dormant
Guangzhou Runyu Horticulture Company Limited**	PRC	Mainland China	RMB300,000	–	75	Dormant
Guangzhou Wanlibao Industrial Holding Limited*	PRC	Mainland China	RMB1,400,000,000	–	100	Investment holding
Guangzhou Kemi Zhijia Furniture Co., Ltd.**	PRC	Mainland China	RMB8,000,000	–	100	Sales services of upholstered furniture
Guangzhou Kemi Decoration Co., Ltd.**	PRC	Mainland China	RMB8,000,000	–	100	Decoration construction services

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2021 (the "Current Year"). A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)*

The nature and the impact of the revised HKFRSs are described below:

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

No significant modification gain or loss has arisen as a result of applying the amendments to these changes.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the year ended 31 December 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the COVID-19 pandemic. A reduction in the lease payments arising from the rent concessions of HK$80,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2021. There was no impact on the opening balance of equity as at 1 January 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 17	*Insurance Contracts*[2, 5]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2, 4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to HKAS 8	*Definition of Accounting Estimates*[2]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[1]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

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

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

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Investments in associates and joint ventures

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

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

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

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

Business combinations and goodwill

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

Fair value measurement

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

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

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

Intangible assets (other than goodwill)

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

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

Patents, licences and software

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

Customer relationships

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

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

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

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

Leases

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

Group as a lessee

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

(a) *Right-of-use assets*

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) *Lease liabilities*

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

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

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

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

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

Group as a lessor

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessor (Continued)

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

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

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach

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

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

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

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

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at amortised cost

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shares held under the share award scheme

The Group's own equity instruments which are reacquired (shares held under the share award scheme) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) Sale of goods

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) *Sale of goods* (Continued)

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

(i) Rights of return

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

(ii) Volume rebates

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

Revenue from other sources

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

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

Other income

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

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

Contract costs

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

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

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

(c) The costs are expected to be recovered.

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

Share-based payments

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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

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

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

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

Other employee benefits

Pension schemes

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the exchange rates that approximate to those prevailing at the date of transaction.

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Property lease classification – Group as lessor

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

Estimation uncertainty

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Write-down of inventories

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and the write-down/write-back of the inventories in the period in which such estimate has been changed. During the year ended 31 December 2021, reversal of write-down of inventory provision in the statement of profit or loss was HK$24,912,000 (2020: write-down of the inventories of HK$19,823,000). As at 31 December 2021, the carrying amount of the write-down of the inventories was HK$60,881,000 (2020: HK$85,793,000).

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

The Group uses a provision matrix to calculate ECLs for trade receivables and financial assets included in prepayments, deposits and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (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 products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

Estimation of fair value of investment properties

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

As at 31 December 2021, the carrying amount of investment properties was HK$589,704,000 (2020: HK$483,063,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was HK$34,482,000 (2020: HK$34,482,000). Further details are given in note 16.

Fair values of property, plant and equipment

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. As at 31 December 2021, the carrying amounts of the property, plant and equipment approximated to their fair values. For details, refer to note 13 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

In view of the increased scale and business activities and to help investors better understand the Group's revenue structure and segment results, new segments named "Hotel operations" and "Development properties for sales and property investments" have been separated from "Manufacture and sale of furniture" segment from the beginning of 2021 onwards, both in the internal reports to the chief operating decision makers and in the consolidated financial statements of the Group. The Board believes that the above changes in segment information better reflect future business development of the Group. The Group has not restated segment information for 2020 since the cost to develop it would be excessive.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

4. OPERATING SEGMENT INFORMATION (Continued)

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 2021	Manufacture and sale of furniture HK$'000	Development properties for sales and property investments HK$'000	Hotel operations HK$'000	Trading HK$'000	Total HK$'000
Segment revenue					
Sale to external customers	837,373	–	40,187	648,946	1,526,506
Revenue from continuing operations					1,526,506
Segment results	317,302	–	(280)	1,204	318,226
Profit/(loss) before tax from continuing operations	153,974	(17,229)	(17,720)	(1,149)	117,876
Segment assets	4,606,616	1,729,340	659,813	423,990	7,419,759
Elimination of intersegment receivables					(1,120,908)
Total assets					6,298,851
Segment liabilities	3,564,644	177,939	551,292	396,067	4,689,942
Elimination of intersegment payables					(1,120,908)
Total liabilities					3,569,034

NOTES TO FINANCIAL STATEMENTS

31 December 2021

4. OPERATING SEGMENT INFORMATION (Continued)

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

Information about a major customer

Revenue from continuing operations of approximately HK$623,235,000 (2020: HK$150,876,000) was derived from sales by trading segment from a single customer, which amounted to 10% or more of the Group's revenue during the year.

Geographical information

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2021 HK$'000	2020 HK$'000
Revenue from contracts with customers		
Sale of goods	**1,486,319**	1,443,490
Hotel operations income	**40,187**	–
	1,526,506	1,443,490

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2021

	Manufacture and sale of furniture HK$'000	**Hotel operations HK$'000**	**Trading HK$'000**	**Total HK$'000**
Timing of revenue recognition				
Revenue recognised at a point in time	**837,373**	**6,028**	**648,946**	**1,492,347**
Revenue recognised over time	**–**	**34,159**	**–**	**34,159**
Total revenue from contracts with customers	**837,373**	**40,187**	**648,946**	**1,526,506**

For the year ended 31 December 2020

	Manufacture and sale of furniture HK$'000	Trading HK$'000	Total HK$'000
Timing of revenue recognition			
Revenue recognised at a point in time	903,867	539,623	1,443,490
Total revenue from contracts with customers	903,867	539,623	1,443,490

NOTES TO FINANCIAL STATEMENTS

31 December 2021

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligation

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

Sale of goods

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

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

Hotel operations income

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

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

	2021 **HK$'000**	2020 HK$'000
Amounts expected to be recognised as revenue:		
Within one year	**33,345**	68,855

	2021 **HK$'000**	2020 HK$'000
Other income and gains		
Rental income	**4,579**	23,913
Bank interest income	**8,013**	1,535
Interest income from an associate	**43,898**	–
Fair value gains on investment properties	**89,511**	2,401
Sales of scraps	**2,584**	7,267
Government subsidy	**3,023**	2,976
Fair value gain on financial assets at fair value through profit or loss	**10,481**	–
Licence fee income*	**28,914**	–
Others	**842**	2,254
Gain on disposal of right-of-use assets	**717**	–
Gain on land resumption	**–**	1,062,543
	192,562	1,102,889

* The licence fee income from an independent third party company Guangzhou Meimengjia Mattress Company ("Meimengjia") was recognised on a time proportion basis in accordance with the substance of the relevant agreements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

6. PROFIT BEFORE TAX

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

	Notes	2021 HK$'000	2020 HK$'000
Cost of inventories sold		**1,166,440**	1,205,674
Depreciation of property, plant and equipment	13	**66,752**	58,991
Depreciation of right-of-use assets	15(a)	**38,446**	22,511
Amortisation of intangible assets	17	**5,019**	4,267
Research and development costs:			
Current year expenditure*		**2,985**	5,585
Lease payments not included in the measurement of lease liabilities	15(c)	**1,380**	864
Auditor's remuneration		**3,850**	4,000
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**152,399**	121,316
Pension scheme contributions		**18,991**	3,031
		171,390	124,347
(Reversal of write-down)/write-down of inventories to net realisable value**		**(24,912)**	19,823
Impairment of trade receivables		**7,587**	1,819
Impairment/(reversal of impairment) of financial assets included in prepayments, deposits and other receivables		**20,715**	(764)
Direct operating expenses (including repairs and maintenance) arising from rental-earning investment properties#		**1,261**	1,917
Fair value gains on investment properties	5	**(89,511)**	(2,401)
Bank interest income	5	**(8,013)**	(1,535)
Interest income from an associate	5	**(43,898)**	–
Share of losses of associates	18	**12,945**	6,292
Gain on disposal of right-of-use assets	5	**(717)**	–
Gain on land resumption	5	**–**	(1,062,543)

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

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

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

7. FINANCE COSTS

	2021 HK$'000	2020 HK$'000
Interest on bank and other borrowings (including medium term bonds)	**102,342**	21,783
Interest on loans from related parties	**18,228**	6,534
Interest on lease liabilities	**2,962**	2,804
	123,532	31,121

NOTES TO FINANCIAL STATEMENTS

31 December 2021

8. DIRECTORS' REMUNERATION

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

	2021 HK$'000	2020 HK$'000
Fees	1,020	1,800
Other emoluments:		
Salaries, allowances and benefits in kind	8,321	6,927
Performance related bonuses	–	450
Pension scheme contributions	146	–
	9,487	9,177

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2021					
Executive directors:					
Mr. Tse Kam Pang	300	5,850	–	–	6,150
Mr. Yang Jun	–	867	–	–	867
	300	6,717	–	–	7,017
Non-executive directors:					
Mr. Wu Zhongming	–	802	–	73	875
Mr. Wu Dingliang	–	802	–	73	875
Mrs Qin You*	–	–	–	–	–
Mr. Chen Yisheng* (appointed on 7 September 2021)	–	–	–	–	–
Mr. Liu Zhijun* (resigned on 7 September 2021)	–	–	–	–	–
	–	1,604	–	146	1,750
Independent non-executive directors:					
Mr. Lau Chi Kit	240	–	–	–	240
Mr. Yue Man Yiu Matthew	240	–	–	–	240
Mr. Chan Wing Tak Kevin	240	–	–	–	240
	720	–	–	–	720
	1,020	8,321	–	146	9,487

NOTES TO FINANCIAL STATEMENTS

31 December 2021

8. DIRECTORS' REMUNERATION (Continued)

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

* During the year, three of directors have agreed not to receive any director's remuneration (2020: two).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2020: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2020: four) highest paid employees who are neither a director nor chief executive of the Company for the year are as follows:

	2021	2020
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**7,724**	5,663
Performance related bonuses	**–**	247
Pension scheme contributions	**184**	44
	7,908	5,954

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

	Number of employees	
	2021	2020
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**1**	3
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**2**	1
	4	4

NOTES TO FINANCIAL STATEMENTS

31 December 2021

10. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the year (2020: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2021 **HK$'000**	2020 HK$'000
Current – Mainland China		
Charge for the year	**53,387**	13,716
Adjustment in respect of current tax of previous periods	**(18,115)**	(6,788)
Deferred (note 29)	**(5,696)**	327,296
Total tax charge for the year	**29,576**	334,224

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

	2021 **HK$'000**	**%**	2020 HK$'000	%
Profit before tax	**117,876**		1,040,362	
Tax at the applicable tax rate at 25% (2020: 25%)	**29,469**	**25.0**	260,091	25.0
Lower tax rates for specific provinces or enacted by local authority	**7,654**	**6.5**	1,908	0.2
Losses attributable to associates	**3,236**	**2.7**	1,573	0.2
Adjustments in respect of current tax of previous periods	**(18,115)**	**(15.4)**	(6,788)	(0.7)
Expenses not deductible for tax	**7,672**	**6.5**	81,628	7.8
Tax losses not recognised	**6,433**	**5.5**	12,711	1.2
Tax losses utilised from previous periods	**(6,773)**	**(5.7)**	(16,899)	(1.6)
Tax charge at the Group's effective rate	**29,576**	**25.1**	334,224	32.1

The Group has aggregate tax losses arising in Hong Kong of HK$88,931,000 (2020: HK$77,400,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. The Group has aggregate tax losses arising in Mainland China of HK$85,143,000 (2020: HK$115,889,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets at 31 December 2021.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

11. DIVIDENDS

	2021 HK$'000	2020 HK$'000
Proposed final dividend of HK1 cent per ordinary share and a special dividend of HK4 cents per ordinary share after the end of the reporting period (2020: Final dividend of HK4 cents per ordinary share and a special dividend of HK6 cents per ordinary share)	**129,928**	259,856

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

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

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue less shares held under share award scheme during the year of 2,564,262,659 (2020: 2,598,561,326).

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

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

	2021 HK$'000	2020 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**76,897**	714,780

	Number of shares	
	2021	2020
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 earnings per share calculations	**2,564,262,659**	2,598,561,326

NOTES TO FINANCIAL STATEMENTS

31 December 2021

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles and others HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2021							
At 31 December 2020 and at 1 January 2021:							
Cost or valuation	640,967	134,995	227,649	16,214	12,441	1,913	1,034,179
Accumulated depreciation	(11,870)	(29,854)	(92,212)	(9,830)	(9,796)	–	(153,562)
Net carrying amount	629,097	105,141	135,437	6,384	2,645	1,913	880,617
At 1 January 2021, net of accumulated depreciation	629,097	105,141	135,437	6,384	2,645	1,913	880,617
Additions	–	4,323	8,307	995	1,375	61,000	76,000
Transfer	–	–	9,798	–	–	(9,798)	–
Surplus on revaluation	51,550	–	–	–	–	–	51,550
Disposals	–	(660)	(8,793)	(192)	–	–	(9,645)
Depreciation provided during the year	(32,320)	(16,169)	(15,253)	(1,332)	(1,678)	–	(66,752)
Exchange realignment	11,073	2,584	4,232	202	48	955	19,094
At 31 December 2021, net of accumulated depreciation	659,400	95,219	133,728	6,057	2,390	54,070	950,864
At 31 December 2021:							
Cost or valuation	671,430	140,168	232,323	15,019	12,104	54,070	1,125,114
Accumulated depreciation	(12,030)	(44,949)	(98,595)	(8,962)	(9,714)	–	(174,250)
Net carrying amount	659,400	95,219	133,728	6,057	2,390	54,070	950,864

NOTES TO FINANCIAL STATEMENTS

31 December 2021

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

At 31 December 2021, the Group had pledged a building amounting to HK$622,553,000 (2020: HK$584,116,000) to obtain bank and other borrowings (note 28).

At 31 December 2021, the Group had pledged certain machinery amounting to HK$111,671,000 (2020: Nil) to obtain bank and other borrowings (note 28).

NOTES TO FINANCIAL STATEMENTS

31 December 2021

14. INVESTMENT PROPERTIES

	2021 HK$'000	2020 HK$'000
Carrying amount at 1 January	**483,063**	442,502
Additions	**–**	10,764
Net gain from fair value adjustments	**89,511**	2,401
Exchange realignment	**17,130**	27,396
Carrying amount at 31 December	**589,704**	483,063

The Group's investment properties consist of two industrial properties located in Tianjin and Jiangxi Province respectively, Mainland China, which were subsequently measured at fair value. The directors of the Company have determined that the investment properties consist of one class of assets, i.e., industrial properties, based on the nature, characteristics and risk of each property. The Group's investment properties were revalued on 31 December 2021 based on the valuation by an independent valuer D&P China (HK) Limited. Each year, the Group's property manager and the chief financial officer decide to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results each year when the valuation is performed for annual financial reporting.

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

As at 31 December 2021, the Group had pledged an investment property amounting to HK$154,076,000 (2020: Nil) to obtain bank and other borrowings (note 28).

Fair value hierarchy

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

	Fair value measurement as at 31 December 2021 using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Recurring fair value measurement for:				
Industrial properties	**–**	**–**	**589,704**	**589,704**

NOTES TO FINANCIAL STATEMENTS

31 December 2021

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

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

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 (2020: Nil).

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

	Valuation technique	**Significant unobservable inputs**	**Range 2021**	Range 2020
Industrial properties	Discounted cash flow method	Estimated rental value (per sq.m. per month)	**10–22.53**	9–21.0
		Rent growth (p.a.)	**6%–6.25%**	6.3%
		Long term vacancy rate	**10%–12%**	10%–20%
		Discount rate	**6%–8.5%**	6%–8.5%

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

14. INVESTMENT PROPERTIES (Continued)

Fair value hierarchy (Continued)

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

15. LEASES

The Group as a lessee

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

(a) Right-of-use assets

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

	Leasehold land HK$'000	**Buildings** HK$'000	**Motor vehicle** HK$'000	**Total** HK$'000
As at 1 January 2020	260,153	9,238	–	269,391
Addition	36,544	74,942	3,420	114,906
Disposals	(28,241)	–	–	(28,241)
Depreciation charge	(5,536)	(16,456)	(519)	(22,511)
Exchange realignment	5,475	5,758	85	11,318
As at 31 December 2020 and 1 January 2021	**268,395**	**73,482**	**2,986**	**344,863**
Addition	**–**	**25,679**	**–**	**25,679**
Reassessment of a lease term arising from a decision not to exercise the extension option	**–**	**(26,625)**	**–**	**(26,625)**
Depreciation charge	**(9,931)**	**(27,745)**	**(770)**	**(38,446)**
Exchange realignment	**5,608**	**621**	**–**	**6,229**
As at 31 December 2021	**264,072**	**45,412**	**2,216**	**311,700**

NOTES TO FINANCIAL STATEMENTS

31 December 2021

15. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

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

	2021 HK$'000	2020 HK$'000
Carrying amount at 1 January	**76,928**	9,407
New leases	**25,679**	78,362
Reassessment of a lease term arising from a decision not to exercise the extension option	**(27,342)**	–
Accretion of interest recognised during the year	**2,962**	2,804
Payments	**(28,648)**	(20,111)
Covid-19-related rent concessions from lessors	**(80)**	(57)
Exchange realignment	**594**	6,523
Carrying amount at 31 December	**50,093**	76,928
Analysed into:		
Current portion	**25,303**	27,523
Non-current portion	**24,790**	49,405

The maturity analysis of lease liabilities is disclosed in note 40 to the financial statements.

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

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

	2021 HK$'000	2020 HK$'000
Interest on lease liabilities	**2,962**	2,804
Depreciation charge of right-of-use assets	**38,446**	22,511
Expense relating to short-term leases and low-value assets	**1,380**	864
Total amount recognised in profit or loss	**42,788**	26,179

(d) The total cash outflows for leases are disclosed in note 34(b) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

15. LEASES (Continued)

The Group as a lessor

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

At 31 December 2021, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2021 HK$'000	2020 HK$'000
Within one year	**4,534**	7,631
In the second to fifth years, inclusive	**10,874**	14,685
After five years	**–**	–
	15,408	22,316

16. GOODWILL

	2021 HK$'000	2020 HK$'000
Cost and net carrying amount	**34,482**	34,482

Impairment testing of goodwill

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

The recoverable amount of the sales of foam cash-generating unit (the "CGU") was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 15.2% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%.

Assumptions were used in the value in use calculation of the sales of foam cash-generating unit for 31 December 2021. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

17. INTANGIBLE ASSETS

	Patents, licences and software 2021 HK$'000	Customer relationships 2021 HK$'000	Total 2021 HK$'000
At 1 January 2021:			
Cost	16,340	13,668	30,008
Accumulated amortisation	(14,159)	(7,654)	(21,813)
Net carrying amount	2,181	6,014	8,195
Cost at 1 January 2021, net of accumulated amortisation	2,181	6,014	8,195
Amortisation provided during the year	(2,123)	(2,896)	(5,019)
Exchange realignment	33	236	269
Cost at 31 December 2021, net of accumulated amortisation	91	3,354	3,445
At 31 December 2021:			
Cost	16,587	14,204	30,791
Accumulated amortisation	(16,496)	(10,850)	(27,346)
Net carrying amount	91	3,354	3,445

NOTES TO FINANCIAL STATEMENTS

31 December 2021

17. INTANGIBLE ASSETS (Continued)

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

18. INVESTMENT IN ASSOCIATES

	2021 HK$'000	2020 HK$'000
Share of net assets	**1,533,982**	337,821
Goodwill on acquisition	**49,483**	52,806
	1,583,465	390,627
Loans to an associate	**–**	361,466
	1,583,465	752,093

NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. INVESTMENT IN ASSOCIATES (Continued)

Particulars of the material associate are as follows:

Name	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Guangzhou Fu Yue Design Company Limited* ("Fuyue Design")^**	PRC/Mainland China	50%**	Design services
Dongma (Guangzhou free trade zone) Grease Chemical Co., LTD.* ("Dongma")^	PRC/Mainland China	25%	Chemical product manufacturing
Sky Walk Limited* ("Sky Walk") ^	BVI/Hong Kong	42.42%	Investment
Science City (Guangzhou) Financial Leasing Co., Ltd.* ("Financial Leasing")^	PRC/Mainland China	23.5% (2020: 20%)	Financial leasing
Guangzhou Gangke Real Estate Co., Ltd.* ("Gangke")^	PRC/Mainland China	40%	Real estate
Guangzhou Technology and Innovation Ruixiang No. One Venture Investment Fund Partnership Enterprise (Limited Partnership)* ("Ruixiang")^	PRC/Mainland China	17.62%	Investment

Notes:

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

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

** The Group directly obtained a 50% equity interest in Fuyue Design. The Group considers that it could only exercise significant influence in the strategic financial and operating policy decisions of 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. INVESTMENT IN ASSOCIATES (Continued)

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

	Fuyue Design 2021 HK$'000	Sky Walk 2021 HK$'000	Gangke 2021 HK$'000	Total 2021 HK$'000
Current assets	–	449,366	5,469,569	5,918,935
Non-current assets	146,205	–	33,638	179,843
Current liabilities	427	29,289	2,488,433	2,518,149
Non-current liabilities	–	76,100	674,729	750,829
Net assets	145,778	343,977	2,340,045	2,829,800
Reconciliation to the Group's interest in the associate:				
Proportion of the Group's ownership	50%	42.42%	40%	
Group's share of net assets of the associate, excluding goodwill	72,889	144,470	936,018	1,153,377
Goodwill on acquisition	19,206	–	–	19,206
Carrying amount of the investment	92,095	144,470	936,018	1,172,583
Revenue	14	–	–	14
Loss and total comprehensive loss for the year	(5,692)	(19,079)	(36,225)	(60,996)
Share of the associates' loss for the year	(2,846)	(8,013)	(14,490)	(25,349)

NOTES TO FINANCIAL STATEMENTS

31 December 2021

18. INVESTMENT IN ASSOCIATES (Continued)

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

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

	2021 HK$'000	2020 HK$'000
Share of the associates' profit/(loss) for the year	**12,404**	(667)
Share of the associates' total comprehensive profit/(loss)	**12,404**	(667)
Carrying amount of the Group's investments in the associates	**410,882**	146,162

NOTES TO FINANCIAL STATEMENTS

31 December 2021

19. INVENTORIES

	2021	2020
	HK$'000	HK$'000
Raw materials	**110,404**	98,575
Work in progress	**7,087**	8,718
Finished goods	**108,540**	149,218
Contract performance costs	**28,095**	9,339
	254,126	265,850

20. TRADE RECEIVABLES

	2021	2020
	HK$'000	HK$'000
Trade receivables	**204,030**	47,053
Impairment	**(16,968)**	(9,245)
	187,062	37,808

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 HK$54,794,000 (2020: Nil) which are due from related parties, are unsecured, interest-free and repayable on demand.

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

	2021	2020
	HK$'000	HK$'000
Within 1 month	**128,708**	29,425
1 to 3 months	**8,227**	3,983
3 to 6 months	**7,530**	4,400
Over 6 months	**42,597**	–
	187,062	37,808

NOTES TO FINANCIAL STATEMENTS

31 December 2021

20. TRADE RECEIVABLES (Continued)

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

	2021 HK$'000	2020 HK$'000
At beginning of year	**9,245**	6,996
Impairment losses, net (note 6)	**7,587**	1,819
Exchange realignment	**136**	430
At end of year	**16,968**	9,245

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. Generally, trade receivables are written off if past due for more than 180 days and are not subject to enforcement activity.

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

	Less than 6 months	6 months to 12 months	Over 1 year
As at 31 December 2021			
Expected credit loss rate	**1.84%**	**15.00%**	**36.45%**
Gross carrying amount (HK$'000)	**147,166**	**30,113**	**26,751**
Expected credit losses (HK$'000)	**2,701**	**4,516**	**9,751**
As at 31 December 2020			
Expected credit loss rate	1.60%	100%	100%
Gross carrying amount (HK$'000)	38,424	1,693	6,936
Expected credit losses (HK$'000)	616	1,693	6,936

NOTES TO FINANCIAL STATEMENTS

31 December 2021

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 HK$'000	2020 HK$'000
Non-current assets		
Prepayment for property, plant and equipment	6,228	–
Prepayment for construction in progress	15,562	–
	21,790	–
Current assets		
Prepayments	76,797	19,188
Land resumption due from the government	334,454	1,689,603
Deposits and other receivables	65,526	66,273
	476,777	1,775,064
Impairment allowance	(26,072)	(5,190)
	450,705	1,769,874

Deposits and other receivables under current assets mainly represent rental deposits and deposits with suppliers. As at 31 December 2021, expected credit losses were estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2021 ranged from 0.1% to 100% (2020: 0.1% to 100%).

The other receivables of HK$492,000 (2020: Nil) which are due from related parties, are unsecured, interest free and repayable on demand.

22. CONTRACT ASSETS

	2021 HK$'000	2020 HK$'000
Contract assets arising from:		
Sale of goods	1,791	–
Impairment	–	–
	1,791	–
Analysed into:		
Current portion	114	–
Non-current portion	1,677	–

As at 31 December 2021, the loss allowance was assessed to be minimal.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 HK$'000	2020 HK$'000
Contingent consideration receivables	**10,481**	–

The amount represents the fair value of receivables if the net profits of an associate cannot achieve the base profit target for the year ended 31 December 2021. The contingent consideration receivables constitutes a derivative within the scope of HKFRS 9, and is recognised at its fair value as asset on initial recognition and is subsequently remeasured at fair value with changes in fair value recognised in profit or loss.

The fair value of contingent consideration receivables as at 31 December 2021 was determined based on the valuation performed by an independent professional valuer not connected with the Group. Details of the fair value disclosure are set out in note 39 to the financial statements.

24. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2021 HK$'000	2020 HK$'000
Cash and bank balances	**146,453**	237,117
Time deposits	**818,674**	–
	965,127	237,117
Less:		
Restricted cash – current	**696,100**	187
Restricted cash – non-current	**122,574**	–
Cash and cash equivalents	**146,453**	236,930

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$947,324,000 (2020: HK$160,559,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2021, time deposits amounting to HK$735,561,000 was pledged for bank and other borrowings (2020: Nil) and HK$83,113,000 has been frozen following a court order (2020: HK$187,000).

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

25. TRADE PAYABLES

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

	2021	2020
	HK$'000	HK$'000
Within 1 month	**73,340**	41,806
1 to 3 months	**27,755**	44,691
3 to 6 months	**1,312**	7,040
6 to 12 months	**1,211**	1,305
More than 1 year	**2,581**	4,603
	106,199	99,445

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

26. OTHER PAYABLES AND ACCRUALS

	2021	2020
	HK$'000	HK$'000
Contract liabilities	**33,345**	68,855
Other payables	**83,875**	100,256
Lease liabilities	**25,303**	27,523
Accruals	**11,385**	5,766
	153,908	202,400

NOTES TO FINANCIAL STATEMENTS

31 December 2021

27. MEDIUM TERM BONDS

On 5 February 2016, the Company established a medium-term bond programme with a nominal value of HK$10,000,000 each. As at 31 December 2021, the Company has issued the medium-term bonds (the "Bonds") with a principal amount in aggregate of HK$700,000,000. The Bonds are non-callable until 5 February 2025 and non-puttable until 5 February 2020. Interest on the outstanding bonds will be payable annually in arrears at the nominal interest rate of 0.1% per annum first payable on 5 February 2018 and last payable on 5 February 2063 and will mature on 5 February 2064. The Bonds were amortised at the effective interest method by applying the effective interest rate ranging from 8.01% to 8.86% per annum.

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

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

	2021 **HK$'000**	2020 HK$'000
Carrying amount at 1 January	**34,050**	31,775
Accrued interest expenses	**2,778**	2,625
Payment for interest	**(490)**	(350)
Carrying amount at 31 December	**36,338**	34,050

NOTES TO FINANCIAL STATEMENTS

31 December 2021

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2021			2020		
	Effective Interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current:						
Bank borrowings – secured	**4.00–5.80**	**2022**	**951,520**	4.79–5.44	2021	237,494
Other borrowings – secured	**4.50**	**2022**	**49,030**	–	–	–
Current portion of long-term bank and other borrowings:						
Bank borrowings – secured	**4.65–5.88**	**2022**	**14,934**	–	–	–
Other borrowings – secured	**4.91–5.86**	**2022**	**391,391**	5.88	2021	11,875
			1,406,875			249,369
Non-current:						
Bank borrowings – secured	**4.65–5.88**	**2023–2029**	**674,071**	5.88	2029	91,947
Other borrowings – secured	**4.91–5.86**	**2023–2024**	**260,152**	–	–	–
			934,223			91,947
			2,341,098			341,316

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

	2021 HK$'000	2020 HK$'000
Analysed into:		
Bank and other borrowings repayable:		
Within one year	**1,406,875**	249,369
In the second year	**253,787**	91,947
In the third to fifth years, inclusive	**652,857**	–
Beyond five years	**27,579**	–
	2,341,098	341,316

Notes:

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

(a) As at 31 December 2021, the Group had pledged a building amounting to HK$622,553,000 (2020: HK$584,116,000) (note 13);

(b) As at 31 December 2021, the Group had pledged a right-of-use asset amounting to HK$24,232,000 (2020: HK$20,211,000);

(c) As at 31 December 2021, the Group had pledged time deposits amounting to HK$735,561,000 (2020: Nil) (note 24);

(d) As at 31 December 2021, the Group had pledged inventories amounting to HK$27,244,000 (2020: Nil);

(e) As at 31 December 2021, the Group had pledged certain machinery amounting to HK$111,671,000 (2020: Nil) (note 13); and

(f) As at 31 December 2021, the Group had pledged an investment property amounting to HK$154,076,000 (2020: Nil) (note 14).

In addition, the Company's ultimate holding company and a fellow subsidiary has provided a guarantee of up to HK$1,507,660,000 (2020: Nil) and HK$24,515,000 (2020: Nil), to secure certain of the Group's bank and other borrowings as at the end of the reporting period.

(ii) As at 31 December 2021, HK$1,819,035,000 of the bank and other borrowings was denominated in RMB and HK$522,063,000 was denominated in Hong Kong dollars.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

29. DEFERRED TAX

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

Deferred tax liabilities

	Revaluation of properties HK$'000	Fair value adjustments arising from acquisition of a subsidiary HK$'000	Resumption of land use rights HK$'000	Total HK$'000
At 1 January 2020	67,137	2,901	–	70,038
Deferred tax credited to other comprehensive income during the year	(9,984)	–	–	(9,984)
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	(1,403)	(685)	329,384	327,296
Exchange differences	–	–	18,513	18,513
Gross deferred tax liabilities at 31 December 2020 and 1 January 2021	55,750	2,216	347,897	405,863
Deferred tax credited to other comprehensive income during the year	12,887	–	–	12,887
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	19,945	(694)	–	19,251
Exchange differences	–	–	11,213	11,213
Gross deferred tax liabilities at 31 December 2021	**88,582**	**1,522**	**359,110**	**449,214**

At 31 December 2021, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$888,901,000 at 31 December 2021 (2020: HK$1,039,458,000).

Deferred tax assets

	Unrealised profits HK$'000	Provision HK$'000	Total HK$'000
At 1 January 2021	–	–	–
Deferred tax credited to the statement of profit or loss during the year (note 10)	7,288	17,659	24,947
Gross deferred tax assets at 31 December 2021	**7,288**	**17,659**	**24,947**

NOTES TO FINANCIAL STATEMENTS

31 December 2021

30. SHARE CAPITAL

	2021 **HK$'000**	2020 HK$'000
Issued and fully paid:		
2,598,561,326 (2020: 2,598,561,326) ordinary shares of HK$0.10 each	**259,856**	259,856

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

	Number of shares in issue	**Share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2020, 31 December 2020 and 1 January 2021	2,598,561,326	259,856	1,482,883	1,742,739
2020 final dividend	–	–	(259,856)	(259,856)
At 31 December 2021	**2,598,561,326**	**259,856**	**1,223,027**	**1,482,883**

31. SHARE OPTION SCHEME

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

31. SHARE OPTION SCHEME (Continued)

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

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

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

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

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

There were no share options outstanding as at the end of the reporting period (2020: Nil).

No share option expense was recognised by the Group during the year ended 31 December 2021 (2020: Nil).

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

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 48 to 49 of the financial statements.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

As at 31 December 2021, 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 HK$91,753,000 (2020: Nil) which is interest-free, the remaining amounts bear interest at a rate of 8% per annum.

As at 31 December 2020, the loan from an associate amounting to HK$106,872,000 is unsecured, bears interest rate ranging from 6% to 8% per annum and will be repayable within one year.

As at 31 December 2021, the loan from the immediate holding company amounting to HK$95,000,000 is unsecured, bears interest rate at a rate of 5.5% per annum and will be repayable after one year.

As at 31 December 2020, the loan from the ultimate holding company amounting to HK$178,121,000 is unsecured, bears interest rate ranging from 8% to 12% per annum and will be repayable within one year.

As at 31 December 2021, the loan from non-controlling interests amounting to HK$48,114,000 is unsecured, bears interest at a rate of 6.15% per annum, in which HK$3,396,000 will be repayable within one year. As at 31 December 2020, the loan from non-controlling interests amounting to HK$41,802,000 is unsecured, bears interest at a rate of 6.15% per annum, in which HK$2,740,000 will be repayable within one year.

As at 31 December 2021, the loan from a director amounting to HK$89,272,000 is unsecured, bears interest rate at a rate of 2% per annum and will be repayable within one year. As at 31 December 2020, the loan from a director amounting to HK$145,000,000 is unsecured, bears interest rate ranging from 8% to 12% per annum and will be repayable within one year.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Bank and other borrowings HK$'000	Medium term bonds HK$'000	Loan from non-controlling interests HK$'000	Loan from a director HK$'000	Loan from an associate HK$'000	Loan from the ultimate holding company HK$'000	Loan from the immediate holding company HK$'000	Lease liabilities HK$'000
At 1 January 2021	**341,316**	**34,050**	**41,802**	**145,000**	**106,872**	**178,121**	**–**	**76,928**
Changes from financing cash flows	**1,870,990**	**(490)**	**4,965**	**(60,401)**	**(110,316)**	**(178,121)**	**95,000**	**(28,648)**
New leases	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**25,679**
Reassessment of lease terms	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(27,342)**
Foreign exchange movement	**11,000**	**–**	**1,347**	**4,673**	**3,444**	**–**	**–**	**594**
Interest expense	**117,792**	**2,778**	**–**	**–**	**–**	**–**	**–**	**2,962**
COVID-19-related rent concessions from lessors	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(80)**
At 31 December 2021	**2,341,098**	**36,338**	**48,114**	**89,272**	**–**	**–**	**95,000**	**50,093**

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

(b) Total cash outflow for leases included in the statement of cash flows is as follows:

	2021 HK$'000	2020 HK$'000
Within operating activities	**1,380**	864
Within financing activities	**28,648**	20,111
	30,028	20,975

NOTES TO FINANCIAL STATEMENTS

31 December 2021

35. CONTINGENT LIABILITIES

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

	2021 **HK$'000**	2020 HK$'000
Guarantees given to banks in connection with facilities granted to an associate	**392,237**	–

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

Certain subsidiaries of the Group are currently defendant 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. The total compensation claimed amounted to HK$166,225,000. As at 31 December 2021, the bank deposit of HK$83,113,000 has been frozen following a court order.

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

36. COMMITMENTS

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

	2021 **HK$'000**	2020 HK$'000
Contracted, but not provided for:		
Acquisition of equity investment	**–**	619,978
Construction in progress	**9,833**	–
	9,833	619,978

NOTES TO FINANCIAL STATEMENTS

31 December 2021

37. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

	2021 HK$'000	2020 HK$'000
Science City and the then affiliates:		
Sales of products	**57,099**	43,267
Purchases of consultation services	**810**	2,834
Purchases of construction services	**23,525**	–
Rental expense	**678**	234
Loan from the ultimate holding company	**180,710**	178,121
Loan from the immediate holding company	**95,000**	–
Loan from an associate	**–**	106,872
Loan from a fellow subsidiary and an associate of the ultimate holding company	**144,568**	–
Interest expense	**6,032**	2,678
Guarantee fees	**7,207**	–
	515,629	334,006
Other related parties:		
Sales of products	**21,662**	425
Purchases of raw materials	**–**	998
Loan from non-controlling interests	**18,726**	2,740
Loan to an associate	**801,912**	–
Loan from a director	**89,272**	145,000
Interest income from an associate	**43,898**	–
Interest expense	**12,196**	3,856
	987,666	153,019

During the year, the Group has pledged 40% equity interest in an associate Gangke to secure general banking facilities granted to Gangke amounting to HK$392,237,000 (2020: Nil).

The Company's ultimate holding company and a fellow subsidiary has provided a guarantee of up to HK$1,507,660,000 (2020: Nil) and HK$24,515,000 (2020: Nil) to secure certain of the Group's bank and other borrowings as at the end of the reporting period, as disclosed in note 28.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

37. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

	2021 HK$'000	2020 HK$'000
Other receivables due from related parties:		
The ultimate holding company	**154**	–
Associates	**338**	–
	492	–
Trade receivables due from related parties:		
The ultimate holding company	**8,884**	–
Fellow subsidiaries	**24,433**	–
Associates	**21,477**	–
	54,794	–
Trade payables due to related parties:		
Associates	**–**	672

(c) Compensation of key management personnel of the Group

	2021 HK$'000	2020 HK$'000
Short term employee benefits	**17,065**	12,869
Pension scheme contributions	**403**	45
Total compensation paid to key management personnel	**17,468**	12,914

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

38. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

2021	**Financial assets at fair value through profit or loss HK$'000**	**Financial assets at amortised cost HK$'000**	**Total HK$'000**
Trade receivables	**–**	**187,062**	**187,062**
Financial assets included in prepayments, deposits and other receivables	**–**	**373,908**	**373,908**
Amounts due from associates	**–**	**909,162**	**909,162**
Cash and cash equivalents	**–**	**146,453**	**146,453**
Financial assets at fair value through profit or loss – Contingent consideration receivables	**10,481**	**–**	**10,481**
Restricted cash	**–**	**818,674**	**818,674**
	10,481	**2,435,259**	**2,445,740**

2020	Financial assets at amortised cost HK$'000	Total HK$'000
Trade receivables	37,808	37,808
Financial assets included in prepayments, deposits and other receivables	1,750,686	1,750,686
Cash and cash equivalents	236,930	236,930
Restricted cash	187	187
	2,025,611	2,025,611

Financial liabilities

	2021 Financial liabilities at amortised cost HK$'000	2020 Financial liabilities at amortised cost HK$'000
Trade payables	**106,199**	99,445
Financial liabilities included in other payables and accruals	**89,177**	101,028
Medium term bonds	**36,338**	34,050
Interest-bearing bank and other borrowings	**2,341,098**	341,316
Loan from an associate	**–**	106,872
Loan from the ultimate holding company	**–**	178,121
Loan from the immediate holding company	**95,000**	–
Loan from non-controlling interests	**48,114**	41,802
Loan from a director	**89,272**	145,000
Lease liabilities	**24,790**	49,405
	2,829,988	1,097,039

NOTES TO FINANCIAL STATEMENTS

31 December 2021

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

The fair values of the non-current portion of interest-bearing bank and other borrowings, medium term bonds, a loan from non-controlling interests, loan from the ultimate holding company and lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for the interest-bearing bank and other borrowings as at 31 December 2021 were assessed to be insignificant.

As at 31 December 2020 and 2021, the carrying amount of the Group's financial assets and financial liabilities approximated to their fair values.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2021:

	Valuation technique	Significant unobservable inputs	Weighted average	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss: Contingent consideration receivables	Discounted future cash flow method	Discount rate	9.9%	5% increase/decrease in discount rate would result in decrease/increase in fair value by HK$11,000

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

Fair value hierarchy

The following table illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (level 1) HK$'000	Significant observable inputs (level 2) HK$'000	Significant unobservable inputs (level 3) HK$'000	Total HK$'000
Contingent consideration receivables	–	–	10,481	10,481

The Group did not have any financial assets measured at fair value as at 31 December 2020.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2020: Nil).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2021

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(i) Interest rate risk

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

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

2021	**Increase/ (decrease) in basis points**	**Increase/ (decrease) in profit before tax HK$'000**	**Increase/ (decrease) in equity* HK$'000**
RMB	**25**	**(2,584)**	**–**
RMB	**(25)**	**2,584**	**–**

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

* Excluding retained profits

(ii) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 1.3% (2020: 1.1%) of the Group's sales are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 100% (2020: 100%) of costs are denominated in the units' functional currencies. The Group does not use any forward currency contracts to eliminate the foreign currency exposures and the Group does not enter into any hedge derivatives.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iii) Credit risk

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

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

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

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

(iv) Liquidity risk

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

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

	2021			
	On demand HK$'000	Less than one year HK$'000	Over one year HK$'000	Total HK$'000
Trade payables	–	106,199	–	106,199
Other payables and accruals	–	91,103	–	91,103
Medium term bonds	210	700	735,428	736,338
Interest-bearing bank and other borrowings	–	1,424,146	1,014,634	2,438,780
Loan from the immediate holding company	–	–	101,473	101,473
Loan from non-controlling interests	–	3,396	50,219	53,615
Loan from a director	–	90,592	–	90,592
Lease liabilities	–	–	29,256	29,256
	210	1,716,136	1,931,010	3,647,356

NOTES TO FINANCIAL STATEMENTS

31 December 2021

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(iv) Liquidity risk (Continued)

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

(v) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 2020.

NOTES TO FINANCIAL STATEMENTS

31 December 2021

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(v) Capital management (Continued)

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

	2021	2020
	HK$'000	HK$'000
Trade payables	**106,199**	99,445
Other payables and accruals	**153,908**	202,400
Medium term bonds	**36,338**	34,050
Interest-bearing bank and other borrowings	**2,341,098**	341,316
Loan from an associate	**–**	106,872
Loan from the ultimate holding company	**–**	178,121
Loan from the immediate holding company	**95,000**	–
Loan from non-controlling interests	**48,114**	41,802
Loan from a director	**89,272**	145,000
Less: Cash and cash equivalents	**(146,453)**	(236,930)
Net debt	**2,723,476**	912,076
Equity attributable to owners of the parent	**2,583,619**	2,870,991
Capital and net debt	**5,307,095**	3,783,067
Gearing ratio	**51%**	24%

NOTES TO FINANCIAL STATEMENTS

31 December 2021

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2021 **HK$'000**	2020 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**1,159,997**	1,159,997
CURRENT ASSETS		
Due from subsidiaries	**828,438**	582,094
Prepayments	**497**	467
Cash and cash equivalents	**2,089**	434
Total current assets	**831,024**	582,995
CURRENT LIABILITIES		
Interest-bearing bank borrowings	**522,063**	–
Other payables and accruals	**2,613**	2,104
Total current liabilities	**524,676**	2,104
NET CURRENT ASSETS	**306,348**	580,891
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,466,345**	1,740,888
NON-CURRENT LIABILITIES		
Medium term bonds	**36,338**	34,050
Total non-current liabilities	**36,338**	34,050
Net assets	**1,430,007**	1,706,838
EQUITY		
Share capital	**259,856**	259,856
Reserves	**1,170,151**	1,446,982
Total equity	**1,430,007**	1,706,838

NOTES TO FINANCIAL STATEMENTS

31 December 2021

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

Note:

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

	Share premium account* HK$'000	**Contributed surplus*** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 January 2020	1,482,883	45,144	(69,222)	1,458,805
Loss and total comprehensive loss for the year	–	–	(11,823)	(11,823)
At 31 December 2020 and 1 January 2021	1,482,883	45,144	(81,045)	1,446,982
Loss and total comprehensive loss for the year	–	–	(16,975)	(16,975)
2020 final dividend	(259,856)	–	–	(259,856)
At 31 December 2021	1,223,027	45,144	(98,020)	1,170,151

* 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.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2022.

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				
	2021	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
REVENUE	**1,526,506**	1,443,490	852,084	834,149	848,925
Gross profit	**318,226**	159,002	264,716	267,205	249,623
PROFIT BEFORE TAX	**117,876**	1,040,362	103,713	88,878	61,809
Income tax expense	**(29,576)**	(334,224)	(36,521)	(22,423)	(6,068)
PROFIT FOR THE YEAR	**88,300**	706,138	67,192	66,455	55,741
Attributable to:					
Owners of the parent	**76,897**	714,780	62,976	52,646	46,877
Non-controlling interests	**11,403**	(8,642)	4,216	13,809	8,864
	88,300	706,138	67,192	66,455	55,741

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2021	2020	2019	2018	2017
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**6,298,851**	4,813,962	2,859,131	2,391,418	2,313,321
TOTAL LIABILITIES	**(3,569,034)**	(1,810,768)	(740,571)	(847,950)	(849,416)
NON-CONTROLLING INTERESTS	**(146,198)**	(132,203)	(141,272)	(107,759)	(93,727)
	2,583,619	2,870,991	1,977,288	1,435,709	1,370,178