大自然家居
Nature

Annual Report 2019

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

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

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-executive Directors

Mr. Liang Zhihua
Mr. Teoh Chun Ming

Independent non-executive Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Corporate Governance Committee

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

Executive Committee

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

Company Secretary

Mr. Lai Kwok Keung, Alex

Authorised Representatives

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

Auditors

KPMG, Public Interest Entity Auditor
Registered in accordance with
the Financial Reporting Council Ordinance

Principal Bankers

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

Registered Office

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

Principal Place of Business in Hong Kong

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Tower 2, The Gateway, Harbour City
Tsim Sha Tsui, Kowloon
Hong Kong

Head Office in the PRC

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Daliang Street
Shunde, Foshan City
Guangdong Province
the PRC

Office in Macau

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
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Hong Kong

Website

www.nature-home.com.hk

Stock Code

2083

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the year ended 31 December 2019 (the "Year"), the household furnishing material industry in the People's Republic of China ("PRC") faced enormous challenges, as the China's macro economy and the real estate market were impacted by the international trade dispute. Nature Home Holding Company Limited (the "Company") and its subsidiaries (collectively the "Group", "we" or "us") had experienced a harsh market condition. However, the Group had taken several measures to cope with the severe market condition and built a more solid foundation for future development. With respect to marketing, the Group accelerated its pace in developing project market to a certain degree in order to expand its market share. With respect to products, we kept expanding our market share by our new products (solid wood underfloor heating floorings manufactured by dry pressing method, three-layered solid wood floorings and new water-based paint wooden doors) that were launched in recent years. With respect to production, the Group had developed the layout of overseas production lines. We acquired two Cambodian flooring companies and set up our own flooring plant and substrate plant in Cambodia, which were expected to commence production in mid-2020. In addition, the Group acquired the entire issued share capital of Baltic Wood S.A. ("Baltic") in December 2019, which is a joint stock company incorporated in the Republic of Poland and principally engaged in manufacturing and sale of three-layered engineered flooring products to project customers in Europe, including, among others, property developers and professional contractors. Since the Group does not produce such products in its own factories, the acquisition would enable the Group to expand its own products portfolio and market base. Please refer to the announcement of the Company dated 30 December 2019 for details of the acquisition.

In addition to the strategic layout mentioned above, the Group also continued to improve its internal management and operation system so as to enhance operating efficiency. By doing so, the Group recorded double-digit growth in total revenue for the fourth consecutive year, with the overall revenue increasing by 17.4% from approximately RMB2,918,016,000 in 2018 to approximately RMB3,426,786,000 for the Year.

1. *Flooring Products*

During the Year, the overall performance of the Group's core flooring business was stable, with the total revenue in respect of flooring products of the Group increasing by 11.3% from approximately RMB2,388,340,000 in last year to approximately RMB2,657,593,000 for the Year. Furthermore, total sales volumes of flooring products for the Year was approximately 40,260,000 square meters, remaining stable as compared to the corresponding period of last year.

The business of manufacturing and sale of flooring products

The Group's revenue from manufacturing and sale of flooring products increased by 16.6% from approximately RMB2,150,657,000 in last year to approximately RMB2,507,761,000 for the Year, which has benefited from the growth of the project division, the putting into operation of new plastic and engineered flooring plants and the newly-acquired engineered flooring plants in Cambodia. In respect of its flooring sales network, the Group has established an extensive sales network in the PRC and is a major distributor in the PRC of a number of renowned foreign brands of flooring products. During the Year, the Group continued to optimize its sales network and eliminated inefficient stores. As at 31 December 2019, the total number of flooring stores was 3,484 (31 December 2018: 3,583), of which, there were 3,295 "Nature" stores (31 December 2018: 3,401), and 189 foreign imported brand stores (31 December 2018: 182). During the Year, there were seven new flooring plants of the Group. Currently, the Group owns a total of twelve flooring plants, which are mainly engaged in the manufacturing of laminated floorings, engineered floorings and plastic floorings.

Provision of trademark and distribution network for flooring products

The Group's flooring products under the "Nature" brand are manufactured by its self-owned production plants and through its exclusive authorised manufacturers. Such authorised manufacturers solely manufacture our branded flooring products and sell these products to the distributors within our distribution network in an exclusive and direct manner, for which we charge them trademark and distribution network usage fees. Due to the business strategy adjustment, reduction in usage fees of certain products and fierce competition in the high-end flooring products market, the revenue generated from trademark and distribution network usage fees decreased by 37.0% from approximately RMB237,683,000 in last year to approximately RMB149,832,000 for the Year.

2. *Customised Home Decoration Products*

The customised home decoration products of the Group mainly comprise of wooden doors, wardrobes and cabinets. Generally, the Group will manufacture the customised products based on the customers' requirements upon receipt of purchase orders. During the Year, the total revenue generated from the business of customised home decoration products increased by 45.2% from approximately RMB529,676,000 in last year to approximately RMB769,193,000 for the Year. The increase has benefited from the growth of the project division generally.

The business of manufacturing and sale of wooden doors

The wooden door business of the Group turned from loss into profit last year. With the high popularity of the water-based paint wooden doors launched by the Group in recent years and the rapid growth of the project division during the Year, the total revenue increased by 42.5% from approximately RMB253,649,000 in last year to approximately RMB361,513,000 for the Year. As at 31 December 2019, the number of the Group's stores for wooden doors was 647 (31 December 2018: 583) in total. The Group currently owns three wooden door production plants.

The business of manufacturing and sale of wardrobes and cabinets

During the Year, with the rapid growth of the wardrobes and cabinets projects, the total revenue increased by 60.5% from approximately RMB172,976,000 in last year to approximately RMB277,573,000 for the Year. As at 31 December 2019, the Group owned a total of 90 (31 December 2018: 106) wardrobe and cabinet stores. The Group currently owns one production plant for wardrobe and cabinet products and has commenced to construct a new production plant for wardrobe and cabinet products in Taizhou, Jiangsu Province, China.

Provision of trademarks and distribution network for customised products

The Group has authorised its independent manufacturers to produce "Nature" brand customised products. These authorised manufacturers will directly sell those customised products to the distributors within the distribution network of the Group, with trademark and distribution network usage fees payable to the Group. During the Year, the revenue from the trademark and distribution network usage fees for customised products was approximately RMB4,564,000 (Year 2018: RMB3,790,000).

Other sales business

During the Year, the sales revenue from other home decoration products (namely comprehensive decoration services and wall paper products) of the Group was approximately RMB125,543,000 (Year 2018: RMB99,261,000).

Prospect

In recent years, China's real estate market has gradually moved into a mature period. With the emergence of a new round of consumption upgrading, the demand for home decoration continues to present a tendency of increase year by year, which has actively accelerated the trend of sustained growth of the household furnishing materials industry in China. In addition, market changes have also significantly intensified, such as new technology development, transparency of Internet information, growing trend of younger customer groups, diversification and personalisation of product demand, and integration of cross-sector products, which have an impact on the traditional marketing channels and modes while to a certain extent also bring numerous opportunities for enterprises with core competitiveness and creativity. The Group believes that products, services and sales channels will be critical to success for the household furnishing materials industry in the future. Therefore, we will continue to enhance our core competitiveness in new products launched in recent years, including solid wood underfloor heating floorings manufactured by dry pressing method, solid wood sports floorings, engineered sports floorings and water-based paint wooden doors, while also further improving manufacturing from an intellectual property perspective and enhancing information available to internal management, so as to highlight our advantages on operating efficiency and continuously improve our capabilities on innovation and new product research and development.

For domestic sales channels, the proportion of fine-decorated houses developed by major property developers across the major cities in China increased significantly due to the accelerated development of domestic fine-decorated house market. In the coming year, we will further improve the ratio of sales to project customers (such as developers of real estate projects as well as engineering contractors), to cope with the market changes and expand our market share. Besides, we will also enhance the operation and sales efficiency of our outlets by providing one-stop home decoration services covering design, construction, home decoration and home appliance configuration.

For international business, the Group initiated the strategic layout of international production and sales during the Year, which included establishment of a new flooring plant and acquisition of two flooring plants in Cambodia, as well as acquisition of the entire issued share capital of Baltic in late December 2019. Such activities not only enriched the product mix, but also expanded the international business market. In the coming year, with the completion of the Group's new flooring plant in Cambodia, we will fully take advantage of the international layout of production capacity and access to international sales channels, in a bid to seize business opportunities of the globe.

During the first quarter of 2020, the novel coronavirus outbreak across the world and certain provinces in China were particularly affected. Adhered to assumption of social responsibility, the Group urgently arranged aldehyde-free floorings inventory from vicinity to donate to Huoshenshan (Fire God Mountain) Hospital in Wuhan and sent personnel to participate in floor laying, with an aim to make contributions to the prevention and control of the epidemic in China.

The outbreak of the new coronavirus caused negative impact on the overall consumer market in China. The Group expected that the sales and delivery of products related to most of our projects will therefore be postponed to the second and third quarters. Nevertheless, we believe the impact of the new coronavirus is short-lived, and the overall Chinese economy is still on an upward trajectory, and domestic demand for home improvement services and products remains substantial. In response to the rapid impact of the outbreak, the Group has provided immediate and comprehensive support for the transition of dealers from offline to online sales. In addition, the Group has built a good foundation for international business last year and intended to strengthen its overseas sales, therefore, we remain cautiously optimistic about the business development in the coming year.

The Group's flagship brand "Nature" has been recognized by consumers as an image of quality and safe products and represents healthy life and environmental protection. Since the starting of our household product strategy of providing integrated green home decoration products, we have formed a strategic layout that various green home decoration product brands, including Nature floorings, Nature wooden doors, etc., running together with "Nature" as a leading brand. The steady development over the years has enabled the Group to maintain a strong core competitiveness in the home decoration product market in China, including a wide range of home decoration products, a strong brand image, and a solid sales network foundation, which will help the Group to seize more market share through the launch of competitive products and channel structure adjustment. Despite the difficult environment faced by the home decoration industry in China during the period, the Group still achieved steady growth in the overall business, among which the sales of wooden doors and kitchen closets recorded satisfactory growth. Therefore, in the coming year, in addition to maintaining our leading position in flooring market, we will strengthen the development of these customised home decoration products with the goal of sustained and rapid growth, expand the categories of products, develop and launch new products for gaining market share, in order to create more values for shareholders.

Financial Review

Revenue

During the year ended 31 December 2019, we generate revenue from two business segments: (1) manufacturing and sale of flooring products; and (2) manufacturing and sale of customised home decoration products.

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

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

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

	For the year ended 31 December				
	2019		2018		Revenue
		% of total		% of total	Growth
Revenue	**RMB'000**	**revenue**	RMB'000	revenue	rate %
Manufacturing and sale of flooring products					
— sales of goods	**2,507,761**	**73.2**	2,150,657	73.7	16.6
— provision of trademark and distribution network	**149,832**	**4.4**	237,683	8.1	(37.0)
	2,657,593	**77.6**	2,388,340	81.8	11.3
Manufacturing and sale of customised home decoration products					
— sales of goods	**764,629**	**22.3**	525,886	18.1	45.4
— provision of trademark and distribution network	**4,564**	**0.1**	3,790	0.1	20.4
	769,193	**22.4**	529,676	18.2	45.2
Total	**3,426,786**	**100.0**	2,918,016	100.0	17.4

The overall revenue increased by 17.4% from approximately RMB2,918,016,000 in last year to approximately RMB3,426,786,000 for the Year.

Revenue from the segment of manufacturing and sale of flooring products increased by 11.3% from approximately RMB2,388,340,000 in last year to approximately RMB2,657,593,000 for the Year. It was mainly attributable to the growth of the sales of self-produced flooring products, especially in the project division.

Revenue from the segment of manufacturing and sale of customised home decoration products increased by 45.2% from approximately RMB529,676,000 in last year to approximately RMB769,193,000 for the Year. It was mainly attributable to the growth of the sales of wooden door, wardrobes and cabinets products, especially in the project division.

Gross Profit

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

	For the year ended 31 December				
	2019		2018		Growth rate
Gross Profit	**RMB'000**	**GP%**	RMB'000	GP%	%
Manufacturing and sale of flooring products					
— sales of goods	**661,489**	**26.4**	630,642	29.3	4.9
— provision of trademark and distribution network	**147,893**	**98.7**	230,558	97.0	(35.9)
	809,382	**30.5**	861,200	36.1	(6.0)
Manufacturing and sale of customised home decoration products					
— sales of goods	**110,676**	**14.5**	25,773	4.9	329.4
— provision of trademark and distribution network	**4,505**	**98.7**	3,676	97.0	22.6
	115,181	**15.0**	29,449	5.6	291.1
Total	**924,563**	**27.0**	890,649	30.5	3.8
EBITDA	**384,520**	**11.2**	299,047	10.2	28.6

The overall gross profit increased by 3.8% from approximately RMB890,649,000 in last year to approximately RMB924,563,000 for the Year and the overall gross profit margin decreased from 30.5% to 27.0% for the Year.

The segment of manufacturing and sale of flooring products contributed a gross profit of approximately RMB809,382,000 for the Year, representing a decrease of 6.0%, compared to approximately RMB861,200,000 in last year. The gross profit margin decreased from 36.1% to 30.5% for the Year. It was mainly due to the combined effects of the decrease in licensing fee income from provision of trademarks and distribution network and the increase in proportion of sales in project division, of which gross profit margin is relatively lower. Decrease in licensing fee income was mainly due to adjustment of business strategies, lower charges and keen competition in high-end flooring market.

The segment of manufacturing and sale of customised home decoration products contributed a gross profit of approximately RMB115,181,000 for the Year, representing an increase of 291.1%, compared to approximately RMB29,449,000 in last year. The gross profit margin increased from 5.6% to 15.0% for the Year. It was mainly attributable to the increase in volume of production.

EBITDA

The EBITDA increased by 28.6% from approximately RMB299,047,000 in last year to approximately RMB384,520,000 for the Year and the EBITDA margin increased from 10.2% to 11.2% for the Year.

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

Other Income

Other income consists primarily of rental income from operating leases and government grants which are subject to the discretion of the relevant authorities. Other income increased by RMB66,395,000 from approximately RMB25,425,000 in last year to approximately RMB91,820,000 for the Year. It was mainly due to an one-off bargain purchase gain of RMB54,734,000 resulted from acquisition of a subsidiary and dividends income of RMB4,746,000 from equity investments.

Distribution Costs

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

Distribution costs was approximately RMB379,781,000 for the Year, representing an increase of approximately 3.2%, compared to approximately RMB368,037,000 in last year. It was primarily due to the net effect of the increase in decoration allowance to distributors, staff costs and transportation fees; and the decrease in advertising and promotion expenses, and travelling expenses.

The percentage of distribution costs to revenue decreased from 12.6% in last year to 11.1% for the Year.

Administrative Expenses

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

Administrative expenses was approximately RMB317,935,000 for the Year, representing an increase of approximately 5.4%, compared to approximately RMB301,545,000 in last year. It was primarily due to the net effect of (i) the increase in staff costs and loss allowance for receivables; and (ii) the decrease in entertainment and travelling expenses.

The percentage of administrative expenses to revenue decreased from 10.3% in last year to 9.3% for the Year.

Other Operating Expenses

Other operating expenses increased by RMB24,438,000 from approximately RMB36,257,000 in last year to approximately RMB60,695,000 for the Year. It was mainly due to the net effect of (i) the increase in impairment losses of other property, plant and equipment resulted from idle assets and depreciation and related cost of lease-out assets; and (ii) the decrease in loss of debt restructuring and stock damages.

Net Finance Costs

Net finance costs represent the difference between finance income and finance costs. Finance income consists primarily of interest income on bank deposits and certain customers. Finance costs consist primarily of interest expenses on bank and other loans and net foreign exchange loss. Net finance costs increased from approximately RMB27,343,000 in last year to approximately RMB46,985,000 for the Year.

Finance income decreased by 64.8% from approximately RMB56,030,000 in last year to approximately RMB19,695,000 for the Year. It was due to decrease in interest income from project customers.

Finance costs decreased by 20.0% from approximately RMB83,373,000 in last year to approximately RMB66,680,000 for the Year. It was due to decrease in interest expenses resulted from factoring arrangement in 2018.

Income Tax

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

Income tax was approximately RMB57,044,000 for the Year compared to approximately RMB37,845,000 in last year, which was the net effect of the current income tax of approximately RMB67,621,000 and the net deferred tax income of approximately RMB10,577,000. The decrease in deferred tax income was mainly due to an one-off reversal of withholding tax in 2018.

Profit Attributable to Equity Shareholders of the Company

Resulting from the factors mentioned above, the profit attributable to equity shareholders of the Company was approximately RMB162,120,000 for the Year, compared to the profit of approximately RMB156,785,000 in last year.

Liquidity

Cash Flow

The Group meets its working capital and other capital requirements principally with the following: (i) cash generated from operations; and (ii) proceeds from loans and borrowings. The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. During the Year, the Group generated net cash inflow of approximately RMB142,349,000 from operating activities (year ended 31 December 2018: RMB620,121,000) and had a net proceeds from bank and other loans of approximately RMB67,721,000 (year ended 31 December 2018: net repayment of RMB80,652,000).

Net Current Assets and Working Capital Sufficiency

As at 31 December 2019, net current assets was approximately RMB1,034,429,000, representing a decrease of 4.0%, compared to approximately RMB1,078,005,000 as at 31 December 2018. The current ratios as at 31 December 2019 and 31 December 2018 were 1.4 and 1.6, respectively.

Cash Conversion Cycle

	Turnover days		
	As at 31 December		Change
	2019	2018	(days)
Trade and bills receivables and contract assets	**142**	140	2
Inventories	**80**	73	7
Trade and bills payables	**(167)**	(136)	(31)
Net	**55**	77	(22)

The above figures excluded the newly acquired subsidiary at the end of the year of 2019.

As at 31 December 2019, trade and bills receivables and contract assets (excluding long-term receivables) turnover days increased by 2 days to 142 days.

As at 31 December 2019, inventories turnover days increased by 7 days to 80 days.

As at 31 December 2019, trade and bills payables turnover days increased by 31 days to 167 days. It was mainly due to increase in usage of bills for settlements in order to enhance working capital.

Financial Resources

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Bills payables	**580,866**	498,071
Bank and other loans: current	**542,472**	593,311
non-current	**296,077**	107,092
Sub-total	**1,419,415**	1,198,474
Less: Cash and cash equivalents	**(540,185)**	(823,843)
Pledged and restricted deposits	**(412,611)**	(379,765)
Adjusted net debt/(assets)	**466,619**	(5,134)
Total equity	**2,386,602**	2,269,349
Adjusted gearing percentage	**19.6%**	(0.2%)

Our adjusted gearing percentage, which are derived by dividing adjusted net debt/(assets) by total equity of the Group, were 19.6% and negative 0.2% as at 31 December 2019 and 31 December 2018, respectively.

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

Bank and Other Loans

(a) At 31 December 2019, the bank and other loans were repayable as follows:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Within 1 year or on demand	**542,472**	593,311
After 2 years but within 5 years	**296,077**	107,092
	838,549	700,403

At 31 December 2019, the bank and other loans were secured as follows:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Bank loans (i)		
— Secured	**665,964**	546,982
— Unsecured	**172,585**	55,515
Sub-total	**838,549**	602,497
Other loans — secured (ii)	**—**	97,906
	838,549	700,403

(i) At 31 December 2019, the Group has secured loans and borrowings amounting to approximately RMB665,964,000 (31 December 2018: RMB546,982,000), of which:

— approximately RMB108,842,000 (31 December 2018: RMB107,092,000) of these secured loans were secured by assets of the Group and guaranteed by certain joint venture partners on the joint and several guarantees;

— approximately RMB57,788,000 (31 December 2018: Nil) of these secured loans were secured by 100% equity interest of a subsidiary; and

— approximately RMB499,334,000 (31 December 2018: RMB439,890,000) of the other secured loans (the "collateral loans") were solely secured by assets of the Group.

(ii) At 31 December 2019, the Group has no secured other loans (31 December 2018: RMB97,906,000).

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

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Restricted deposits	**164,700**	116,000
Other property, plant and equipment	**258,401**	58,586
Right-of-use assets	**139,540**	—
Lease prepayments	**—**	74,619
Investment properties	**169,414**	174,343
Trade and bills receivables	**11,099**	208,273
Inventories	**33,136**	—
	776,290	631,821

(iv) Parts of the Group's banking facilities, amounted to approximately RMB758,326,000 (31 December 2018: RMB671,240,000) are subject to the fulfilment of covenants relating to certain of the subsidiaries' balance sheet ratios, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 31 December 2019 and 31 December 2018, none of the covenants relating to drawn down facilities had been breached.

(v) The unutilised banking facilities as at 31 December 2019 amounted to approximately RMB418,648,000 (31 December 2018: RMB289,346,000).

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

	At 31 December 2019		At 31 December 2018	
	Effective interest rate %	Carrying amount RMB'000	Effective interest rate %	Carrying amount RMB'000
Variable rate instruments				
Bank loans	**5.39**	**252,196**	4.69	283,753
Fixed rate instruments				
Bank loans	**4.78**	**586,353**	6.20	318,744
Other loans		**—**	8.80	97,906
Total borrowings		**838,549**		700,403
Fixed rate borrowings as a percentage of total borrowings		**70%**		59%

Capital Expenditures

Capital expenditures amounted to approximately RMB186,905,000 for the Year (year ended 31 December 2018: RMB192,721,000). It primarily related to purchases of property, plant and equipment.

Commitments and Contingent Liabilities

(a) Capital Commitments

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

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Contracted for	**57,540**	14,122

(b) Contingent liabilities

There were two outstanding litigations commenced by a constructor and a supplier against certain subsidiaries of the Group claiming construction fee and trade payables of RMB2,337,000. The subsidiaries continue to deny any liability in respect of the claims and based on the advice of the Group's legal counsels, the directors of the Group do not believe it probable that the courts will find against them. No provision has therefore been made in respect of these claims.

Foreign Currency Risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the entity to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi ("RMB"), United States Dollars ("USD"), Macau Pataca ("MOP"), Peruvian Nuevo Sol ("PEN"), Euro ("EUR") and Polish Zloty ("PLN"). On the other hand, our bank and other loans, cash and cash equivalents are primarily in RMB, USD, EUR, Hong Kong Dollars ("HKD") and PLN. The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. The Group does not have any hedging policy for foreign currencies in place and does not currently hedge transactions undertaken in foreign currencies. However, the Board will remain alert to any relevant risks and, if necessary, consider to hedge any material potential foreign exchange risk.

Employees

As at 31 December 2019, the Group had 4,964 employees (at 31 December 2018: 3,067). Relevant staff cost was approximately RMB398,957,000 (including share award scheme expenses of approximately RMB1,022,000) for the Year compared to approximately RMB338,593,000 (including share award scheme expenses of approximately RMB5,693,000) for the year ended 31 December 2018. The Group will regularly review remuneration and benefits of its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, employee provident fund schemes, share option schemes and share award scheme.

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

On 30 December 2019, the Company, Boville Investments sp. z.o.o. (a wholly-owned subsidiary of the Company), ("Boville") and the 7 vendors (the "Vendors") entered into an investment agreement (including all Schedules annexed thereto) (the "Agreement"), pursuant to which Boville has agreed to purchase, and the Vendors have agreed to sell, an aggregate of 10,000,000 issued shares ("Share(s)") of Baltic Wood S.A., ("Baltic"), representing the entire issued share capital of Baltic (the "Acquisition").

On 30 December 2019, Boville entered into a supplemental agreement with one of the Vendors, Mr. Zawierucha, pursuant to which the Company agreed to increase the consideration payable to Mr. Zawierucha by EUR6.00 per Share. The total additional consideration payable to Mr. Zawierucha is EUR300,000 (the "Additional Consideration").

The total consideration for the Acquisition comprises (i) the first tranche price in the fixed amount of EUR13,275,000 ("First Tranche Price"); and (ii) the second tranche price (the "Second Tranche Price") to be determined (subject to adjustment) in accordance with the following formula: 25% × EBITDA (profit before net finance costs, income tax, depreciation and amortization) of Baltic for the year ended 31 December 2019 under International Financial Reporting Standards × 5.75.

The total payment to be made by the Group for the purpose of the Acquisition inclusive of the First Tranche Price, the Second Tranche Price and the Additional Consideration is expected not to exceed EUR18,662,000 (equivalent to approximately HKD161,157,000).

Baltic is a joint stock company incorporated in the Republic of Poland. Baltic is principally engaged in manufacturing and sale of flooring products mainly in Europe and Asia. Baltic owns a production plant in Jasło, the Republic of Poland, which mainly manufactures three-layer engineered wood flooring products with a production capacity of approximately 1.6 million square meters per annum. Baltic's major markets include countries in Europe and the PRC. Baltic is a flooring products manufacturer for project customers in Europe which include, among others, property developers and professional contractors and it also sells its products under the brand "Baltic Wood" mainly in Asian market.

The Directors believe that the Acquisition is an opportunity to further strengthen the Group's business strategy of exploring the international flooring market and to create substantial synergies with the Group's current flooring businesses. The main type of products manufactured and sold by Baltic is three-layer engineered wood flooring and the products are mainly sold to project customers in Europe, which include, among others, property developers and professional contractors. Since the Group does not produce such products in its own factories, the Acquisition would enable the Group to expand its own products portfolio and customers base.

Please refer to the announcement of the Company dated 30 December 2019 for further details of the Acquisition.

The completion of the Acquisition has taken place on 30 December 2019.

Save as disclosed above, the Group did not have other material acquisition or disposal of subsidiaries, associated companies or joint ventures for the year ended 31 December 2019.

Subsequent Events

Subsequent to 31 December 2019, the novel coronavirus ("COVID-19") outbreak across the world and certain provinces in the PRC were particularly affected. The impacts of the outbreak of COVID-19 on the businesses of the Group in the first quarter of 2020 are set out below:

— the Group currently owns 12 production plants in the PRC. Although none of these is located in Hubei Province, the PRC, travel restrictions and other precaution measures imposed by relevant local authorities resulted in delaying commencement of operation in manufacturing plants of the Group in the PRC after the Chinese New Year holidays and as well as the logistics arrangement.

— the businesses of some suppliers and distributors of the Group have been temporarily closed.

— the outbreak of COVID-19 caused negative impact on the overall consumer market in the PRC in the first quarter of 2020.

— sales and delivery of products related to most of our projects are expected to be postponed to the second and third quarters of 2020.

As at the date of this report, all production plants and the majority of retail stores of the Group have resumed operation.

As the outbreak of COVID-19 continues to spread throughout the world, the Group estimates that the degree of the impact of COVID-19 will depend on the duration of the epidemic and the outcome of various preventive measures undertaken by respective countries across the globe.

Given the dynamic circumstances and uncertainties across the global markets, the overall financial impact of the outbreak of COVID-19, which will be reflected in the Group's 2020 interim and annual financial statements, could not be reasonably estimated at this stage.

Future Plans for Material Investments

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2019.

Executive Directors

Mr. Se Hok Pan (佘學彬), age 60, is the Chairman and the President of the Company and was appointed a Director on 27 July 2007 and the President of the Company on 1 February 2018. Mr. Se is a co-founder of the Group. Mr. Se is responsible for formulating overall strategies, planning and business development of the Company, managing and supervising the financial management functions and human resources of the Company and is instrumental to our growth and business expansion since our establishment in 2004. Mr. Se began his career in the flooring products industry in 1995 and has over 20 years of experience in the flooring products industry. Mr. Se holds important positions in influential industry associations. He is currently the vice president of China Forestry Industry Association (中國林業產業協會), and one of the drafters of the China National Standards for Solid Wood Flooring (中國實木地板國家標準) which came into effect in 2009. Mr. Se is also a member of the Gansu Provincial Committee of Chinese People's Political Consultative Conference (中國人民政治協商會議甘肅省委員會) and the vice president of the Industry and Commerce Association of Macau (澳門工商聯會). From 1995 to 2001, Mr. Se served as a general manager at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城). From July 2001 to September 2004, Mr. Se served as a president at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Mr. Se has received numerous high profile awards such as the "Robert A. Mundell World Executive Awards (2004)", "China Forestry Industry Annual Person (2009)" (中國林業產業年度人物) as recognized by China National Forest Products Association (中國林產工業協會) and China Forestry Industry Association (中國林業產業協會) and "The Most Influential Figures in the 15-Year Development of China's Flooring Industry (2010)" (中國地板行業輝煌十五年最具影響力人物獎). Mr. Se is the spouse of Ms. Un Son I, the younger brother of Mr. She Jian Bin and the brother-in-law of Mr. Liang Zhihua. Mr. Se is a director of Freewings Development Co., Ltd., the controlling shareholder of the Company.

Ms. Un Son I (袁順意), age 54, is a Vice President of the Company and the General Manager of the Strategic Procurement Department and the Internal Audit Department of the Group. Ms. Un was appointed a Director on 27 July 2007. Ms. Un is a co-founder of the Group. Ms. Un is responsible for networking and development of relationship with suppliers, procurement control, logistics management and asset management and control to ensure the supply chain operates efficiently. She is also responsible for the overall management of internal audit of the Group. Ms. Un has over 20 years of experience in the flooring products industry. Ms. Un is a member of China-ASEAN Organization (中國東盟協會) and vice president of the Industry and Commerce Association of Macau (澳門工商聯會). From 1995 to 2001, Ms. Un served as a deputy general manager and a procurement manager at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城). From July 2001 to September 2004, Ms. Un was a director of president office, a director of human resources and a director of the procurement center at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Ms. Un was awarded as one of the "100 Outstanding Female Entrepreneurs of China" (中國百名傑出女企業家). Ms. Un is the spouse of Mr. Se Hok Pan and the sister-in-law of Mr. She Jian Bin and Mr. Liang Zhihua. Ms. Un is a director of Freewings Development Co., Ltd., a controlling shareholder of the Company.

Mr. She Jian Bin (佘建彬), age 62, was appointed a Director on 8 May 2008. Mr. She is responsible for the participation of the Group's marketing activities. Mr. She has approximately 30 years of experience in the timber industry and the flooring products industry. Mr. She was a purchasing manager of wood at P.T. Sumber Laris Jaya Manufacturer Timber Industry from 1988 to 1994 and worked at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城) for its production, sales and distribution management from 1995 to 2001. During the period between July 2001 and September 2004, Mr. She served as a director of the sales center at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Mr. She has received "15 Prosperous Years of the China Flooring Industry — Promotion of Industry Development Award" (中國地板行業輝煌十五年傑出行業建設推動獎) in 2010. Mr. She joined the Group in 2004 and has since held various managerial positions in sales and distribution. Mr. She is the elder brother of Mr. Se Hok Pan and the brother-in-law of Ms. Un Son I and Mr. Liang Zhihua.

Non-executive Directors

Mr. Liang Zhihua (梁志華), age 56, was appointed an executive Director and the President of the Company on 1 January 2014 and ceased to be the President of the Company on 1 February 2018. Mr. Liang was re-designated as a non-executive Director with effect from 28 March 2019. Mr. Liang is also a director of certain operating subsidiaries of the Group. Mr. Liang joined the Group in 2006 and has since held various managerial positions in the general affairs, human resources and production departments as well as the President's Office of the Group. He has over ten years of experience in the flooring products industry. Mr. Liang is the brother-in-law of Mr. She Jian Bin, Mr. Se Hok Pan and Ms. Un Son I.

Mr. Teoh Chun Ming (張振明), age 50, is a non-executive Director. Mr. Teoh joined the Group in 2008 and was appointed as the Chief Financial Officer and the Company Secretary on 1 September 2008 and 26 March 2009, respectively. Mr. Teoh was also the Authorised Representative of the Company for the purpose of the Listing Rules and the Companies Ordinance. Mr. Teoh held the positions of Chief Financial Officer and Company Secretary until his appointment as a non-executive Director on 1 July 2012. Mr. Teoh is also the investor relations officer of the Company. Mr. Tech was an independent non-executive director of EPI (Holdings) Limited (Stock Code: 689), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from January 2014 to October 2016 and is currently the chief financial officer and company secretary of Joyer Auto HK Company Limited and an independent non-executive director of WE Solutions Limited (Stock Code: 860), a company listed on the Stock Exchange. Mr. Teoh has over 20 years of accounting and finance experience. Prior to joining the Group, Mr. Teoh held senior positions in accounting and finance in various companies listed on the Stock Exchange. Mr. Teoh obtained a master's degree in professional accounting from the Hong Kong Polytechnic University in 2005. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales.

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur (李國章), age 75, was appointed as an independent non-executive Director on 4 May 2011. Professor Li is currently the deputy chairman and a non-executive director of The Bank of East Asia, Limited (Stock Code: 23) and an independent non-executive director of Shangri-La Asia Limited (Stock Code: 69), both being companies listed on the Stock Exchange, and a non-executive director of BioDiem Ltd. in Australia, a company which was delisted from the Australian Securities Exchange in November 2013. Professor Li was appointed a Member of the Executive Council of Hong Kong Special Administrative Region ("HKSAR"), the Chairman of the Council for Sustainable Development of HKSAR and the Chairman of the Council of the University of Hong Kong on 1 July 2012, 1 March 2015 and 1 January 2016 respectively. Professor Li was an independent non-executive director of The Wharf (Holdings) Limited (Stock Code: 4), a company listed on the Stock Exchange, from 1 July 2012 to 16 August 2013, a non-executive director of AFFIN Holdings Berhad (symbol: 5185), a company listed on Bursa Malaysia, from 21 May 2008 to 31 December 2014, and a director of CaixaBank, S.A. (symbol: CABK), a company listed on the Spanish Stock Exchange, from November 2014 to December 2015. Professor Li was also a member of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會) from 1998 to 2018. Professor Li served as Professor of Surgery (Founding Chair) in the Department of Surgery of The Chinese University of Hong Kong from 1982 to 2005. In addition, Professor Li was the Dean of the Faculty of Medicine of The Chinese University of Hong Kong from 1992 to 1996 and the Vice-Chancellor of the university from 1996 to 2002. Professor Li was a non-executive director of Glaxo Wellcome plc. from 1997 to 2000. In 2002, Professor Li became Secretary for Education and Manpower as well as a member of the Executive Council of the Hong Kong Special Administrative Region Government and his term ended in June 2007. Prior to 2002, Professor Li was a non-executive director of The Bank of East Asia, Limited, China Mobile Limited, Henderson Cyber Limited and The Wharf (Holdings) Limited. During the same period of time, Professor Li was also the non-executive chairman of Corus and Regal Hotels plc. Professor Li resigned from all these positions in 2002 when he assumed his role as Secretary for Education and Manpower in Hong Kong. Professor Li obtained his medical degree from University of Cambridge in 1969.

Mr. Chan Siu Wing, Raymond (陳兆榮), age 55, was appointed as an independent non-executive Director with effect from 4 May 2011. Mr. Chan is currently an independent non-executive director of Quali-Smart Holdings Limited (Stock Code: 1348) and Hong Kong Finance Group Limited (Stock Code: 1273), both being companies listed on the Main Board of the Stock Exchange. Mr. Chan also holds the position of independent non-executive director of Phoenitron Holdings Limited (formerly known as Cardlink Technology Group Limited) (Stock Code: 8066), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chan has over 30 years of experience in the field of accounting, taxation, finance and trust. Mr. Chan holds a Bachelor of Economics degree from the University of Sydney. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a founding member of the Macau Society of Certified Practising Accountants.

Mr. Ho King Fung, Eric (何敬豐), age 43, was appointed as an independent non-executive Director on 4 May 2011. Mr. Ho is a solicitor of the Hong Kong Special Administrative Region and the chairman and executive director of Ample Hope Limited. In Macau, Mr. Ho is also the chairman of P&W Money Changer Limited and Jing Yang Company Limited. Mr. Ho was appointed as an executive director and co-chairman of WE Solutions Limited (Stock Code: 860), a company listed on the Stock Exchange, on 1 November 2016 and was re-designated as the Chairman of WE Solutions Limited on 24 November 2017. Mr. Ho joined JP Morgan in 2000 as an analyst and worked as a trainee solicitor at Linklaters between 2003 and 2005 and as an associate between 2005 and 2006. Between 2007 and 2010, Mr. Ho worked at Deutsche Bank AG, Hong Kong Branch and his last position held was vice president and head of Hong Kong and Macau Origination. Mr. Ho was a non-executive director of United Energy Group Limited (Stock Code: 467), a company listed on the Stock Exchange, between 2011 and 2012, the non-executive chairman of EPI (Holdings) Limited (Stock Code: 689) from 2013 to 2016 and a non-executive director of AGTech Holdings Limited (Stock Code: 8279) from 2013 to 2016. United Energy Group Limited, EPI (Holdings) Limited and AGTech Holdings Limited are companies listed on the Stock Exchange. He is a committee member of the Chinese People's Political Consultative Conference of Beijing (中國人民政治協商會議北京市委員會) and the president of Money Exchangers' Association of Macao. Mr. Ho was also awarded China's Top 10 Economic Talents (十大中華經濟英才) in 2009. Mr. Ho graduated from the University of New South Wales, Australia with Bachelor of Commerce (Finance) and Bachelor of Laws degrees.

Senior Management

Mr. Shen Xiaodi (沈小笛), age 55, is the Chief Operating Officer of the Company. Mr. Shen joined the Group in September 2017. Mr. Shen is responsible for the day-to-day management of the Group's business operation as well as arranging and formulating the Group's business plans. Prior to that, Mr. Shen assumed a number of senior managerial positions, including a vice president of a high-tech enterprise in the PRC; an executive director of BaWang International (Group) Holding Limited (a company listed on the Stock Exchange, stock code: 1338) and the vice general manager of an asset management company. Mr. Shen possesses over 10 years of experience in manufacturing, supply chain and marketing management as well as in strategy planning and implementation. Mr. Shen graduated from Xi'an Jiaotong University in 1986. Mr. Shen obtained a doctoral degree from the Automatization Institute of the Chinese Academy of Sciences in 1993 and obtained his qualification as an associate researcher in the Applied Mathematics Institute of the Chinese Academy of Sciences in 1995.

Mr. Lai Kwok Keung, Alex (黎國強), aged 50, is the Chief Financial Officer and Company Secretary of the Company. Mr. Lai joined the Group in 2016. Mr. Lai is responsible for developing the financial strategies of the Group. Mr. Lai is also participate in the formulation of major investment plans of the Group, provides financial advice for the Group and oversees the Group's company secretarial matters. Mr. Lai has over 20 years of accounting and finance experience. Mr. Lai held senior positions in accounting, finance, company secretary and audit in various companies. Prior to joining the Group, he was the Chief Financial Officer and Company Secretary of a property development company. Mr. Lai was a senior internal audit manager at companies listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange and a senior manager at an international accounting firm. Mr. Lai graduated with a bachelor's degree in Business Administration from The University of Hong Kong in 1993. Mr. Lai is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Mr. Se Ka Chon (佘嘉浚), aged 29, is a Vice President of the Company and the President of flooring division of the Group. He joined the Group in July 2019 and is responsible for day-to-day management of the operation of flooring business and development of the long term strategies and products the Group. Mr. Se has been the President of Guangdong Jingshi Restaurant Service Co., Ltd. since 2017. Mr. Se has also worked as an analyst in several investment banks and has extensive experience in brand marketing, corporate strategy formulation, and business model innovation. Mr. Se was appointed as an executive council member the Zhuhai and Macao Association (澳門珠海聯誼會) in November 2017. Mr. Se is the vice president of Guangdong Real Estate Chamber of Commerce (Youth Committee) (廣東省地產商會(青委會)), the representative of Shunde District Political Consultative Conference Committee (順德區政協委員會委員), the executive chairman of Shunde District Young Entrepreneurs Association (順德區青年企業家協會), and the Honorary Chairman of Qingjun Association of Shunde Youth Enterprise Association (順德青企協青駿會). Mr. Se graduated with a bachelor's degree (First-class honours) in mathematics from the University College London in 2013. Mr. Se is a son of Mr. Se Hok Pan and Ms. Un Son I.

CORPORATE GOVERNANCE REPORT

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

During the year ended 31 December 2019, except for the following deviations, the Company has complied with the applicable code provisions of the Code.

Code Provision E.1.2

The roles of Chairman and President of the Company are currently performed by Mr. Se Hok Pan and Mr. Se is responsible for formulating overall strategic planning and business development of the Group and effective functioning of the Board as well as day-to-day management of the Group's operation and overseeing the Group's business. As such, the Company has deviated from the code provision A.2.1 under the Code which requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

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

Code Provision E.1.2

The chairmen of the audit committee and the remuneration committee of the Company were unable to attend the annual general meeting of the Company held on 6 June 2019 (the "2019 AGM") due to their other business engagements.

However, the Chairman and President, the company secretary, and the external auditors of the Company attended the 2019 AGM to collect views of the shareholders of the Company and/or answer questions at the 2019 AGM.

Board of Directors

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

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

Executive Directors

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

Non-executive Directors

Mr. Liang Zhihua (Note)
Mr. Teoh Chun Ming

Independent Non-executive Directors

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

Note: Mr. Liang Zhihua was an executive Director and was re-designated as a non-executive Director with effect from 28 March 2019.

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

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

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

The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. Details of the remuneration of the Directors for the year ended 31 December 2019 are set out in note 7 to the financial statements.

The number of independent non-executive Directors during the year ended 31 December 2019 meets the minimum requirement of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board.

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

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

Directors' Attendance Records

Board meetings are held at least four times a year at approximately quarterly intervals and on other occasions when necessary. Details of Directors' attendance at the meetings of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee held during the year ended 31 December 2019 are set out in the following table:

	Number of meetings attended/held during the year ended 31 December 2019				
Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
Executive Directors					
Mr. Se Hok Pan *(Chairman and President)*	4/4	—	—	1/1	1/1
Ms. Un Son I	4/4	—	—	—	—
Mr. She Jian Bin	4/4	—	—	—	—
Non-executive Directors					
Mr. Liang Zhihua (Note)	2/4	—	—	—	—
Mr. Teoh Chun Ming	4/4	2/2	1/1	—	1/1
Independent non-executive Directors					
Professor Li Kwok Cheung, Arthur	3/4	—	1/1	—	—
Mr. Chan Siu Wing, Raymond	4/4	2/2	—	1/1	—
Mr. Ho King Fung, Eric	3/4	2/2	1/1	1/1	1/1

Note: Mr. Liang Zhihua was an executive Director and was re-designated as a non-executive Director with effect from 28 March 2019.

In 2019, the Company convened and held one shareholders' general meeting, being the 2019 AGM. The chairmen of the audit committee and the remuneration committee of the Company were unable to attend the 2019 AGM due to their other business engagements. However, Mr. Se Hok Pan (the Chairman and President), the company secretary, and the external auditors of the Company attended the 2019 AGM to collect views of the shareholders of the Company and/or answer questions at the 2019 AGM.

Directors' Induction and Professional Development

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

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

The Directors are requested to provide the Company with their respective training record pursuant to the new requirement of the Code on continuous professional development. During the year ended 31 December 2019, all Directors have participated in appropriate continuous professional development activities by way of attending training sessions, conferences and seminars or reading materials relevant to the Company's business, directors' duties and responsibilities, corporate governance and recent amendments to the Listing Rules.

Board Committees

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

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

Audit Committee

Membership

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

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

Responsibilities and work done

The chief responsibilities of the Audit Committee include making recommendations to the board on the appointment, reappointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of the resignation or dismissal of such auditors; reviewing the interim and annual reports and accounts of the Group; and supervising the financial reporting process and effectiveness of internal control system of the Group.

The works performed by the Audit Committee during year ended 31 December 2019 are as follows:

- reviewed the annual report and the annual results announcement of the Company for the year ended 31 December 2018;

- reviewed the interim report and the interim results announcement of the Company for the six months ended 30 June 2019;

- reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function;

- reviewed the risk management and internal control systems of the Group; and

- reviewed the effectiveness of the Company's internal audit function.

Remuneration Committee

Membership

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

Responsibilities and work done

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

The work performed by the Remuneration Committee during the year ended 31 December 2019 is as follows:

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

For the year ended 31 December 2019, the remuneration payable to 3 senior management (excluding Directors) fell within the following bands:

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

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

Nomination Committee

Membership

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

Responsibilities and work done

The Nomination Committee is responsible for reviewing and assessing the composition of the Board and the independence of the independent non-executive Directors and making recommendations to the Board on appointment or re-appointment of Directors. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, and length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. As there was no new Director being appointed during the year ended 31 December 2019, the Board has not dealt with or considered nomination of director during the year.

The works performed by the Nomination Committee during the year ended 31 December 2019 are as follows:

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

— reviewed and considered the re-designation of Mr. Liang Zhihua as a non-executive Director; and

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

Corporate Governance Committee

Membership

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

Responsibilities and work done

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

The works performed by the Corporate Governance Committee during the year ended 31 December 2019 are as follows:

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

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

— reviewed the corporate governance report in the 2018 annual report.

Executive Committee

Membership

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

Responsibilities and work done

The principal responsibilities of the Executive Committee include (i) implementing the business plan and company strategies as approved by the Board and developing specific implementation plan; and (ii) monitoring and overseeing the implementation of the budget as approved by the Board. During the year ended 31 December 2019, the Executive Committee has duly performed its responsibilities and contributed to the business development of the Group.

Risk Management and Internal Controls

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

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

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

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

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

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

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

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

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

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

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

Dissemination of Inside Information

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

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

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

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

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

Model Code for Securities Transactions by Directors

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the year ended 31 December 2019.

External Auditors

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

For the year ended 31 December 2019, the fee paid to KPMG for the audit and interim review of the financial statements of the Group was approximately RMB4.35 million.

The non-audit services provided by KPMG to the Group during the Year mainly include legal and advisory services. The fees paid to KPMG for such non-audit services was approximately RMB1.42 million for the year ended 31 December 2019.

Accountability and Audit

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the reporting period. A statement from the auditors about their reporting responsibilities on the financial statements is set out on pages 54 to 59 of this report. In preparing the financial statements for the year ended 31 December 2019, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

Dividend Policy

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

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

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

b. the Group's liquidity position;

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

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

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

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

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

h. any other factors that the Board deem appropriate.

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

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

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

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

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

Shareholders

The Company is incorporated in the Cayman Islands. Pursuant to the articles of association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company may, by written requisition to the Board or the Company Secretary, require an extraordinary general meeting to be convened by the Board for the transaction of any business specified in such requisition. The written requisition shall be deposited at the Company's principal place of business at Suite 2601, 26/F., Tower 2, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong, marked for the attention of the Company Secretary. The general meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

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

The Board recognizes the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. During the year ended 31 December 2019, the Company convened and held the 2019 AGM on 6 June 2019. The Chairman together with the external auditor were present to answer shareholders' questions. An annual general meeting circular which sets out relevant information of the proposed resolutions was distributed to all shareholders at least 20 clear business days before the annual general meeting. For the 2019 AGM, the Chairman of the meeting demanded that all resolutions proposed at the meeting to be passed by poll. The procedures for conducting a poll were explained at the meeting. A total of six ordinary resolutions, including considering the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2018 and approving the re-election of Directors, the re-appointment of the external auditors of the Company and the granting of general mandates to the Directors to repurchase and to issue shares of the Company were passed at the 2019 AGM. The results of the poll were published on the websites of the Company and the Stock Exchange.

During the year ended 31 December 2019, there has not been any change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the websites of the Company and the Stock Exchange.

Environmental Policies and Performance

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

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

The board of directors of the Company (the "Board") is pleased to present its report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group"), for the year ended 31 December 2019.

Principal Activities

The Company is an investment holding company. The principal activities of the Group are the manufacturing and sale of home decoration products and provision of trademarks and distribution network. The principal activities of the Company's major subsidiaries are set out in note 15 to the financial statements.

Business Review

General

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

Principal risks and uncertainties facing the Group

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

The financial risks of the Group include credit risk, liquidity risk, interest rate risk, currency risk, commodity price risk and equity price risk. These financial risks, and the related risk management policies and practices used by the Group are discussed in note 33 headed "Financial Risk Management and Fair Values" to the consolidated financial statements of this annual report.

Environmental policies and performance

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

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

Compliance with Laws and Regulations

The Group continues to update the requirements of the relevant laws and regulations in various countries, particularly in the PRC and Hong Kong, applicable to it to ensure compliance. Substantially a majority of the Group's assets are located in the PRC and the Group's revenue is mainly derived from operations in the PRC. During the year ended 31 December 2019, the Group complied with the relevant laws and regulations in various countries applicable to it in all material respects.

Account of the Group's key relationships

(i) Employees

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

(ii) Customers

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

(iii) Distributors

The Group branded products are sold primarily to retail consumers in Mainland China through an extensive nationwide distribution network of exclusive distributors and retail stores. Our nationwide distribution network comprised over 4,200 retail stores. Our distribution network is closely managed and supported by our sales team with extensive experience in the industry. The Group recognizes the importance of building up a close and long-term business relationship with our distributors.

Final Dividend

The Board did not recommend any payment of final dividend for the year ended 31 December 2019.

Share Capital

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

Purchase, Sale or Redemption of Securities

During the year ended 31 December 2019, the Company repurchased a total 58,000,000 shares of the Company on the Stock Exchange at an aggregate consideration of HKD89,875,140 pursuant to the share repurchase mandate approved by the shareholders of the Company at the annual general meeting held on 29 June 2018, for enhancing its net asset value and earnings per share. Details of the repurchases are summarised as follows:

Date of repurchase	Price per share Highest	Lowest	Number of ordinary shares of USD0.001 each	Total consideration
	HKD	HKD		HKD
14 January 2019	1.55	1.54	4,000,000	6,186,790
15 January 2019	1.55	1.54	4,000,000	6,199,400
16 January 2019	1.55	1.55	4,000,000	6,200,000
17 January 2019	1.55	1.55	4,000,000	6,200,000
18 January 2019	1.55	1.55	4,000,000	6,200,000
21 January 2019	1.55	1.55	6,000,000	9,300,000
22 January 2019	1.55	1.55	6,000,000	9,300,000
23 January 2019	1.55	1.55	6,000,000	9,300,000
24 January 2019	1.55	1.55	6,000,000	9,300,000
25 January 2019	1.55	1.54	6,000,000	9,298,950
28 January 2019	1.55	1.54	4,000,000	6,190,000
29 January 2019	1.55	1.55	4,000,000	6,200,000
Total:			58,000,000	89,875,140

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

Directors

The Directors of the Company during the year were:

Executive Directors

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

Non-executive Directors

Mr. Liang Zhihua (Note)
Mr. Teoh Chun Ming

Independent Non-executive Directors

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

Note: Mr. Liang Zhihua was an executive Director and was re-designated as a non-executive Director with effect from 28 March 2019.

In accordance with Article 84 of the articles of association of the Company, Mr. Se Hok Pan, Mr. Teoh Chun Ming and Professor Li Kwok Cheung, Arthur shall retire by rotation at the forthcoming annual general meeting of the Company and they, being eligible, offer themselves for re-election.

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

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

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

As at 31 December 2019, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

	Number of shares held			
Name of Director	**Personal Interest**	**Corporate Interest**	**Total**	**Percentage of shareholding** (Note 1)
Mr. Se Hok Pan *(Chairman and President)*	20,000,000 1,500,000 (Note 2)	663,768,000 (Note 3)	685,268,000	49.68%
	21,500,000			
Ms. Un Son I	1,500,000 (Note 2)	663,768,000 (Note 3)	665,268,000	48.23%
Mr. She Jian Bin	1,500,000 (Note 2) 1,500,000	Nil	3,000,000	0.22%
	3,000,000			
Mr. Liang Zhihua	22,000,000 (Note 2) 2,500,000	Nil	24,500,000	1.78%
	24,500,000			
Mr. Teoh Chun Ming	3,000,000 (Note 2)	Nil	3,000,000	0.22%
Professor Li Kwok Cheung, Arthur	1,000,000 (Note 2)	Nil	1,000,000	0.07%
Mr. Chan Siu Wing, Raymond	1,000,000 (Note 2)	Nil	1,000,000	0.07%
Mr. Ho King Fung, Eric	1,000,000 (Note 2)	Nil	1,000,000	0.07%

Notes:

(1) Based on 1,379,381,990 shares of the Company in issue as at 31 December 2019.

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

(3) 663,768,000 shares are owned by Freewings Development Co., Ltd. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 60.19% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively.

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

Equity-linked Agreements

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

Share Option Schemes

Details of the Company's share option schemes are set out in note 28 to the financial statements.

Pre-IPO Share Option Scheme

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

As at 31 December 2019, the maximum number of shares that may be issued pursuant to the options granted and outstanding under the Pre-IPO Share Option Scheme is 12,000,000 shares, representing approximately 0.87% of the issued share capital of the Company as at the date of this report.

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

For options granted on 1 July 2010

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

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

The exercise price per share for options granted under the Pre-IPO Share Option Scheme was determined by the Board with reference to the then fair market price per share as determined by an independent valuer appointed by the Company, which shall be subject to adjustment in the event of any alteration to the capital structure of the Company. The consideration payable for the acceptance of each grant of options under the Pre-IPO Share Option Scheme was HK$1.00 (or the equivalent amount in RMB). Details of the share options movements during the year ended 31 December 2019 under the Pre-IPO Share Option Scheme are as follows:

Category of participants	Date of Grant	Exercise period	Exercise price per share	No. of Shares involved in the options outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	No. of Shares involved in the options outstanding at period end
Directors of the Company							
Liang Zhihua	1/7/2010	1/7/2010–30/6/2020	HK$3.38	7,000,000	—	—	7,000,000
Teoh Chun Ming	1/7/2010	1/7/2010–30/6/2020	HK$3.38	1,500,000	—	—	1,500,000
Employees							
Employees	1/7/2010	1/7/2010–30/6/2020	HK$3.38	3,500,000	—	—	3,500,000
Total				12,000,000	—	—	12,000,000

No option under the Pre-IPO Share Option Scheme has been granted, cancelled or lapsed during the year ended 31 December 2019. No further option has been or will be granted under the Pre-IPO Share Option Scheme after the listing of the Company.

Share Option Scheme

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

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

As at 31 December 2019, the total number of shares which may be issued on the exercise of options granted or to be granted under the Share Option Scheme is 137,333,999, representing approximately 9.96% of the issued share capital of the Company as at the date of this report. In addition, no options shall be granted under the Share Option Scheme to any eligible person which, if exercised, would result in such eligible person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer, exceeds 1% of the shares in issue at such date.

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

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

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

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

(iii) the nominal value of the shares.

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

Details of the share options movements during the year ended 31 December 2019 under the Share Option Scheme are as follows:

Category of participants	Date of Grant	No. of shares involved in the options outstanding at the beginning of the year	Exercised during the year	Lapsed during the year	Granted during the year	No. of shares involved in the options outstanding at year end
Directors						
Se Hok Pan (also the President)	4 January 2012	1,500,000	—	—	—	1,500,000
Un Son I	4 January 2012	1,500,000	—	—	—	1,500,000
She Jian Bin	4 January 2012	1,500,000	—	—	—	1,500,000
Liang Zhihua	4 January 2012	15,000,000	—	—	—	15,000,000
Teoh Chun Ming	4 January 2012	1,500,000	—	—	—	1,500,000
Li Kwok Cheung, Arthur	4 January 2012	1,000,000	—	—	—	1,000,000
Chan Siu Wing, Raymond	4 January 2012	1,000,000	—	—	—	1,000,000
Ho King Fung, Eric	4 January 2012	1,000,000	—	—	—	1,000,000
Employees						
Employees	4 January 2012	40,800,000	—	—	—	40,800,000
	8 October 2013	13,600,000	—	1,600,000	—	12,000,000
Total		78,400,000	—	1,600,000	—	76,800,000

Notes:

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

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

During the year ended 31 December 2019, no option has been granted under the Share Option Scheme. Save as disclosed above, no option has been cancelled or lapsed during the year ended 31 December 2019.

Share Award Scheme

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

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

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

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

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

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

Details of the Award Shares outstanding and movements during the year ended 31 December 2019 under the Share Award Scheme are set out as follows:

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

All outstanding Award Shares have been vested during the Year and no Award Shares remained ourstanding as at 31 December 2019. The Share Award Scheme will cease to operate with effect from 25 April 2020.

Rights to Acquire the Company's Securities

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

Related Party Transactions

Details of related party transactions of the Group during the Year are set out in note 35 to the financial statements. Save for those disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" below, each of the related party transactions during the Year constitutes a connected transaction but is fully exempted and not subject to any of the disclosure requirements under Chapter 14A of the Listing Rules.

Directors' Interests in Transactions, Arrangements and Contracts of Significance

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" below, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company and/or any of its connected entity had a material interest, whether directly or indirectly, and no contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholder or any of its subsidiaries, subsisted at the end of the Year or at any time during the Year.

Directors' Interests in Competing Business

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

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

Permitted Indemnity Provision

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

Substantial Shareholders

As at 31 December 2019, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity and nature of interest	Number of shares held	Percentage of shares in issue (Note 1)
Freewings Development Co., Ltd.	Beneficial owner	663,768,000 (Note 2)	48.12%
Team One Investments Limited	Interest in controlled corporations	663,768,000 (Note 2)	48.12%
Trader World Limited	Interest in controlled corporations	663,768,000 (Note 2)	48.12%
DeHua TB New Decoration Material Co., Ltd	Beneficial owner	269,999,990	19.57%
Weng Hou Investment Company Limited	Beneficial owner	92,300,000	6.69%

Notes:

(1) Based on 1,379,381,990 shares of the Company in issue as at 31 December 2019.

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

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

Save as disclosed above, the Directors are not aware that there is any party who, as at 31 December 2019, had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Connected Transactions and Continuing Connected Transactions

The Group entered into the following connected transactions and continuing connected transactions during the year ended 31 December 2019:

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

The Zhongshan Properties will be used by Nature Gerui for its production and operation activities. The Zhongshan Lease Agreement is for a term of three (3) years commencing from 1 April 2019 and expiring on 31 March 2022 (both days inclusive). The monthly rent payable by Nature Gerui under the Zhongshan Lease Agreement is RMB324,155 and the total rent payable during the term under the Zhongshan Lease Agreement is approximately RMB11,700,000.

The Company considers that the Zhongshan Lease Agreement could (i) fix the amount of the rent payable by Nature Gerui in the medium term and avoid substantial increase in rent payable by Nature Gerui in accordance with the expected appreciation in the value of the Zhongshan Properties; and (ii) provide Nature Gerui with the stability in its production and operation activities in further renewal of the lease of the Zhongshan Properties.

Dajia Property Management is indirectly owned as to 60.2% by Mr. Se Hok Pan and 39.8% by Ms. Un Son I respectively. Mr. Se Hok Pan is an executive Director and the Chairman, President and a controlling shareholder of the Company. Ms. Un Son I is an executive Director, a controlling shareholder of the Company and the spouse of Mr. Se Hok Pan. The transaction contemplated under the Zhongshan Lease Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules which was subject to the reporting and announcement requirements but was exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Details of the Zhongshan Lease Agreement are set out in the announcement of the Company dated 29 March 2019.

(ii) On 27 September 2019, Jiangmen Nature Home Company Limited (江門大自然家居有限公司) ("Jiangmen Nature Home"), a wholly-owned subsidiary of the Company, entered into a lease agreement (the "Jiangmen Lease Agreement") with Mr. Yuan Shutian in respect of the lease (Jiangmen Nature Home as lessee and Mr. Yuan Shutian as lessor) of the land and properties located at Donghuan Hongzi Wai, Nanan Villagers' Committee, Muzhou Town, Jiangmen City, Guangdong Province, the PRC with a total leasing area of approximately 23,031 square meters (the "Jiangmen Properties").

The Jiangmen Properties will be used by Jiangmen Nature Home (or any of its affiliated companies) for its production and operation activities. The Lease Agreement is for a term of three (3) years commencing from 1 October 2019 and expiring on 30 September 2022 (both days inclusive). The monthly rent payable (exclusive of tax, electricity and water charges) by Jiangmen Nature Home (or any of its affiliated companies) under the Jiangmen Lease Agreement is RMB194,317 and the total rent payable during the term under the Jiangmen Lease Agreement is approximately RMB6,995,000.

The Company considers that the Jiangmen Lease Agreement could (i) fix the amount of the rent payable by Jiangmen Nature Home in the medium term and avoid substantial increase in rent payable by Jiangmen Nature Home in accordance with the expected appreciation in the value of the Jiangmen Properties; and (ii) provide Jiangmen Nature Home with stability in its production and operation activities given the right to renew the lease of the Jiangmen Properties upon expiry of the initial term of the Lease Agreement.

Mr. Yuan Shutian is a brother of Ms. Un Son I. Ms. Un Son I is an executive Director and a controlling shareholder of the Company. The transaction contemplated under the Jiangmen Lease Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules which was subject to the reporting and announcement requirements but was exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Details of the Jiangmen Lease Agreement are set out in the announcement of the Company dated 27 September 2019.

(iii) On 29 March 2019, Nature Home (China) Limited (大自然家居(中國)有限公司) ("Nature Home China"), a wholly-owned subsidiary of the Company, entered into a trademarks licensing agreement (the "Trademarks Licensing Agreement") with Guangdong Youzong Home Company Limited (廣東優眾家居有限公司) ("Youzong Home", formerly known as Foshan Shunde Youzong Home Company Limited (佛山市順德區優眾家居有限公司)), pursuant to which Youzong Home is granted by Nature Home China the right (the "Usage Right") to use certain trademarks related to "Nature" brand registered in the PRC and held by the Group, in connection with the production, distribution and sale of wood baseboard products (the "Licensed Products").

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

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

Leveraging on the strong brand of the Group, the co-operation with Youzong Home under the Trademarks Licensing Agreement would (i) enable the Group to add additional products to the branded product portfolio that are complementary to the core products of the Group without the need to deploy substantial resources for factory expansion; and (ii) expand the source of revenues of the Group.

Youzong Home is indirectly owned as to 75% by Dajia Property Management. Dajia Property Management is in turn indirectly owned as to 60.2% by Mr. Se Hok Pan and 39.8% by Ms. Un Son I respectively. Mr. Se Hok Pan is an executive Director and the Chairman, President and a controlling shareholder of the Company. Ms. Un Son I is an executive Director, a controlling shareholder of the Company and the spouse of Mr. Se Hok Pan.

The transactions (the "Transactions") contemplated under the Trademarks Licensing Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules which were subject to the reporting, announcement and annual review requirements but were exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Details of the Trademarks Licensing Agreement are set out in the announcement of the Company dated 29 March 2019.

The independent non-executive Directors have reviewed the Transactions for the Year and have confirmed that the Transactions for the Year have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) in accordance with the Trademarks Licensing Agreement on terms that are fair and reasonable and are in the interests of the shareholders of the Company as a whole.

KPMG, the auditors of the Company, have reviewed the Transactions for the Year and confirmed that nothing has come to their attention that causes them to believe that the Transactions for the Year:

(a) have not been approved by the Board;

(b) were not, in all material respects, in accordance with the pricing policies of the Group;

(c) were not entered into, in all material respects, in accordance with the relevant agreement governing the Transactions (i.e. the Trademarks Licensing Agreement); and

(d) have exceeded the annual cap set by the Company.

Pre-Emptive Rights

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

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 168 of this annual report.

Bank Loans

Particulars of bank loans of the Group as at 31 December 2019 are set out in note 25 to the financial statements.

Major Customers and Suppliers

For the year ended 31 December 2019, the percentage of revenue attributable to the Group's five largest customers was less than 30% of the Group's total revenue. Purchases of raw materials attributable to the Group's five largest suppliers amounted to less than 30% of the Group's total cost of sales for the year ended 31 December 2019.

Emolument Policy

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

Employee Retirement Benefits

During the year ended 31 December 2019, the Company has complied, in all material respects, with relevant PRC labour laws and regulations, including contributing to employee retirement benefit schemes, medical and social security insurance schemes and housing provident fund. In Hong Kong, the Company has participated in a mandatory provident fund scheme for its employees in Hong Kong in accordance with applicable Hong Kong laws and regulations.

Donation

During the year ended 31 December 2019, the Group made a charitable donation amounting to approximately RMB1,484,000.

Sufficiency of Public Float

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

Audit Committee

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited financial statements of the Group for the financial year ended 31 December 2019.

Auditors

The consolidated financial statements for the year ended 31 December 2019 have been audited by KPMG who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

On behalf of the Board

Se Hok Pan
Chairman

Hong Kong, 30 March 2020

KPMG

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

Opinion

We have audited the consolidated financial statements of Nature Home Holding Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 60 to 167, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (Continued)

Trade receivables

Refer to note 19(a) and 33(a) to the consolidated financial statements and the accounting policies on page 82.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2019, the Group's gross trade receivables totalled RMB1,602 million, against which a loss allowance of RMB108 million was recorded. The Group's trade receivables mainly arose from the sale of home decoration products to property developers and distributors in China as well as distributors overseas. Management measured the loss allowance at an amount equal to lifetime expected credit loss, based on ageing of the receivables and loss rate, which was calculated using historical default data. According to the experience of the Group, the loss patterns for different customer groups are significantly different and therefore, the receivables from property developers, domestic distributors and overseas distributors are separately grouped for the purpose for measurement of loss allowance. We identified loss allowance of trade receivables as a key audit matter because the receivables and loss allowance are material to the Group and because the recognition of expected credit losses is inherently subjective and requires the exercise of significant management judgement.	Our audit procedures to assess loss allowance of trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, debt collection and estimation of expected credit losses; • obtaining an understanding on the key data and assumptions of the expected credit loss model adopted by the management, including the basis of the grouping of the trade receivables based on customer group, ageing of the receivables and loss rate, the historical default data, and the assumptions involved in management's estimated loss rate; • assessing, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate customer group and ageing category by comparing individual items with the underlying sales invoices; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such estimates for each customer group, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; and • inspecting, on a sample basis, cash receipts from customers subsequent to the financial year end relating to trade receivables balances at 31 December 2019.

Key Audit Matters (Continued)

Valuation of inventories

Refer to note 17 to the consolidated financial statements and the accounting policies on page 87.

The Key Audit Matter	How the matter was addressed in our audit
Inventories, which comprise wooden flooring materials, wardrobes and cabinets and related raw materials, are carried at the lower of cost and net realisable value in the consolidated financial statements. The net carrying value of inventories at 31 December 2019 was RMB744 million. Sales of inventories can be volatile due to customer demand changing, competitors pricing their products aggressively and the introduction of new products and technology. The Group typically sells slow moving inventories at a markdown from the original price to improve the Group's liquidity position. Accordingly, the future selling prices of some items of inventory may fall below their carrying value at the reporting date. We identified the valuation of inventories as a key audit matter because management is required to exercise significant judgement in determining an appropriate level of provision for inventories which involves predicting the future sales of inventories and the markdowns necessary to sell slow moving inventories on a discounted basis. Both of these factors can be inherently uncertain.	Our audit procedures to assess the valuation of inventories included the following: • assessing the Group's inventory provisioning policy with reference to the requirements of the prevailing accounting standards; • assessing whether the provision for inventories at the end of the financial period was calculated in a manner consistent with the Group's inventory provisioning policy by recalculating the provision for inventories based on the percentages and other parameters in the Group's inventory provisioning policy; • assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing category by comparing the individual items selected with goods receipt notes and/or production records; • assessing, on a sample basis, whether inventories were sold at prices above their carrying values subsequent to the year end by comparing the cost of each individual item selected with actual selling prices (less distribution costs) achieved after the financial year end; and • assessing the historical accuracy of management's process for calculating the provision for inventories by examining the utilisation or release of the provision recorded at the end of the previous financial year during the current year.

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Denise S.N. Leung.

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

30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Revenue	3	**3,426,786**	2,918,016
Cost of sales		**(2,502,223)**	(2,027,367)
Gross profit		**924,563**	890,649
Other income	4(a)	**91,820**	25,425
Distribution costs		**(379,781)**	(368,037)
Administrative expenses		**(317,935)**	(301,545)
Other operating expenses	4(b)	**(60,695)**	(36,257)
Profit from operations		**257,972**	210,235
Finance income	5(a)	**19,695**	56,030
Finance costs	5(a)	**(66,680)**	(83,373)
Net finance costs		**(46,985)**	(27,343)
Profit before taxation	5	**210,987**	182,892
Income tax	6(a)	**(57,044)**	(37,845)
Profit for the year		**153,943**	145,047
Attributable to:			
Equity shareholders of the Company		**162,120**	156,785
Non-controlling interests		**(8,177)**	(11,738)
Profit for the year		**153,943**	145,047
Earnings per share (RMB):			
Basic and diluted	9	**0.118**	0.109

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 68 to 167 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Profit for the year		**153,943**	145,047
Other comprehensive income for the year (after tax and reclassification adjustments)	10		
Item that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income ("FVOCI") — net movement in fair value reserve (non-recycling)		**4,796**	(15,960)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities not using RMB as functional currency		**953**	(1,519)
Other comprehensive income for the year		**5,749**	(17,479)
Total comprehensive income for the year		**159,692**	127,568
Attributable to:			
Equity shareholders of the Company		**167,443**	138,598
Non-controlling interests		**(7,751)**	(11,030)
Total comprehensive income for the year		**159,692**	127,568

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 68 to 167 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2019

(Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Non-current assets			
Investment properties	11	**230,533**	185,174
Other property, plant and equipment	11	**967,155**	780,847
		1,197,688	966,021
Intangible assets	13	**20,160**	14,410
Right-of-use assets	12	**238,470**	—
Lease prepayments		**—**	140,856
Goodwill	14	**11,612**	—
Interests in associates and joint venture		**7,441**	1,666
Other financial assets	16	**76,917**	84,038
Deposits, prepayments and other receivables	20	**61,650**	26,629
Long-term receivables	19(b)	**—**	40,411
Deferred tax assets	29(b)	**85,561**	36,311
		1,699,499	1,310,342
Current assets			
Inventories	17	**743,647**	424,483
Trade and bills receivables	19(a)	**1,516,631**	1,007,158
Current portion of long-term receivables	19(b)	**18,762**	30,347
Contract assets	18(a)	**123,622**	42,589
Deposits, prepayments and other receivables	20	**271,185**	267,932
Restricted deposits	21	**412,611**	379,765
Cash and cash equivalents	22	**540,185**	823,843
		3,626,643	2,976,117
Current liabilities			
Trade and bills payables	23	**1,390,062**	897,245
Contract liabilities	18(b)	**132,204**	86,759
Deposits received, accruals and other payables	24	**468,861**	304,138
Bank and other loans	25	**542,472**	593,311
Lease liabilities	26	**26,667**	—
Current taxation	29(a)	**31,948**	16,659
		2,592,214	1,898,112
Net current assets		**1,034,429**	1,078,005
Total assets less current liabilities		**2,733,928**	2,388,347

The notes on pages 68 to 167 form part of these financial statements.

	Note	2019 RMB'000	2018 (Note) RMB'000
Non-current liabilities			
Bank and other loans	25	**296,077**	107,092
Lease liabilities	26	**42,745**	—
Deferred tax liabilities	29(b)	**8,504**	11,906
		347,326	118,998
NET ASSETS		**2,386,602**	2,269,349
CAPITAL AND RESERVES			
Share capital	30	**8,998**	9,391
Reserves		**2,282,675**	2,203,108
Total equity attributable to equity shareholders of the Company		**2,291,673**	2,212,499
Non-controlling interests		**94,929**	56,850
TOTAL EQUITY		**2,386,602**	2,269,349

Approved and authorised for issue by the board of directors on 30 March 2020.

Se Hok Pan
Executive Director

Un Son I
Executive Director

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 68 to 167 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company													
	Share capital RMB'000 (Note 30)	Share premium RMB'000 (Note 31(d))	Share held for the Share Award Scheme RMB'000 (Note 28(b)(i))	Other treasury Shares RMB'000	Capital redemption reserve RMB'000 (Note 31(e))	Statutory surplus reserve RMB'000 (Note 31(a))	Exchange reserve RMB'000 (Note 31(b))	Fair value reserve (recycling) RMB'000 (Note 31(f))	Fair value reserve (non-recycling) RMB'000 (Note 31(g))	Other reserves RMB'000 (Note 31(c))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2018	9,391	917,853	(16,833)	(2,382)	84	215,833	(13,263)	—	582	67,464	1,033,770	2,212,499	56,850	2,269,349
Impact on initial application of IFRS 16	—	—	—	—	—	—	—	—	—	—	(6,116)	(6,116)	(19)	(6,135)
Adjusted at 1 January 2019	9,391	917,853	(16,833)	(2,382)	84	215,833	(13,263)	—	582	67,464	1,027,654	2,206,383	56,831	2,263,214
Changes in equity for 2019														
Profit for the year	—	—	—	—	—	—	—	—	—	—	162,120	162,120	(8,177)	153,943
Other comprehensive income	—	—	—	—	—	—	527	—	4,796	—	—	5,323	426	5,749
Total comprehensive income	—	—	—	—	—	—	527	—	4,796	—	162,120	167,443	(7,751)	159,692
Capital injection from non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	130	130
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	40,440	40,440
Liquidation of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	(320)	(320)
Transfer to statutory surplus reserve	—	—	—	—	—	1,788	—	—	—	—	(1,788)	—	—	—
Share options forfeited during the year (note 28(a))	—	—	—	—	—	—	—	—	—	(1,004)	1,004	—	—	—
Equity settled Share Award Scheme (note 28(b))	—	(2,874)	16,833	—	—	—	—	—	—	(12,937)	—	1,022	—	1,022
Purchase and cancel of own shares (note 30(b))	(393)	(77,183)	—	—	—	—	—	—	—	—	—	(77,576)	—	(77,576)
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	—	(5,599)	(5,599)	5,599	—
As at 31 December 2019	8,998	837,796	—	(2,382)	84	217,621	(12,736)	—	5,378	53,523	1,183,391	2,291,673	94,929	2,386,602

The notes on pages 68 to 167 form part of these financial statements.

	Attributable to equity shareholders of the Company													
	Share capital RMB'000 (Note 30)	Share premium RMB'000 (Note 31(d))	Share held for the Share Award Scheme RMB'000 (Note 28(b)(i))	Other treasury Shares RMB'000	Capital redemption reserve RMB'000 (Note 31(e))	Statutory surplus reserve RMB'000 (Note 31(a))	Exchange reserve RMB'000 (Note 31(b))	Fair value reserve (recycling) RMB'000 (Note 31(f))	Fair value reserve (non-recycling) RMB'000 (Note 31(g))	Other reserves RMB'000 (Note 31(c))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2017	9,596	960,406	(28,887)	(2,382)	84	198,901	(11,036)	16,542	—	83,312	888,820	2,115,356	65,323	2,180,679
Impact on initial application of IFRS 9	—	—	—	—	—	—	—	(16,542)	16,542	—	(5,551)	(5,551)	(16)	(5,567)
Adjusted at 1 January 2018	9,596	960,406	(28,887)	(2,382)	84	198,901	(11,036)	—	16,542	83,312	883,269	2,109,805	65,307	2,175,112
Changes in equity for 2018														
Profit for the year	—	—	—	—	—	—	—	—	—	—	156,785	156,785	(11,738)	145,047
Other comprehensive income	—	—	—	—	—	—	(2,227)	—	(15,960)	—	—	(18,187)	708	(17,479)
Total comprehensive income	—	—	—	—	—	—	(2,227)	—	(15,960)	—	156,785	138,598	(11,030)	127,568
Capital injection from non-controlling interest shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	2,528	2,528
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	—	(1,829)	(1,829)	1,320	(509)
Liquidation of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	(1,275)	(1,275)
Transfer to statutory surplus reserve	—	—	—	—	—	16,932	—	—	—	—	(16,932)	—	—	—
Share options forfeited during the year (note 28(a))	—	—	—	—	—	—	—	—	—	(11,209)	11,209	—	—	—
Equity settled Share Award Scheme (note 28(b))	—	(1,722)	12,054	—	—	—	—	—	—	(4,639)	—	5,693	—	5,693
Disposal of financial assets	—	—	—	—	—	—	—	—	—	—	1,268	1,268	—	1,268
Purchase and cancel of own shares	(205)	(40,831)	—	—	—	—	—	—	—	—	—	(41,036)	—	(41,036)
As at 31 December 2018	9,391	917,853	(16,833)	(2,382)	84	215,833	(13,263)	—	582	67,464	1,033,770	2,212,499	56,850	2,269,349

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 68 to 167 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Operating activities			
Cash generated from operations	22(b)	**194,681**	686,384
Tax paid:			
— The People's Republic of China (the "PRC") income tax paid	29(a)	**(52,332)**	(66,263)
Net cash generated from operating activities		**142,349**	620,121
Investing activities			
Payment for acquisition of non-current assets		**(188,449)**	(193,187)
Proceeds from disposal of property, plant and equipment and intangible assets		**3,562**	1,012
Payment for acquisition of securities classified as FVOCI		**—**	(29,540)
Proceeds from sale of financial assets at FVOCI		**10,000**	1,268
Dividends received from investments		**4,746**	—
Net cash outflow from acquisition of subsidiaries	32	**(149,542)**	—
Payment to non-controlling shareholders of a subsidiary from liquidation		**(248)**	—
Payment for investing in a joint venture		**(4,500)**	—
Payment for acquisition of interests in associates		**(100)**	(1,388)
Interest received		**15,611**	9,794
Capitalised interest paid	5(a)	**—**	(2,750)
Net cash used in investing activities		**(308,920)**	(214,791)

The notes on pages 68 to 167 form part of these financial statements.

	Note	2019 RMB'000	2018 (Note) RMB'000
Financing activities			
Proceeds from bank and other loans	22(c)	**745,635**	656,187
Repayment of bank and other loans	22(c)	**(677,914)**	(736,839)
Proceeds from maturity of restricted deposit		**352,325**	12,863
Payment for restricted deposit		**(385,171)**	(150,707)
Capital element of lease rentals paid	22(c)	**(19,194)**	—
Interest element of lease rentals paid	22(c)	**(3,460)**	—
Interest paid	22(c)	**(53,063)**	(76,642)
Purchase of own shares	30(b)	**(77,576)**	(41,036)
Capital injection of non-controlling interests		**130**	2,528
Net cash used in financing activities		**(118,288)**	(333,646)
Net (decrease)/increase in cash and cash equivalents		**(284,859)**	71,684
Cash and cash equivalents at 1 January		**823,843**	749,862
Effect of foreign exchange rate changes		**1,201**	2,297
Cash and cash equivalents at 31 December	22(a)	**540,185**	823,843

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 68 to 167 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies

(a) *Statement of compliance*

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

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

(b) *Basis of preparation of the financial statements*

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries and the Group's interests in associates and joint venture.

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

- equity investments (see note 1(g)); and

- derivative financial instruments (see note 1(h)).

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

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

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

1 Significant Accounting Policies (Continued)

(c) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases — incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

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

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

1 Significant Accounting Policies (Continued)

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

IFRS 16, *Leases* (Continued)

b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 34(b). For an explanation of how the Group applies lessee accounting, see note 1(l)(i).

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.88%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

1 Significant Accounting Policies (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, *Leases* (Continued)

b. Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in note 34(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	RMB'000
Operating lease commitments at 31 December 2018	66,390
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(9,808)
— leases of low-value assets	(2,859)
Less: total future interest expenses	(5,872)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	47,851
Total lease liabilities recognised at 1 January 2019	47,851

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if IFRS 16 had always been applied since the commencement date of the lease by using the relevant incremental borrowing rate at the date of initial application of IFRS 16.

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

1 Significant Accounting Policies (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, *Leases* (Continued)

b. Lessee accounting and transitional impact (Continued)

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Right-of-use assets	—	181,447	**181,447**
Lease prepayment	140,856	(140,856)	**—**
Deferred tax assets	36,311	1,125	**37,436**
Total non-current assets	1,310,342	41,716	**1,352,058**
Lease liabilities (current)	—	13,898	**13,898**
Current liabilities	1,898,112	13,898	**1,912,010**
Net current assets	1,078,005	(13,898)	**1,064,107**
Total assets less current liabilities	2,388,347	27,818	**2,416,165**
Lease liabilities (non-current)	—	33,953	**33,953**
Total non-current liabilities	118,998	33,953	**152,951**
Net assets	2,269,349	(6,135)	**2,263,214**

1 Significant Accounting Policies (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, *Leases* (Continued)

c. Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 22(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 22(d)).

1 Significant Accounting Policies (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, *Leases* (Continued)

c. Impact on the financial result, segment results and cash flows of the Group (Continued)

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating lease as if under IAS 17 (note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B–C) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Financial result for the year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	257,972	23,585	(29,354)	252,203	210,235
Finance costs	(66,680)	3,460	—	(63,220)	(83,373)
Profit before taxation	210,987	27,045	(29,354)	208,678	182,892
Profit for the year	153,943	27,893	(29,354)	152,482	145,047
Reportable segment gross profit for the year ended 31 December 2019 (note 3(b)) impacted by the adoption of IFRS 16:					
— Manufacturing and sale of flooring products	809,382	11,036	(9,612)	810,806	861,200
— Manufacturing and sale of customized home decoration products	115,181	884	(3,260)	112,805	29,449
— Total	924,563	11,920	(12,872)	923,611	890,649

1 Significant Accounting Policies (Continued)

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

IFRS 16, *Leases* (Continued)

c. Impact on the financial result, segment results and cash flows of the Group (Continued)

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating lease as if under IAS 17 (note 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported under IAS 17 RMB'000
Line items in the condensed consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	**194,681**	**(22,654)**	**172,027**	686,384
Net cash generated from operating activities	**142,349**	**(22,654)**	**119,695**	620,121
Capital element of lease rentals paid	**(19,194)**	**19,194**	**—**	—
Interest element of lease rentals paid	**(3,460)**	**3,460**	**—**	—
Net cash used in financing activities	**(118,288)**	**22,654**	**(95,634)**	(333,646)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

d. Lessor accounting

The Group leases out properties, and a number of items of machinery as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

Under IFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of IFRS 16 does not have a significant impact on the Group's financial statements in this regard.

1 Significant Accounting Policies (Continued)

(d) Subsidiaries and non-controlling interests

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

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

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(r) or (s) depending on the nature of the liability.

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

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

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

1 Significant Accounting Policies (Continued)

(e) *Associates and joint ventures*

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

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

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

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see note 1(m)).

(f) *Goodwill*

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 Significant Accounting Policies (Continued)

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 33(f). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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

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

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

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

(ii) Equity investments

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

1 Significant Accounting Policies (Continued)

(h) *Derivative financial instruments*

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

(i) *Investment properties*

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

The estimated useful lives of investment properties are as follows:

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

(j) *Other property, plant and equipment*

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

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

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

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

1 Significant Accounting Policies (Continued)

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

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

• Buildings and plant	20–30 years
• Machinery and equipment	5–10 years
• Motor vehicles	5 years
• Office equipment and furniture	3–5 years

- Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 3 years from the date of completion, and the unexpired terms of the lease.

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

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

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

(k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(m)(ii)).

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

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

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

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

1 Significant Accounting Policies (Continued)

(l) Leased assets

At inception of a contract, the Group assesses whether the 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. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lease

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is depreciated over the period of lease term and subsequently stated at cost less accumulated depreciation and impairment losses (see note 1(m)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

1 Significant Accounting Policies (Continued)

(l) Leased assets (Continued)

(i) As a lease (Continued)

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in note 1(j). Impairment losses were accounted for in accordance with the accounting policy as set out in note 1(m). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

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

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

(m) Credit losses and impairment of assets

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

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

— financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, including loans to associates, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);

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

— lease receivables.

1 Significant Accounting Policies (Continued)

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

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

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

Measurement of ECLs

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

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

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

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

1 Significant Accounting Policies (Continued)

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

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

Significant increases in credit risk

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

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

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

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

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

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

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

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

1 Significant Accounting Policies (Continued)

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

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

Basis of calculation of interest income

Interest income recognised in accordance with note 1(w)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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

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

— significant financial difficulties of the debtor;

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

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

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

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

Write-off policy

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

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

1 Significant Accounting Policies (Continued)

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

(ii) Impairment of other non-current assets

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

- investment properties;
- other property, plant and equipment;
- right-of-use asset;
- intangible assets;
- goodwill;
- interests in associates and joint venture; and
- investments in subsidiaries in the Company's statement of financial position.

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

- **Calculation of recoverable amount**
  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

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

1 Significant Accounting Policies (Continued)

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

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

- **Reversals of impairment losses**

  In respect of assets other than goodwill, impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(iii) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(n) Inventories

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

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

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

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

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

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

1 Significant Accounting Policies (Continued)

(o) *Contract assets and contract liabilities*

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

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

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

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

(p) *Trade and other receivables*

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

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

(q) *Cash and cash equivalents*

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

(r) *Trade and other payables*

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

1 Significant Accounting Policies (Continued)

(s) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(y)).

(t) Employee benefits

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

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

(ii) Share-based payments

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

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

1 Significant Accounting Policies (Continued)

(u) Income tax

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

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

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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

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

1 Significant Accounting Policies (Continued)

(u) Income tax (Continued)

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

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

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

    - the same taxable entity; or

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

(v) Provisions and contingent liabilities

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

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

(w) Revenue and other income

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

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

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

1 Significant Accounting Policies (Continued)

(w) *Revenue and other income (Continued)*

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

(i) Sale of goods

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

— Made-to-order manufacturing and installation arrangements

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

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

— Sales of other home decoration products

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

(ii) Trademark and distribution network usage fees

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

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. 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 earned.

1 Significant Accounting Policies (Continued)

(w) Revenue and other income (Continued)

(iv) Dividends

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

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

(v) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(m)(i)).

(vi) Government grants

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

(x) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Renminbi ("RMB") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

1 Significant Accounting Policies (Continued)

(x) *Translation of foreign currencies (Continued)*

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

(y) *Borrowing costs*

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

(z) *Related parties*

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

1 Significant Accounting Policies (Continued)

(aa) Segment reporting

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

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

2 Significant Accounting Judgements and Estimates

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

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

Notes 14 and 28 contain information about the assumptions and risk factors relating to valuation of goodwill impairment, fair valuation of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation

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

(b) Impairments

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

2 Significant Accounting Judgements and Estimates (Continued)

(c) Net realisable value of inventories

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

(d) Income taxes

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

(e) Loss allowance for trade receivables and contract assets

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

3 Revenue and Segment Reporting

(a) Revenue

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

3 Revenue and Segment Reporting (Continued)

(a) Revenue (Continued)

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

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service line		
— Manufacturing and sale of flooring products		
— Sale of goods	**2,507,761**	2,150,657
— Provision of trademark and distribution network	**149,832**	237,683
— Manufacturing and sale of customised home decoration products		
— Sale of goods	**764,629**	525,886
— Provision of trademark and distribution network	**4,564**	3,790
	3,426,786	2,918,016

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

The Group's customer base is diversified and includes only one (2018: one) customer with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2019. In 2019, revenue from sales of home decoration products to this customer amounted to approximately RMB438,963,000 (2018: RMB328,874,000) and arose only in PRC by geographical region in which the home decoration products division is active. Details of concentrations of credit risk arising from this customer are set out in note 33(a).

All manufacture and sale contracts are expected to be delivered to the customer within one year or less. Therefore, no transaction price allocated to the remaining performance obligations as at reporting date are disclosed.

3 Revenue and Segment Reporting (Continued)

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (flooring products and customised home decoration products) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment. The Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

(i) Segment results, assets and liabilities

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

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

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

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

3 Revenue and Segment Reporting (Continued)

(b) *Segment reporting (Continued)*

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below:

	Manufacturing and sale of flooring products		Manufacturing and sale of customized home decoration products		Total	
	2019	2018 (Note)	**2019**	2018 (Note)	**2019**	2018 (Note)
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Sales of goods: disaggregated by timing or revenue recognition						
Point in time	**2,162,493**	2,018,551	**422,458**	311,259	**2,584,951**	2,329,810
Over time	**345,268**	132,106	**342,171**	214,627	**687,439**	346,733
Subtotal of sales of goods	**2,507,761**	2,150,657	**764,629**	525,886	**3,272,390**	2,676,543
Provision of trademark and distribution network	**149,832**	237,683	**4,564**	3,790	**154,396**	241,473
Revenue from external customers	**2,657,593**	2,388,340	**769,193**	529,676	**3,426,786**	2,918,016
Inter-segment revenue	**1,381**	1,080	**14,191**	10,437	**15,572**	11,517
Reportable segment revenue	**2,658,974**	2,389,420	**783,384**	540,113	**3,442,358**	2,929,533
Reportable segment gross profit	**809,382**	861,200	**115,181**	29,449	**924,563**	890,649
Interest income	**16,924**	55,633	**2,771**	397	**19,695**	56,030
Interest expense	**(55,776)**	(70,621)	**(4,193)**	(6,021)	**(59,969)**	(76,642)
Depreciation and amortisation for the year	**(86,958)**	(58,758)	**(39,590)**	(30,054)	**(126,548)**	(88,812)
Impairment losses recognised for property, plant and equipment during the year	**(6,953)**	(1,505)	**(30,267)**	(15,051)	**(37,220)**	(16,556)
Net impairment losses recognised for trade receivables and contract assets during the year	**(2,964)**	(16,334)	**(762)**	(8,659)	**(3,726)**	(24,993)
Net impairment losses recognised for deposits, prepayments and other receivables during the year	**2,584**	(7,425)	**(1,156)**	(5,182)	**1,428**	(12,607)
Reportable segment assets	**4,850,138**	2,983,073	**1,467,500**	667,210	**6,317,638**	3,650,283
Additions to non-current segment assets during the year	**239,936**	142,973	**24,016**	20,238	**263,952**	163,211
Reportable segment liabilities	**3,370,283**	2,105,902	**1,196,482**	296,332	**4,566,765**	2,402,234

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

3 Revenue and Segment Reporting (Continued)

(b) *Segment reporting* (*Continued*)

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

	2019 RMB'000	2018 RMB'000
Revenue		
Reportable segment revenue	**3,442,358**	2,929,533
Elimination of inter-segment revenue	**(15,572)**	(11,517)
Consolidated revenue	**3,426,786**	2,918,016

	2019 RMB'000	2018 (Note) RMB'000
Assets		
Reportable segment assets	**6,317,638**	3,650,283
Elimination of inter-segment balances	**(1,200,393)**	(261,076)
Elimination of receivables from corporate headquarters	**(1,130,615)**	(659,692)
	3,986,630	2,729,515
Cash and cash equivalents	**540,185**	823,843
Restricted deposits	**412,611**	379,765
Interests in associates and joint venture	**7,441**	1,666
Other non-current financial assets	**76,917**	84,038
Deferred tax assets	**85,561**	36,311
Unallocated head office and corporate assets	**216,797**	231,321
Consolidated total assets	**5,326,142**	4,286,459

3 Revenue and Segment Reporting (Continued)

(b) *Segment reporting (Continued)*

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

	2019 RMB'000	2018 (Note) RMB'000
Liabilities		
Reportable segment liabilities	**4,566,765**	2,402,234
Elimination of inter-segment balances	**(1,200,393)**	(72,188)
Elimination of payables to corporate headquarters	**(1,352,514)**	(1,090,068)
	2,013,858	1,239,978
Bank and other loans	**838,549**	700,403
Current taxation	**31,948**	16,659
Deferred tax liabilities	**8,504**	11,906
Unallocated head office and corporate liabilities	**46,681**	48,164
Consolidated total liabilities	**2,939,540**	2,017,110

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

(iii) Geographic information

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

	Revenue from external customers		**Specified non-current assets**	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
The PRC, Hong Kong and Macau	**3,293,187**	2,836,014	**1,179,009**	1,075,175
USA	**126,378**	80,858	**6,260**	1,703
Peru	**7,221**	1,144	**30,208**	46,075
Cambodia	**—**	—	**142,205**	—
Poland	**—**	—	**117,689**	—
	3,426,786	2,918,016	**1,475,371**	1,122,953

4 Other Income/Other Operating Expenses

(a) Other income

	2019 RMB'000	2018 RMB'000
Bargain purchase gain (i)	**54,734**	—
Government grants (ii)	**7,932**	10,682
Share of profits less losses of associates and joint venture	**175**	—
Dividends income from equity investments	**4,746**	—
Rental income from operating leases		
— investment properties	**9,746**	2,884
— machineries	**8,357**	7,006
Others	**6,130**	4,853
	91,820	25,425

(i) Refer to note 32 for bargain purchase gain in connection with the acquisition of a subsidiary.

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

(b) Other operating expenses

	2019 RMB'000	2018 RMB'000
Share of profits less losses of associates	—	1,292
Net loss on disposal of property, plant and equipment	**1,557**	1,292
Impairment loss of other property, plant and equipment (note 11(a))	**37,220**	16,556
Depreciation and related cost of lease-out assets		
— investment properties	**8,152**	—
— machineries	**8,191**	—
Loss of debt restructuring (note 19(b))	—	7,911
Donations	**1,484**	1,651
Stock damages	—	3,149
Others	**4,091**	4,406
	60,695	36,257

5 Profit Before Taxation

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

(a) Finance income and finance costs

	2019 RMB'000	2018 (Note) RMB'000
Interest income on bank deposit and others	**(19,695)**	(56,030)
Finance income	**(19,695)**	(56,030)
Interest expense on bank loan and others	**56,509**	79,392
Interest on lease liabilities	**3,460**	—
Less: interest expense capitalised	**—**	(2,750)
Net interest expense	**59,969**	76,642
Net foreign exchange loss	**6,711**	6,731
Finance costs	**66,680**	83,373

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

(b) Staff costs

	2019 RMB'000	2018 RMB'000
Salaries, wages and other benefits	**380,726**	318,335
Contributions to defined contribution retirement plan (note 27)	**17,209**	14,565
Equity settled share-based payment expenses (note 28)	**1,022**	5,693
	398,957	338,593

5 Profit Before Taxation (Continued)

(c) Other items

	Note	**2019** **RMB'000**	2018 (Note) RMB'000
Cost of inventories (i)	17	**2,500,225**	2,020,128
Impairment losses recognised			
— Long-term receivables	19(b)	**50,210**	—
— Trade and bills receivables and contract assets		**3,726**	24,993
— Deposits, prepayments and other receivables		**(1,428)**	12,607
— Other property, plant and equipment	11(b)	**37,220**	16,556
Depreciation			
— owned property, plant and equipment	11(a)	**99,203**	81,584
— right-of-use assets	12	**23,585**	—
Amortisation			
— lease prepayments		**—**	3,789
— intangible assets	13	**3,760**	3,439
Operating lease charges: minimum lease payments		**16,781**	21,143
Auditors' remuneration			
— audit services		**5,073**	4,406
— other services		**1,492**	—
Research and development costs (other than depreciation and amortisation)		**15,358**	18,291

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

(i) For the year ended 31 December 2019, cost of inventories includes RMB220,305,000 (2018: RMB191,382,000) relating to staff costs, depreciation and amortisation expenses and lease expenses, amounts of which are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 Income Tax in the Consolidated Statement of Profit or Loss

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

	2019 RMB'000	2018 RMB'000
Current tax		
Provision for income tax (note 29(a))	**57,945**	60,110
Provision for withholding tax	**10,220**	—
Over-provision in respect of prior years	**(544)**	(5,223)
	67,621	54,887
Deferred tax		
Reversal of temporary differences	**(4,031)**	(3,988)
Reverse of withholding tax on retained profits (note 29(b))	**(6,546)**	(13,054)
	(10,577)	(17,042)
	57,044	37,845

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	**210,987**	182,892
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned	**61,255**	62,100
Effect of tax concessions (vii) (viii)	**(27,808)**	(31,535)
Tax effect of:		
— non-deductible expenses	**369**	1,873
— non-taxable income	**(10,435)**	(915)
— current-year losses for which no deferred tax asset is recognised	**31,605**	26,244
Effect of previous tax loss not recognised in prior years but utilised in current year	**(1,072)**	(1,645)
Over-provision in respect of prior years	**(544)**	(5,223)
Provision/(reversal) of dividend withholding tax	**3,674**	(13,054)
Income tax expense	**57,044**	37,845

6 Income Tax in the Consolidated Statement of Profit or Loss (Continued)

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

(ii) The Group's subsidiaries incorporated in the USA were subject to federal income tax at 21% (2018: 21%) and state income tax for the year ended 31 December 2019.

(iii) The Group's subsidiaries incorporated in Hong Kong were subject to Hong Kong Profits Tax rate of 16.5% (2018: 16.5%), except that the first HKD2 million estimated assessable profits calculated at 8.25%, for the year ended 31 December 2019 (2018: 8.25%).

(iv) The Group's subsidiaries incorporated in Macau were subject to Macau Complementary Tax. The provision for Macau Complementary Tax for the years ended 31 December 2019 and 2018 is calculated at the rate of 12%, of which assessable profits of the first MOP300,000 is exempted from tax.

(v) The Group's subsidiaries incorporated in Peru were subject to income tax rates from 5% to 29.5% for the year ended 31 December 2019 (2018: 5% to 29.5%).

(vi) The statutory income tax rate applicable to the Group's subsidiaries in the PRC is 25% for the years ended 31 December 2019 and 2018. One of subsidiaries enjoys the preferential income tax rate for small enterprise of 5% as at 31 December 2019.

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

(viii) Nature (Zhongshan) Wood Industry Co., Ltd. has qualified as a High and New Technology Enterprise ("HNTE") in 2016 and entitled to preferential corporate income tax rate of 15% until 2021.

(ix) The Group's subsidiaries incorporated in Poland were subject to income tax rate of 19% for the year ended 31 December 2019. One of the subsidiaries are entitled to an income tax relief up to 50% of its total qualified investment.

(x) The Group's subsidiaries incorporated in Cambodia are recognised as Qualified Investment Project ("QIP") and is exempt from income tax for export businesses.

7 Directors' Emoluments

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

	Directors' fees RMB'000	Salaries allowances, and benefits in kind RMB'000	Retirement contribution scheme RMB'000	Sub-total RMB'000	Equity settled share-based payment (i) RMB'000	2019 Total RMB'000
Chairman						
Mr. Se Hok Pan	—	3,183	—	3,183	—	3,183
Executive directors						
Ms. Un Son I	—	2,394	—	2,394	—	2,394
Mr. She Jian Bin	—	948	—	948	57	1,005
Non-executive directors						
Mr. Liang Zhihua (ii)	179	—	4	183	95	278
Mr. Teoh Chun Ming	179	—	—	179	—	179
Independent non-executive directors						
Professor Li Kwok Cheung, Arthur	179	—	—	179	—	179
Mr. Chan Siu Wing, Raymond	179	—	—	179	—	179
Mr. Ho King Fung, Eric	179	—	—	179	—	179
	895	6,525	4	7,424	152	7,576

7 Directors' Emoluments (Continued)

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

(i) These represent the estimated value of share options and share award granted to the directors under the Company's Share Option Scheme and Share Award Scheme. The value of these share options and share award are measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(t)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Schemes" and "Share Award Scheme" in the directors' report and note 28.

(ii) Mr. Liang Zhihua was re-designated as a non-executive director effective from 28 March 2019.

8 Individual with Highest Emoluments

Of the five individuals with the highest emoluments, two (2018: two) are directors whose emoluments are disclosed in note 7. The emoluments in respect of the other three individuals (2018: three) are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	**5,416**	5,125
Retirement contributions scheme	**48**	48
	5,464	5,173

The emoluments of the individual three (2018: three) with the highest emoluments are within the following bands:

	Number of individuals	
Hong Kong Dollar	**2019**	2018
1,000,001–1,500,000	**1**	2
1,500,001–2,000,000	**1**	—
2,500,001–3,000,000	**1**	1

9 Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of RMB162,120,000 (2018: RMB156,785,000) and the weighted average of 1,376,554,000 ordinary shares (2018: 1,434,311,000) in issue, calculated as follows:

Weighted average number of ordinary shares

	2019 '000	2018 '000
Issued ordinary shares at 1 January	**1,437,382**	1,468,238
Effect of purchase of shares	**(54,822)**	(31,717)
Treasury shares	**(6,006)**	(2,210)
Weighted average number of ordinary shares at 31 December	**1,376,554**	1,434,311

9 Earnings Per Share (Continued)

(b) Diluted earnings per share

For the years ended 31 December 2019 and 2018, the effect of the Company's outstanding share options was anti-dilutive. Therefore, diluted earnings per share were the same as the basic earnings per share.

10 Other Comprehensive Income

Tax effects relating to each component of other comprehensive income

	2019			2018		
	Before-tax amount RMB'000	Tax expense RMB'000	Net-of tax amount RMB'000	Before-tax amount RMB'000	Tax expense RMB'000	Net-of tax amount RMB'000
Exchange differences on translation of financial statements of entities not using RMB as functional currency	**953**	**—**	**953**	(1,519)	—	(1,519)
Equity investments at FVOCI: net movement in fair value reserve (non-recycling)	**3,260**	**1,536**	**4,796**	(20,826)	4,866	(15,960)
Other comprehensive income	**4,213**	**1,536**	**5,749**	(22,345)	4,866	(17,479)

11 Investment Properties, Other Property, Plant and Equipment

(a) Reconciliation of carrying amount

	Land, buildings and plant RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
Cost:									
At 1 January 2018	352,191	18,559	574,353	19,486	26,447	191,323	1,182,359	76,702	1,259,061
Exchange adjustments	122	—	1,050	292	147	—	1,611	298	1,909
Additions	32,818	3,546	16,759	1,726	4,596	108,580	168,025	641	168,666
Transfer from construction in progress	198,060	—	21,140	—	102	(219,302)	—	—	—
Transfer to investment properties	(100,925)	—	—	—	—	—	(100,925)	127,744	26,819
Disposals	(3,226)	—	(8,056)	(3,464)	(1,278)	—	(16,024)	—	(16,024)
At 31 December 2018	479,040	22,105	605,246	18,040	30,014	80,601	1,235,046	205,385	1,440,431
At 1 January 2019	479,040	22,105	605,246	18,040	30,014	80,601	1,235,046	205,385	1,440,431
Exchange adjustments	280	—	2,052	295	108	—	2,735	516	3,251
Additions	36,426	13,423	52,153	1,968	11,251	78,259	193,480	18,251	211,731
Transfer from construction in progress	29,985	—	17,939	122	451	(48,497)	—	—	—
Transfer to investment properties	(50,989)	—	—	—	—	—	(50,989)	55,014	4,025
Acquired in business combination	81,405	20	63,817	1,892	1,088	5,965	154,187	2,159	156,346
Disposals	(1,997)	—	(5,493)	(999)	(2,862)	(114)	(11,465)	—	(11,465)
At 31 December 2019	574,150	35,548	735,714	21,318	40,050	116,214	1,522,994	281,325	1,804,319
Accumulated depreciation:									
At 1 January 2018	80,204	13,309	233,191	14,048	19,342	—	360,094	15,365	375,459
Exchange adjustments	2	—	436	221	94	—	753	—	753
Charge for the year	23,829	2,894	48,053	2,230	2,603	—	79,609	1,975	81,584
Transfer to investment properties	(2,355)	—	—	—	—	—	(2,355)	2,871	516
Disposals	(2,306)	—	(7,264)	(3,296)	(854)	—	(13,720)	—	(13,720)
At 31 December 2018	99,374	16,203	274,416	13,203	21,185	—	424,381	20,211	444,592
At 1 January 2019	99,374	16,203	274,416	13,203	21,185	—	424,381	20,211	444,592
Exchange adjustments	6	—	674	257	34	—	971	85	1,056
Charge for the year	24,426	8,281	51,994	3,704	3,395	—	91,800	7,403	99,203
Transfer to investment properties	(6,129)	—	—	—	—	—	(6,129)	6,860	731
Disposals	(389)	—	(3,309)	(851)	(1,797)	—	(6,346)	—	(6,346)
At 31 December 2019	117,288	24,484	323,775	16,313	22,817	—	504,677	34,559	539,236
Impairment loss:									
At 1 January 2018	5,975	—	6,375	212	463	—	13,025	—	13,025
Exchange adjustments	109	—	116	4	8	—	237	—	237
Charge for the year	5,040	—	11,516	—	—	—	16,556	—	16,556
At 31 December 2018	11,124	—	18,007	216	471	—	29,818	—	29,818
At 1 January 2019	11,124	—	18,007	216	471	—	29,818	—	29,818
Exchange adjustments	164	—	174	6	13	—	357	—	357
Transfer to investment properties	(16,233)	—	—	—	—	—	(16,233)	16,233	—
Charge for the year	11,193	—	25,818	—	209	—	37,220	—	37,220
At 31 December 2019	6,248	—	43,999	222	693	—	51,162	16,233	67,395
Net book value:									
At 31 December 2019	450,614	11,064	367,940	4,783	16,540	116,214	967,155	230,533	1,197,688
At 31 December 2018	368,542	5,902	312,823	4,621	8,358	80,601	780,847	185,174	966,021

11 Investment Properties, Other Property, Plant and Equipment (Continued)

(a) *Reconciliation of carrying amount (Continued)*

As at 31 December 2019, certain buildings and plants with carrying value of RMB258,401,000 (2018: RMB58,586,000) and investment properties with value of RMB169,414,000 (2018: RMB174,343,000) were pledged to secure the Group's bank loans (note 25(iii)).

(b) *Impairment loss*

In 2019, certain factories and machines have become idle and the Group considered alternative plans to recover value from these factories and machines. The Group estimated the recoverable amount based on fair values less costs of disposal or value in use method depending on the management's plan for future use. As a result, an impairment loss of RMB37,220,000 was recognised in "Other operating expenses". The Group estimated fair values less cost of disposal with reference to quotations received. For value in use estimation, the future cash inflows and outflows are derived from continuing use of the asset and from its ultimate disposal; and was estimated by applying an appropriate discount rate to those future cash flows. Hence, the fair value on which the recoverable amount is based on is categorised as a Level 3 measurement.

(c) *Investment property*

The Group transfer a property to investment property when change in use, where, (i) end of owner-occupation, or (ii) inception of an operating lease to another party. All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group leased out a piece of land, land use rights, certain buildings (classified as investment properties) located in the PRC and Peru under operating leases. The leases run for an initial period of one to ten years with an option to renew the lease after the date at which time all terms are renegotiated. None of the lease includes contingent rentals.

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

	2019 RMB'000	2018 RMB'000
Within 1 year	**10,861**	4,497
After 1 year but within 5 years	**32,416**	16,479
After 5 years	**5,633**	1,887
	48,910	22,863

11 Investment Properties, Other Property, Plant and Equipment (Continued)

(c) Investment property (Continued)

The Group's investment properties are accounted for using the cost model. The investment properties include office building and specially designed plant which are not able to exchange in an active market. Therefore, the fair value cannot be determined reliably and are not expected to be materially different from the carrying amounts as at 31 December 2019 and 2018, unless impairment indication to any investment properties are identified. If any such indication exists, the recoverable amount of investment property is estimated (note 1(m)(ii)).

(d) Other assets leased out under operating leases

	Machinery and equipment RMB'000	**Motor vehicles** RMB'000	**Office Equipment and furniture** RMB'000	**Total** RMB'000
Cost:				
At 1 January 2018	102,038	5,372	736	108,146
Exchange adjustments	918	90	20	1,028
At 31 December 2018	102,956	5,462	756	109,174
At 1 January 2019				
Exchange adjustments	102,956	5,462	756	109,174
Additions	1,482	149	32	1,663
At 31 December 2019	—	112	—	112
	104,438	5,723	788	110,949
Accumulated depreciation:				
At 1 January 2018	38,548	1,852	269	40,669
Exchange adjustments	337	46	6	389
Charge for the year	9,510	904	80	10,494
At 31 December 2018	48,395	2,802	355	51,552
At 1 January 2019	48,395	2,802	355	51,552
Exchange adjustments	620	108	11	739
Charge for the year	9,710	2,179	89	11,978
At 31 December 2019	58,725	5,089	455	64,269

11 Investment Properties, Other Property, Plant and Equipment (Continued)

(d) Other assets leased out under operating leases (Continued)

	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office Equipment and furniture RMB'000	Total RMB'000
Impairment loss:				
At 1 January 2018	5,784	581	126	6,491
Exchange adjustments	211	21	5	237
At 31 December 2018	5,995	602	131	6,728
At 1 January 2019	5,995	602	131	6,728
Exchange adjustments	320	32	6	358
Charge for the year	6,757	—	196	6,953
At 31 December 2019	13,072	634	333	14,039
Net book value:				
At 31 December 2019	32,641	—	—	32,641
At 31 December 2018	48,566	2,058	270	50,894

The Group leases out a number of items of other assets under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes variable lease payments. Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods are RMB8,304,000 per annum in the next two years (2018: RMB5,123,000).

12 Right-of-Use Assets

	Leasehold land RMB'000	Other properties RMB'000	Total RMB'000
Cost:			
Impact on initial application of IFRS 16 (Note)	160,875	78,253	239,128
At 1 January 2019	160,875	78,253	239,128
Exchange adjustments	(8)	—	(8)
Additions	26,335	36,893	63,228
Transfer to investment properties	(4,025)	—	(4,025)
Acquired in business combination	19,565	1,115	20,680
At 31 December 2019	202,742	116,261	319,003
Accumulated depreciation:			
Impact on initial application of IFRS 16 (Note)	17,907	39,774	57,681
At 1 January 2019	17,907	39,774	57,681
Exchange adjustments	(2)	—	(2)
Charge for the year	4,602	18,983	23,585
Transfer to investment properties	(731)	—	(731)
At 31 December 2019	21,776	58,757	80,533
Net book value:			
At 31 December 2019	180,966	57,504	238,470
At 1 January 2019	142,968	38,479	181,447

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

(i) Interest in leasehold land include lease prepayments represent the Group's land use rights on leasehold land located in the PRC and Cambodia. As at 31 December 2019, right-of-use assets with net book value of RMB139,540,000 were pledged for bank and other loans (2018: nil) (note 25 (iii)). The depreciation charge of lease prepayments for the year is included in "cost of sales" and "administrative expenses" in the consolidated statements of profit or loss.

(ii) The Group has obtained the right to use other properties as its plant and warehouses through tenancy agreements. The leases typically run for an initial period of 1 to 3 years. Lease payments are usually increased every year to reflect market rentals.

12 Right-of-Use Assets (Continued)

(iii) Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 22(d) and 26, respectively.

13 Intangible Assets

	Patents and trademark RMB'000	Computer software RMB'000	Total RMB'000
Cost:			
At 1 January 2018	15,242	14,870	30,112
Additions	—	3,216	3,216
At 31 December 2018	15,242	18,086	33,328
At 1 January 2019	15,242	18,086	33,328
Additions	—	1,544	1,544
Acquired in business combination	6,275	1,691	7,966
At 31 December 2019	21,517	21,321	42,838
Accumulated amortisation:			
At 1 January 2018	9,415	6,064	15,479
Charge for the year	1,180	2,259	3,439
At 31 December 2018	10,595	8,323	18,918
At 1 January 2019	10,595	8,323	18,918
Charge for the year	1,760	2,000	3,760
At 31 December 2019	12,355	10,323	22,678
Net book value:			
At 31 December 2019	9,162	10,998	20,160
At 31 December 2018	4,647	9,763	14,410

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

14 Goodwill

	2019 RMB'000
Cost and carrying amount	
At 1 January	—
Addition acquired through business combination	11,612
At 31 December	11,612

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to country of operation and operating segment as follows:

	2019 RMB'000
Manufacture and sale of flooring products in Cambodia	10,493
Other unit without significant goodwill	1,119
	11,612

Manufacture and sale of flooring products in Cambodia

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a weighted average growth rate of 8% which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 12%. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

(Expressed in Renminbi unless otherwise indicated)

15 Investments in Subsidiaries

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

Name of company	Place of Incorporation and Business	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
China Wood Flooring Holding Company Limited 中國木地板控股有限公司	BVI	United States Dollars ("USD") USD2	100%	100%	—	Investment holding
Eastpro Holdings Limited 東博控股有限公司	BVI	USD1	100%	100%	—	Investment holding
Victory Land Holdings Limited 凱原控股有限公司	BVI	USD1	100%	100%	—	Investment holding
Henan Hengda Nature Home Company Limited 河南恒大大自然家居有限公司 (ii) (iii)	the PRC	RMB100,000,000	60%	—	60%	Wood flooring manufacturing
Jiangxi Yingran Wood Industry Co., Ltd. 江西盈然地板有限公司 (i) (iii)	the PRC	USD10,000,000	100%	—	100%	Wood flooring manufacturing
Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. 昆山盈意大自然木業有限公司 (i) (iii)	the PRC	USD9,600,000	100%	—	100%	Wood flooring manufacturing
Nature (Zhongshan) Wood Industry Co., Ltd. 中山市大自然木業有限公司 (i) (iii)	the PRC	USD7,650,000	100%	—	100%	Wood flooring manufacturing
Guangxi Baijing Flooring Co., Ltd. 廣西柏景地板有限公司 (i) (iii)	the PRC	RMB13,800,000	100%	—	100%	Wood flooring manufacturing
Zhongshan Nature Gerui New Materials Company Limited 中山市大自然格瑞新型材料有限公司 (i) (iii)	the PRC	RMB6,500,000	85%	—	85%	WPC flooring manufacturing
Nature Home (China) Co., Ltd. 大自然家居(中國)有限公司 (i) (iii)	the PRC	RMB50,000,000	100%	—	100%	Trading of flooring products
Jiang Xi Nature Home Co., Ltd. 江西省大自然家居有限公司 (i) (iii)	the PRC	USD200,000	100%	—	100%	Trading of flooring products
Nature Desenberg (Taizhou) Wood Industry Co., Ltd. 泰州大自然德森堡木業有限公司 (i) (iii)	the PRC	USD20,000,000	100%	—	100%	Wood doors manufacturing

(Expressed in Renminbi unless otherwise indicated)

15 Investments in Subsidiaries (Continued)

			Proportion of ownership interest			
Name of company	Place of Incorporation and Business	Particulars of issued and paid-up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Guangdong Yingran Wood Industry Co., Ltd. 廣東盈然木業有限公司 (i) (iii)	the PRC	USD9,000,000	100%	—	100%	Wood doors manufacturing
Taizhou Nature Home Co., Ltd. 泰州大自然家居有限公司 (i) (iii)	the PRC	RMB245,953,656	100%	—	100%	Wardrobe and cabinet manufacturing (under construction)
Zhongshan Yingde Nature Home Co., Ltd. 中山盈德大自然家居有限公司 (i) (iii)	the PRC	USD5,000,000	100%	—	100%	Wardrobe and cabinet manufacturing
Guangxi Nature Bigao Gaoxin Decoration Material Company Limited 廣西大自然壁高高新裝飾材料有限公司 (i) (iii)	the PRC	RMB42,300,000	100%	—	100%	Properties leasing
Foshan Shunde Nature Investment Management Co., Ltd 佛山市順德區大自然投資管理有限公司 (ii) (iii)	the PRC	RMB50,000,000	50%	—	50%	Properties leasing
Foshan Nature Green Technology Co., Ltd 佛山市大自然綠客科技有限公司 (ii) (iii)	the PRC	RMB35,897,400	82.88%		82.88%	Provision of home decoration services
Foshan Nature Zhihuijia Technology Company Limited 佛山市大自然智慧家科技有限公司 (ii) (iii)	the PRC	RMB10,000,000	62.16%	—	75%	Trading of home decoration products
Guangdong Shunde Weide Chuangtong Intelligence Technology Co., Ltd. 廣東順德偉德創通智能科技有限公司 (ii) (iii)	the PRC	RMB10,203,000	50.99%	—	50.99%	Floor heating products manufacturing
Yield City Limited 亦城有限公司	Macau	MOP50,000	100%	—	100%	Investment holding and trading of flooring products
Nature Flooring Hong Kong Limited 大自然地板香港有限公司	Hong Kong	HKD100	100%		100%	Investment holding and trading of flooring products
Nature Wood (Peru) S.A.C.	Peru	PEN500,000	100%	—	100%	Properties and equipment leasing

(Expressed in Renminbi unless otherwise indicated)

15 Investments in Subsidiaries (Continued)

			Proportion of ownership interest			
Name of company	**Place of Incorporation and Business**	**Particulars of issued and paid-up capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Contrato De Compra Venta De Peruvian Flooring S.A.C.	Peru	PEN10,000	100%	—	100%	Properties and equipment leasing
Nature Flooring Industries Inc.	USA	USD10,000	100%	—	100%	Trading of flooring products
Woodin Wood (Cambodia) Co., Ltd. ("Woodin")	Cambodia	USD10,815,750	51%	—	51%	Wood flooring manufacturing
Nature Flooring (Cambodia) Co., Ltd.	Cambodia	USD3,000,000	100%	—	100%	SPC flooring manufacturing
Prowood (Cambodia) Co., Ltd.	Cambodia	USD1,000,000	75%	—	75%	Wood flooring manufacturing
Baltic Wood S.A. ("Baltic")	Poland	PLN10,000,000	100%	—	100%	Wood flooring manufacturing
Boville Investments sp.z.o.o	Poland	PLN5,000	100%	—	100%	Investment holding

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

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

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

The directors consider that no individual non-controlling interest is material to the Group as at 31 December 2019 or 2018.

16 Other Financial Assets

	Note	2019 RMB'000	2018 RMB'000
Designated as FVOCI (non-recycling)	(c)		
— Unlisted		**750**	28,484
— Listed		**76,167**	55,554
		76,917	84,038

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

	Equity securities RMB'000
Balance at 1 January 2019	84,038
Disposals	(11,000)
Change in fair value recognised in other comprehensive income (note 10)	3,260
Exchange difference	619
Balance at 31 December 2019	76,917

(b) Disposals

Disposals mainly include investments in wood flooring business and home decoration business.

16 Other Financial Assets (Continued)

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

The fair value measurement for listed equity securities that were designated as FVOCI (non-recycling) has been categorised as Level 1 fair value: unadjusted quoted price in active markets for identical assets or liabilities at the measurement date, as defined in IFRS 13, Fair value measurement. During the year ended 31 December 2019, there were no transfers between Level 2 and Level 3, or transfer into or out of Level 1.

The fair value measurement for unlisted equity securities that were designated as FVOCI (non-recycling) has been categorised as Level 3 fair value upon the adoption of IFRS 9 at 1 January 2018 (note 31(g)).

17 Inventories

	2019 RMB'000	2018 RMB'000
Raw materials	**138,614**	41,366
Work in progress	**161,499**	50,417
Finished goods	**407,414**	313,754
Spare parts and consumables	**36,120**	18,946
	743,647	424,483

As at 31 December 2019, inventories in amount of RMB33,136,000 are used to secure bank loans (note 25(iii)).

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

	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	**2,482,631**	2,004,549
Write down of inventories	**17,594**	15,579
	2,500,225	2,020,128

18 Contract Assets and Contract Liabilities

(a) Contract assets

	2019 RMB'000	2018 RMB'000
Contract assets		
Arising from performance under made-to-order manufacturing arrangements	**123,622**	42,589
Receivables from contracts with customers within the scope of IFRS 15, which are included in "Trade and bills receivables" (note 19)	**794,151**	383,860

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

— Made-to-order manufacturing and installation arrangements

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

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

Contract assets that is expected to be recovered after more than one year is RMB28,293,000 (2018: RMB12,416,000), all of which relates to retentions.

(b) Contract liabilities

	2019 RMB'000	2018 RMB'000
Contract liabilities		
Made-to-order manufacturing and installation arrangements — Billing in advance of performance	**49,470**	12,375
Sales of other home decoration products — Billing in advance of performance	**82,734**	74,384
	132,204	86,759

18 Contract Assets and Contract Liabilities (Continued)

(b) Contract liabilities (Continued)

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

— Made-to-order manufacturing and installation arrangements

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

— Sales of other home decoration products

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

Movements in contract liabilities

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**86,759**	74,027
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(359,017)**	(388,269)
Increase in contract liabilities as a result of receiving forward sales deposits and instalments during the year	**404,462**	401,001
Balance at 31 December	**132,204**	86,759

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

19 Trade and Bills Receivables

(a) *Trade and bills receivables comprises:*

	2019 RMB'000	2018 RMB'000
Trade receivables	**1,601,578**	1,083,485
Bills receivables	**22,927**	43,753
Less: loss allowance (note 33(a))	**(107,874)**	(120,080)
	1,516,631	1,007,158

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

As at 31 December 2019, trade receivables of RMB11,099,000 (2018: RMB178,273,000) and nil bills receivables (2018: RMB30,000,000) were pledged to a bank to secure banking facilities obtained by the Group (note 25(iii)).

Ageing analysis

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

	2019 RMB'000	2018 RMB'000
Within 1 month	**512,261**	347,403
1 to 3 months	**444,635**	402,826
3 to 6 months	**249,513**	99,514
6 to 12 months	**234,932**	89,499
More than 12 months	**75,290**	67,916
	1,516,631	1,007,158

Trade receivables and bills receivables are due within 30 to 365 days from the date of billing. Further details on the Group's credit policy are set out in note 33(a).

19 Trade and Bills Receivables (Continued)

(b) Long-term receivables comprises:

	2019 RMB'000	2018 RMB'000
After 1 year but within 2 years	—	46,669
Less: loss of debt restructuring	—	(6,258)
	—	40,411
Within 1 year	**68,972**	32,000
Less: loss allowance	**(50,210)**	—
loss of debt restructuring	—	(1,653)
	18,762	30,347
	18,762	70,758

(i) As at the end of 2018, the Group entered into a repayment agreement with certain clients in Peru for receivables amounting to RMB78,669,000 to extended settlement date to the year 2019 and 2020 respectively. These receivables were discounted at a rate of 10%, which is equivalent to the official borrowing rate announced by the Central Bank of Peru and reclassified to long-term receivables. A debt restructuring loss of RMB7,911,000 were recorded in "other expense" (note 4(b)).

(ii) As at 31 December 2019, those customers default in repayment of restructured receivables. The credit risk of these receivables is significantly increased. As a result, a lifetime expected credit loss of RMB50,210,000 is recognised in "administrative expenses" (note 5(c)).

20 Deposits, Prepayments and Other Receivables

	2019 RMB'000	2018 RMB'000
Deposits	**20,248**	14,972
Prepayments for purchase of raw materials	**57,114**	77,883
Prepayments for purchase of plant and equipment	**61,830**	23,344
Lease prepayments	**—**	3,285
Value added tax deductible	**68,642**	37,923
Other prepayments and receivables	**132,372**	140,062
Interest receivables	**2,532**	9,699
Less: loss allowance	**(9,903)**	(12,607)
	332,835	294,561

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

	2019 RMB'000	2018 RMB'000
Non-current	**61,650**	26,629
Current	**271,185**	267,932
	332,835	294,561

All of deposits, prepayments and other receivables, apart from those classified as non-current portion, and certain deposits RMB8,735,000 (2018: RMB6,458,000), are expected to be recovered or recognised as expense within one year.

21 Restricted Deposits

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

	2019 RMB'000	2018 RMB'000
Bank loans (note 25(iii))	**164,700**	116,000
Others	**247,911**	263,765
	412,611	379,765

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

22 Cash and Cash Equivalents and Other Cash Flow Information

(a) Cash and cash equivalents comprise:

	2019 RMB'000	2018 RMB'000
Cash at bank and on hand	**540,185**	823,843

At 31 December 2019, cash and cash equivalents placed with banks in the PRC amounted to RMB470,530,000 (2018: RMB756,735,000). Remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

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

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

	Note	2019 RMB'000	2018 (Note) RMB'000
Profit before taxation		**210,987**	182,892
Adjustments for:			
Depreciation of investment properties, other properties, plant and equipment	11(a)	**99,203**	81,584
Depreciation of right-of-use assets	12	**23,585**	—
Amortisation of intangible assets	13	**3,760**	3,439
Amortisation of lease prepayments in respect of land use rights		**—**	3,789
Net finance costs	5(a)	**46,985**	27,343
Impairment loss of property, plant and equipment	11(b)	**37,220**	16,556
Gain on bargain purchase	4(a)	**(54,734)**	—
Dividend income from investments	4(a)	**(4,746)**	—
Net loss on disposal of property, plant and equipment	4(b)	**1,557**	1,292
Share of profits less losses of associates and joint venture	4(a)/4(b)	**(175)**	1,292
Equity settled share-based payment transactions	28(b)	**1,022**	5,693
Changes in working capital:			
Increase in inventories		**(177,630)**	(35,394)
(Increase)/decrease in trade and bills receivables		**(427,238)**	52,966
Decrease in deposits, prepayments and other receivables		**3,984**	33,566
Increase in trade and bills payables		**413,761**	292,182
Increase in deposits received, accruals and other payables		**17,140**	19,184
Cash generated from operations		**194,681**	686,384

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Previously, cash payments under operating leases made by the Group as a lessee of RMB21,143,000 were classified as operating activities in the consolidated cash flow statement. Under IFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see note 22(c)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in note 1(c).

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

(c) *Reconciliation of liabilities arising from financing activities*

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

	Bank and other loans RMB'000 (Note 25)	**Lease liabilities** RMB'000 (Note 26)	**Total** RMB'000
At 31 December 2018	700,403	—	700,403
Impact on initial application of IFRS 16 (Note)	—	47,851	47,851
At 1 January 2019	700,403	47,851	748,254
Changes from financing cash flows:			
Proceeds from bank and other loans	745,635	—	745,635
Repayment of bank and other loans	(677,914)	—	(677,914)
Capital element of lease rentals paid	—	(19,194)	(19,194)
Interest element of lease rentals paid	—	(3,460)	(3,460)
Other borrowing costs paid	(53,063)	—	(53,063)
Total changes from financing cash flows	14,658	(22,654)	(7,996)
Changes from operating and investing cash flows:			
Grants from letter of credit	22,331	—	22,331
Total changes from operating and investing cash flows	36,989	(22,654)	14,335
Exchange adjustments	5,115	—	5,115
Other changes:			
Interest expenses	53,063	3,460	56,523
Increase in lease liabilities from entering into new leases during the year	—	37,889	37,889
Acquired in business combination	42,979	2,866	45,845
Total other changes	96,042	44,215	140,257
At 31 December 2019	838,549	69,412	907,961

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

(c) Reconciliation of liabilities arising from financing activities (Continued)

	Bank and other loans RMB'000 (Note 25)
At 1 January 2018	769,261
Changes from financing cash flows:	
Proceeds from new bank and other loans	656,187
Repayment of bank and other loans	(736,839)
Other borrowing costs paid	(76,642)
Total changes from financing cash flows	(157,294)
Changes from operating and investing cash flows:	
Grants from letter of credit	4,101
Capitalised interest paid	(2,750)
Total changes from operating and investing cash flows	1,351
Exchange adjustments	7,693
Other changes:	
Interest expenses (note 5(a))	76,642
Capitalised borrowing costs (note 5(a))	2,750
Total other changes	79,392
At 31 December 2018	700,403

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. See notes 1(c) and 22(b).

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

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 RMB'000	2018 (Note) RMB'000
Within operating cash flows	**16,781**	21,143
Within financing cash flows	**22,654**	—
	39,435	21,143

Note: As explained in note 22(b), the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 RMB'000	2018 RMB'000
Lease rentals paid	**39,435**	21,143

23 Trade and Bills Payables

	2019 **RMB'000**	2018 RMB'000
Trade creditors	**809,196**	399,174
Bills payables	**580,866**	498,071
	1,390,062	897,245

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

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

	2019 **RMB'000**	2018 RMB'000
Within 1 month	**528,336**	226,331
1 to 3 months	**488,406**	217,790
3 to 6 months	**307,290**	311,437
6 to 12 months	**27,665**	71,050
Above 1 year	**38,365**	70,637
	1,390,062	897,245

24 Deposits Received, Accruals and Other Payables

	2019 RMB'000	2018 RMB'000
Payables for purchase of property, plant and equipment	**53,670**	7,139
Deposits received from customers	**61,510**	53,591
Accrued staff costs	**64,166**	47,086
Accrued advertising fee	**15,313**	9,398
Accrued transportation fees	**30,085**	29,048
Value added tax and consumption tax payable	**49,646**	36,203
Amount due to non-controlling shareholders	**47,759**	32,935
Consideration payables	**36,110**	—
Other payables and accruals	**110,602**	88,738
	468,861	304,138

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

25 Bank and Other Loans

At 31 December 2019, the bank and other loans were repayable as follows:

	2019 RMB'000	2018 RMB'000
Bank loans		
Within 1 year or on demand	**542,472**	495,405
After 2 years but within 5 years	**296,077**	107,092
Sub-total	**838,549**	602,497
Other loans		
Within 1 year or on demand	**—**	97,906
	838,549	700,403

25 Bank and Other Loans (Continued)

At 31 December 2019, the bank and other loans were secured as follows:

	2019 RMB'000	2018 RMB'000
Bank loans (i)		
Secured	**665,964**	546,982
Unsecured	**172,585**	55,515
Sub-total	**838,549**	602,497
Other loan (ii)		
Secured	**—**	97,906
Total	**838,549**	700,403

(i) At 31 December 2019, the Group has secured loans and borrowings amounting to approximately RMB665,964,000 (31 December 2018: RMB546,982,000), of which:

— approximately RMB108,842,000 (31 December 2018: RMB107,092,000) of these secured loans were secured by assets of the Group and guaranteed by certain joint venture partners on the joint and several guarantees;

— approximately RMB57,788,000 (31 December 2018: Nil) of these secured loans were secured by 100% equity interest of a subsidiary;

— approximately RMB499,334,000 (31 December 2018: RMB439,890,000) of the other secured loans (the "collateral loans") were solely secured by assets of the Group.

(ii) At 31 December 2019, the Group has no secured other loans (31 December 2018: RMB97,906,000).

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

	2019 RMB'000	2018 RMB'000
Restricted deposits (note 21)	**164,700**	116,000
Other property, plant and equipment (note 11)	**258,401**	58,586
Right-of-use assets (note 12)	**139,540**	—
Lease prepayments	**—**	74,619
Investment properties (note 11)	**169,414**	174,343
Trade and bills receivables (note 19(a))	**11,099**	208,273
Inventories (note 17)	**33,136**	—
	776,290	631,821

25 Bank and Other Loans (Continued)

(iv) Part of the Group's banking facilities, amounted to RMB758,326,000 (2018: RMB671,240,000) are subject to the fulfilment of covenants relating to certain of the subsidiaries' balance sheet ratios, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 33(b). At 31 December 2019 and 31 December 2018, none of the covenants relating to drawn down facilities had been breached.

(v) The unutilised banking facilities as at 31 December 2019 amounted to RMB418,648,000 (2018: RMB289,346,000).

26 Lease Liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and at the date of transition to IFRS 16:

	31 December 2019		1 January 2019	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**26,667**	**29,895**	13,898	16,211
After 1 year but within 2 years	**22,108**	**23,837**	13,345	14,867
After 2 years but within 5 years	**19,023**	**20,161**	18,492	19,935
After 5 years	**1,614**	**2,094**	2,116	2,710
	42,745	**46,092**	33,953	37,512
	69,412	**75,987**	47,851	53,723
Less: total future interest expenses		**(6,575)**		(5,872)
Present value of lease liabilities		**69,412**		47,851

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to IFRS 16 are set out in note 1(c).

27 Employee Retirement Benefits

Defined contribution retirement plan

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

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

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

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

In accordance with relevant regulations and requirements in Cambodia, employees and employers are required to contribute to certain scheme of the National Social Security Fund on monthly basis. The current contributions to the Employment Injury Scheme is USD0.4 to USD2, and 1.3% of gross average salary to the Health Insurance Scheme.

According to the relevant regulations regarding the social security system in Poland, both employees and employers required to make obligatory contribution to the system, which the current contribution of employer range from 19.21% to 22.31%.

(Expressed in Renminbi unless otherwise indicated)

28 Equity Settled Share-Based Transactions

(a) *Share Option Schemes*

The Company has two share option schemes (the "Share Option Schemes") which were adopted on 16 December 2008 ("Pre-IPO Plan") and 3 May 2011 ("Post-IPO Plan") respectively whereby the directors of the Company are authorised at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up share options at a consideration of HKD1 to the subscribe for shares of the Company. Each option entitles the option holders to subscribe one ordinary share of the Company.

Plans	Date of grant	Batch	Numbers of options granted	Vesting period	Exercise price (HKD)	Contractual life of options	Remaining contractual life
Options granted to employees:							
Pre-IPO Plan	1 July 2010	Batch 6	1,200,000	1 July 2010 to 30 December 2010	3.38	10 years	0.5 years
	1 July 2010	Batch 7	3,600,000	1 July 2010 to 30 December 2011	3.38	10 years	0.5 years
	1 July 2010	Batch 8	3,600,000	1 July 2010 to 30 December 2012	3.38	10 years	0.5 years
	1 July 2010	Batch 9	3,600,000	1 July 2010 to 30 December 2013	3.38	10 years	0.5 years
Post-IPO Plan	4 January 2012	Batch 10	58,000,000	4 January 2012 to 4 January 2015	1.45	10 years	2.02 years
	8 October 2013	Batch 11	31,500,000	8 October 2013 to 8 October 2016	1.61	10 years	3.78 years
Options granted to directors:							
Post-IPO Plan	4 January 2012	Batch 10	10,000,000	4 January 2012 to 4 January 2015	1.45	10 years	2.02 years
		Total	111,500,000				

28 Equity Settled Share-Based Transactions *(Continued)*

(a) Share Option Schemes (Continued)

The number and weighted average exercise prices of share options are as follows:

	2019 Weighted average exercise price HKD	**2019** Number of options '000	2018 Weighted average exercise price HKD	2018 Number of options '000
Outstanding at the beginning of the year	**1.73**	**90,401**	1.78	106,460
Forfeited during the year	**1.61**	**(1,601)**	1.82	(7,747)
Expired during the year		—	2.08	(8,312)
Outstanding at the end of the year	**1.73**	**88,800**	1.73	90,401
Exercisable at the end of the year	**1.73**	**88,800**	1.73	90,401

No options were exercised during the year ended 31 December 2019 (2018: Nil).

During the year ended 31 December 2019, the Group reversed RMB1,004,000 (2018: RMB4,780,000) in respect of forfeited share options from several resigned staffs.

(b) Share Award Scheme

On 25 April 2016, the board of directors of the Company approved the adoption of a Share Award Scheme (the "Share Award Scheme") under which shares of the Company (the "Awarded Shares") are awarded to selected employees of the Group in accordance with the provisions of the Share Award Scheme.

The shares to be awarded under the Share Award Scheme are acquired by the independent trustee from the open market out of cash contributed by the Group and held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the Share Award Scheme.

The board of directors shall not make any further award which will result in the aggregate number of Awarded Shares awarded by the board throughout the duration of the Share Award Scheme to exceed 5% of the total number of issued shares of the Company from time to time. The number of the Awarded Shares awarded to each of selected employees shall not exceed 1% of the total number of issued shares from time to time.

28 Equity Settled Share-Based Transactions (Continued)

(b) Share Award Scheme (Continued)

When a selected employee has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the board of directors of the Company at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Awarded Shares to that employee at no cost. The selected employee however is not entitled to receive any income or distribution, such as dividend derived from the unvested Awarded Shares allocated to him/her.

Subject to any early termination as may be determined by the board of directors, the Share Award Scheme shall be valid and effective for a term of 4 years commencing on 25 April 2016.

(i) Details of the shares held under the Share Award Scheme are set out below:

	Average purchase price	**No. of shares held**	**Value of shares**	
	HKD	'000	HKD'000	RMB'000
Shares held for the Share Award Scheme as at 31 December 2018	1.26	15,395	19,397	16,833
Vested during the year	1.26	(15,395)	(19,397)	(16,833)
Shares held for the Share Award Scheme as at 31 December 2019	1.26	—	—	—

(ii) Details of the Company's Share Award Scheme are as follows:

Date of grant	**Vesting date**	**Number of Awarded Shares**				
		granted	**forfeited**	**vested**	**modified**	**unvested**
		'000	'000	'000	'000	'000
25 April 2016	31 March 2018	14,500	(1,105)	(11,395)	(2,000)	—
25 April 2016	31 March 2019	14,500	(1,105)	(15,395)	2,000	—
		29,000	(2,210)	(26,790)	—	—

The estimated fair value of the Awarded Shares on the grant date is determined by reference to the market price of the Company's shares.

28 Equity Settled Share-Based Transactions (Continued)

(b) *Share Award Scheme (Continued)*

The Group recognised share award expenses of RMB1,022,000 during the year ended 31 December 2019 (2018: RMB5,693,000) with a corresponding increase in a capital reserve within equity in accordance with below accounting policy adopted for share-based payments.

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

The fair value of award shares granted to employees is recognised as an employee cost with a corresponding increase in other reserves within equity. The fair value is measured at the share price of the Company on the grant date. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the award shares, the total estimated fair value of the award shares is spread over the vesting period, taking into account the probability that the award shares will vest.

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

The Group has extended the vesting period of 2,000,000 share awarded to two directors in the Share Award Scheme, the vesting date of which was extended from 31 March 2018 to 31 March 2019.

At 31 December 2019, no ordinary shares were held by the trustee under the Share Award Scheme.

29 Income Tax in the Consolidated Statement of Financial Position

(a) *Current taxation in the consolidated statement of financial position represents:*

	2019 RMB'000	2018 RMB'000
At 1 January	**16,659**	22,635
Provision for income tax (note 6(a))	**57,945**	60,110
Provision for dividend withholding tax	**10,220**	5,400
Over-provision in respect of prior years (note 6(b))	**(544)**	(5,223)
PRC income tax paid	**(43,027)**	(60,674)
Withholding tax paid	**(9,305)**	(5,589)
At 31 December	**31,948**	16,659

29 Income Tax in the Consolidated Statement of Financial Position (Continued)

(b) *Deferred tax assets and liabilities recognised:*

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Inventories	Credit loss allowance	Measurement of unlisted equity securities	Income tax credit (i)	Change in fair value of listed equity securities	Lease (Note)	Other property, plant and equipment	Intangible assets	Accrued expense	Provision of withholding tax on retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018	18,235	12,426	99	—	(5,514)	(614)	(3,161)	—	626	(25,000)	(2,903)
Credited/(charged) to profit or loss	(2,544)	5,940	323	—	—	14	600	—	(345)	13,054	17,042
Other comprehensive income	—	—	—	—	4,866	—	—	—	—	—	4,866
Other transfer-out	—	—	—	—	—	—	—	—	—	5,400	5,400
Balance as at 31 December 2018	15,691	18,366	422	—	(648)	(600)	(2,561)	—	281	(6,546)	24,405
Impact on initial application of IFRS 16	—	—	—	—	—	1,125	—	—	—	—	1,125
Balance at 1 January 2019	15,691	18,366	422	—	(648)	525	(2,561)	—	281	(6,546)	25,530
Credited/(charged) to profit or loss	4,511	(1,374)	(49)	—	—	865	(31)	145	(36)	6,546	10,577
Other comprehensive income	—	—	—	—	1,536	—	—	—	—	—	1,536
Acquisition of subsidiaries	1,379	—	—	30,866	—	(958)	9,696	(1,569)	—	—	39,414
Balance as at 31 December 2019	21,581	16,992	373	30,866	888	432	7,104	(1,424)	245	—	77,057

Note: Upon the initial application of IFRS 16, the Group has recognised deferred tax assets on temporary differences arising from initial recognition of lease liabilities (see note 1(c)).

(i) Income tax credit arose from tax exemption offered to investment made in Polish special economic zones. The income tax credit is offered in certain portion of investment amount and allowed to offset income tax obligation thereafter.

29 Income Tax in the Consolidated Statement of Financial Position (Continued)

(b) Deferred tax assets and liabilities recognised: (Continued)

(ii) Reconciliation to the consolidated statement of financial position

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised	**85,561**	36,311
Net deferred tax liabilities recognised	**(8,504)**	(11,906)
	77,057	24,405

(c) Deferred tax assets not recognised

No deferred tax assets have been recognised in respect of unused tax losses from certain subsidiaries as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. All of the tax losses, apart from those in the PRC and Peru, which have expiration periods of 5 years and 4 years respectively, do not expire under current tax legislation. As at the end of the reporting period, unused tax losses that:

	2019 RMB'000	2018 RMB'000
Expire by		
31 December 2019	**—**	6,953
31 December 2020	**44,662**	49,158
31 December 2021	**21,639**	21,860
31 December 2022	**36,323**	36,304
31 December 2023	**64,062**	84,487
31 December 2024	**46,085**	—
Sub-total	**212,771**	198,762
Unexpired under current tax legislation	**387,719**	290,247
Total	**600,490**	489,009

29 Income Tax in the Consolidated Statement of Financial Position (Continued)

(d) *Deferred tax liabilities not recognised*

During the year, certain PRC subsidiaries of the Company distributed RMB100,000,000 profits to their holding companies in Hong Kong. At 31 December 2019, no deferred tax liabilities (2018: RMB6,546,000) was recognised in respect of the dividend withholding tax relating to the undistributed profits of the Company's subsidiaries, as the Company controls the dividend policy of these subsidiaries.

The amounts of remaining undistributed profit of the Company's subsidiaries are set out below:

	2019 **RMB'000**	2018 RMB'000
Distributable profits earned by PRC subsidiaries on or after 1 January 2008	**1,668,227**	1,436,005

As all of the Company's PRC subsidiaries are directly or indirectly owned by a Hong Kong or Macau incorporated subsidiary which is or is not a qualified tax resident, a rate of 5% or 10% is applicable to the PRC dividend withholding tax. Pursuant to the Corporate Income Tax Law of Peru, Cambodia and Poland, overseas investors of the domiciled legal entities shall be liable for withholding income tax at 6.8%, 14% and 19%.

30 Share Capital

(a) *Issued and fully paid*

	Ordinary shares		
	Number of ordinary shares	**Nominal value of fully paid ordinary shares** USD'000	**Nominal value of fully paid ordinary shares** RMB'000
As at 1 January 2019	1,437,381,990	1,437	9,391
Shares repurchased and cancelled	(58,000,000)	(58)	(393)
As at 31 December 2019	1,379,381,990	1,379	8,998

30 Share Capital (Continued)

(b) Purchase of own shares

During 2019, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid RMB'000
Jan 2019	58,000,000	1.55	1.54	77,576
	58,000,000			77,576

The reserve for the Company's other treasury shares comprises the cost of the Company's shares held by the Group. At 31 December 2019, the Group held 2,210,000 Company's shares.

31 Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (Note 30)	Share premium RMB'000 (Note 31(d))	Share held for the Share Award Scheme RMB'000 (Note 28(b)(i))	Other treasury Shares RMB'000 (Note 28(b)(i))	Capital redemption reserve RMB'000 (Note 31(e))	Exchange reserve RMB'000 (Note 31(b))	Fair value reserve (non-recycling) RMB'000 (Note 31(g))	Other reserves RMB'000	(Accumulated loss)/retained profits RMB'000	Total equity RMB'000
At 31 December 2018	9,391	917,853	(16,833)	(2,382)	84	15,313	(1,361)	380,222	3,245	1,305,532
Changes in equity for the year ended 31 December 2019										
Loss for the year	—	—	—	—	—	—	—	—	(10,081)	(10,081)
Other comprehensive income	—	—	—	—	—	23,668	9,401	—	—	33,069
Total comprehensive income	—	—	—	—	—	23,668	9,401	—	(10,081)	22,988
Share options forfeited during the year	—	—	—	—	—	—	—	(1,004)	1,004	—
Equity settled Share Award Scheme (note 28(b))	—	(2,874)	16,833	—	—	—	—	(12,937)	—	1,022
Purchase and cancellation of own shares	(393)	(77,183)	—	—	—	—	—	—	—	(77,576)
At 31 December 2019	8,998	837,796	—	(2,382)	84	38,981	8,040	366,281	(5,832)	1,251,966

31 Reserves (Continued)

	Share capital RMB'000 (Note 30)	Share premium RMB'000 (Note 31(d))	Share held for the Share Award Scheme RMB'000 (Note 28(b)(i))	Other treasury Shares RMB'000 (Note 28(b)(i))	Capital redemption reserve RMB'000 (Note 31(e))	Exchange reserve RMB'000 (Note 31(b))	Fair value reserve (non-recycling) RMB'000 (Note 31(g))	Other reserves RMB'000	(Accumulated loss)/retained profits RMB'000	Total equity RMB'000
At 31 December 2017	9,596	960,406	(28,887)	(2,382)	84	(46,074)	—	396,070	(531)	1,288,282
Changes in equity for the year ended 31 December 2018										
Loss for the year	—	—	—	—	—	—	—	—	(8,701)	(8,701)
Other comprehensive income	—	—	—	—	—	61,387	(1,361)	—	—	60,026
Total comprehensive income	—	—	—	—	—	61,387	(1,361)	—	(8,701)	51,325
Share options forfeited during the year	—	—	—	—	—	—	—	(11,209)	11,209	—
Equity settled Share Award Scheme (note 28(b))	—	(1,722)	12,054	—	—	—	—	(4,639)	—	5,693
Disposal of FVOCI	—	—	—	—	—	—	—	—	1,268	1,268
Purchase and cancellation of own shares	(205)	(40,831)	—	—	—	—	—	—	—	(41,036)
At 31 December 2018	9,391	917,853	(16,833)	(2,382)	84	15,313	(1,361)	380,222	3,245	1,305,532

Note: The Group, including the Company, has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See notes 1(c) and 36.

31 Reserves (Continued)

(a) *Statutory surplus reserve*

(i) According to the current PRC Company Law, the Group's subsidiaries established and operated in the PRC are required to transfer 10% of their profit after taxation to statutory surplus reserve until the surplus reserve balance reaches 50% of the registered capital. For the purpose of calculating the transfer to reserve, the profit after taxation shall be the amount determined based on the statutory financial statements prepared in accordance with PRC accounting standards. The transfer to this reserve has to be made before distribution of dividend by these entities.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(ii) The Macau Commercial Code requires that a company should set aside a minimum of 25% of the company's profit after taxation to the legal reserve until the balance of the reserve reaches 50% of the company's paid-in capital. The reserve can be utilised to offset accumulated losses, if any, and for capitalisation issue.

(iii) The Peru Corporation Law requires that a company should set aside a minimum of 10% of the company's profit after taxation to the legal reserve until the balance equal to 20% of the paid-in capital. The reserve can be used to offset future net losses.

(b) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currencies other than the RMB presentation currency.

(c) *Other reserves*

The Group's other reserves comprise the following:

	2019 **RMB'000**	2018 RMB'000
Equity settled share-based transactions (i)	**52,828**	66,769
Capital contributions	**596**	596
Arising from reorganisation	**99**	99
	53,523	67,464

(i) The equity settled share-based transactions represent the cumulative value of the equity settled share options granted to employees recognised in accordance with the accounting policy adopted for share-based payments in note 1(t)(ii).

31 Reserves (Continued)

(d) Share premium

Under the Companies Law of the Cayman Islands, the funds in the Company's share premium account are distributable to the equity shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(e) Capital redemption reserve

Capital redemption reserve represents the nominal amount of the shares repurchased.

(f) Fair value reserve (recycling)

Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with IAS 39. This amount has been reclassified to fair value reserve (non-recycling) upon the initial adoption of IFRS 9 at 1 January 2018.

(g) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see note 1(g)).

(h) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bills payables and interest-bearing loans and borrowings), less cash and cash equivalents and pledged deposits. Adjusted capital comprises all components of equity.

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt.

31 Reserves (Continued)

The Group's adjusted net debt-to-capital ratio at 31 December 2019 and 2018 was as follows:

	Note	2019 RMB'000	2018 RMB'000
Current liabilities:			
Bills payables	23	**580,866**	498,071
Bank and other loans	25	**542,472**	593,311
		1,123,338	1,091,382
Non-current liability:			
Bank loans	25	**296,077**	107,092
Total debt		**1,419,415**	1,198,474
Less: Cash and cash equivalents	22	**(540,185)**	(823,843)
Restricted deposit	21	**(412,611)**	(379,765)
Adjusted net debt/(assets)		**466,619**	(5,134)
Adjusted capital		**2,386,602**	2,269,349
Adjusted net debt-to-capital ratio		**19.6%**	Not applicable

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except that banking facilities granted to certain subsidiaries are subject to the fulfilment of covenants relating to the subsidiaries' balance sheet ratios (note 25). The Group will actively and regularly monitor its compliance to such covenants.

(i) Distributability of reserves

The aggregate amount of reserves available for distribution to equity shareholders of the Company at 31 December 2019 was HKD1,377,994,000 (equivalent to RMB1,206,285,000) (2018: HKD1,584,000,000 (equivalent to RMB1,299,959,000)) which comprises of share premium, fair value reserve, (accumulated losses)/retained profits excluding net unrealised gains on derivative financial instrument and other reserves.

(j) Dividends

No final dividend has been proposed by the Company for the year ended 31 December 2019 (2018: Nil).

32 Acquisition of Subsidiaries

The fair value of the net assets acquired through business acquisitions as at the date of acquisitions is as follows:

	Baltic RMB'000	**Woodin** RMB'000	**Others** RMB'000	**Total** RMB'000
Identifiable net assets	196,782	59,118	26,863	282,763
Non-controlling interests	—	(28,968)	(11,472)	(40,440)
Goodwill on acquisitions	—	10,493	1,119	11,612
Gain on bargain purchase (note 4(a))	(54,734)	—	—	(54,734)
Total consideration	142,048	40,643	16,510	199,201
Outstanding consideration to be paid	(36,110)	—	—	(36,110)
Cash and cash equivalents acquired	(522)	(1,789)	(11,238)	(13,549)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	105,416	38,854	5,272	149,542

The Group measured the non-controlling interests at their proportionate share of these subsidiaries' net identifiable assets.

(a) Acquisition of Baltic

On 30 December 2019, the Group entered into an agreement to acquire the entire issued share capital of Baltic with total cash consideration of EUR18,194,000 (around RMB142,048,000) and Baltic became a wholly-owned subsidiary of the Group.

Baltic manufactures and sells engineered wood flooring in Europe. This acquisition enables the Group to gain an opportunity to explore the international flooring market and will create synergy with the Group's current flooring businesses.

32 Acquisition of Subsidiaries (Continued)

(a) *Acquisition of Baltic (Continued)*

The fair value of the identifiable assets and liabilities of Baltic as at the date of acquisition is as follows:

	Pre-acquisition carrying amount RMB'000	**Fair value adjustment** RMB'000	**Recognised on acquisition** RMB'000
Property, plant and equipment	95,584	17,846	113,430
Investment properties	2,212	(53)	2,159
Right-of-use assets	1,115	—	1,115
Intangible assets	985	—	985
Deferred tax assets	49,151	(4,638)	44,513
Inventories	66,504	—	66,504
Trade and other receivables	46,208	—	46,208
Cash and cash equivalents	522	—	522
	262,281	13,155	275,436
Trade and other payables	(29,428)	—	(29,428)
Loans	(42,979)	—	(42,979)
Lease liabilities	(2,866)	—	(2,866)
Deferred tax liabilities	—	(3,381)	(3,381)
	(75,273)	(3,381)	(78,654)
Net identifiable assets	187,008	9,774	196,782

Pre-acquisition carrying amounts of the acquirees' assets and liabilities were determined based on applicable IFRSs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values. In determining the fair values of identifiable assets and liabilities, the directors of the Company have referenced the fair value adjustments to valuation report issued by Coinbaq Sp. z o.o, an independent professional valuer. For receivables acquired, the fair value is considered not materially different with book value as certain write-offs for receivables has been recognised per gross contractual amounts and the best estimation of contractual cashflows to be collected.

The acquisition was completed on 30 December 2019. The revenue and net profits from the date of acquisition to 31 December 2019 contributed by Baltic to the Group for the year were immaterial. Had the above acquisition been completed on 1 January 2019, the directors of the Company estimated the consolidated revenue and consolidated net profit for the year ended 31 December 2019 would have been RMB3,625,056,000 and RMB158,941,000, respectively.

32 Acquisition of Subsidiaries (Continued)

(a) Acquisition of Baltic (Continued)

The Group recorded a bargain purchase gain of RMB54,734,000 (note 4(a)) as total consideration was lower than fair value of net identifiable assets acquired. It is mainly due to uncertainty of market risk arising from highly competitive European wood flooring market.

As at the date of this report, there is EUR4,694,000 (around RMB36,110,000) due to relevant vendors and are expected to be settled before 30 June 2020.

(b) Acquisition of Woodin

During the year, the Group entered in to an agreement to acquire 51% equity interest of Woodin by acquire entire equity interest held by a former shareholder and new shares offered. On 23 July 2019, the Group obtains control as all conditions achieved. Woodin became a subsidiary of the Group. The total consideration transferred are RMB40,643,000 and goodwill arising from business combination amounted to RMB10,493,000.

Woodin is engaged in manufacture and export of engineered wood flooring. The acquisition will contribute to the Group's strategy to expand international market.

33 Financial Risk Management and Fair Values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables, other receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivables is limited because the counterparties are banks and financial institutions, for which the Group considers to have low credit risk. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group does not provide any other guarantees which would expose the Group to credit risk.

33 Financial Risk Management and Fair Values (Continued)

(a) *Credit risk (Continued)*

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 13% (2018: 10%) and 34% (2018: 22%) of the total trade receivables and contract assets was due from the Group's largest customer and the five largest customers of the Group.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 365 days from the date of billing. For debtors with balances past due, the Group will request the debtors to settle all outstanding balances or negotiate the payment terms. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix based on ageing of trade receivables and credit loss rate. As the Group's historical credit loss experience indicates significantly different loss patterns for different customer segments, the loss allowance based on ageing information is further distinguished between the Group's different customer bases, which include property developers, domestic distributors and overseas distributors for the purpose of measuring ECLs.

33 Financial Risk Management and Fair Values (Continued)

(a) *Credit risk* *(Continued)*

Trade receivables and contract assets (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2019:

	Expected loss rate	Gross Carrying amount	Loss allowance
	%	RMB'000	RMB'000
Property developers			
Within 1 year	1%	1,059,199	(10,592)
Over 1 year but within 2 years	10%	63,747	(6,375)
Over 2 years but within 3 years	50%	15,751	(7,876)
Over 3 years	100%	18,763	(18,763)
Subtotal		1,157,460	(43,606)
Domestic Distributors			
Within 1 year	1%	412,995	(4,130)
Over 1 year but within 2 years	25%	23,367	(5,842)
Over 2 years but within 3 years	50%	5,949	(2,975)
Over 3 years	100%	272	(272)
Subtotal		442,583	(13,219)
Overseas Distributors			
Within 1 year	1%	74,553	(746)
Over 1 year but within 2 years	50%	6,225	(3,113)
Over 2 years but within 3 years	100%	3,969	(3,969)
Over 3 years	100%	46,438	(46,438)
Subtotal		131,185	(54,266)
Total		1,731,228	(111,091)

Expected loss rates are based on actual loss experience over the past 4 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

33 Financial Risk Management and Fair Values (Continued)

(a) *Credit risk (Continued)*

Trade receivables and contract assets (Continued)

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**124,396**	106,183
Amounts written off during the year	**(14,221)**	(6,780)
Impairment losses recognised during the year	**44,227**	60,660
Reversal of impairment loss	**(40,501)**	(35,667)
Balance at 31 December	**113,901**	124,396

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the increase in the loss allowance during 2019:

— origination of new trade receivables resulted in an increase in loss allowance of RMB29,937,000;

— increase in trade receivables balance over one year resulted in an increase in loss allowance of RMB14,290,000; and

— a write-off of trade receivables with a gross carrying amount of RMB14,221,000 resulted in a decrease in loss allowance of RMB14,221,000.

(b) *Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it maintains sufficient reserves of cash on demand and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

33 Financial Risk Management and Fair Values (Continued)

(b) *Liquidity risk* *(Continued)*

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	At 31 December 2019				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Bank and other loans	**554,526**	**192,855**	**172,547**	**919,928**	**838,549**
Trade and bills payables	**1,390,062**	**—**	**—**	**1,390,062**	**1,390,062**
Deposits received, accruals and other payables	**468,861**	**—**	**—**	**468,861**	**468,861**
	2,413,449	**192,855**	**172,547**	**2,778,851**	**2,697,472**

	At 31 December 2018				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Bank and other loans	625,695	6,297	119,300	751,292	700,403
Trade and bills payables	897,245	—	—	897,245	897,245
Deposits received, accruals and other payables	304,138	—	—	304,138	304,138
	1,827,078	6,297	119,300	1,952,675	1,901,786

33 Financial Risk Management and Fair Values (Continued)

(c) *Interest rate risk*

The Group's interest rate risk arises primarily from bank and other loans. Bank and other loans issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

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

	2019		2018	
	Effective interest rate %	**Carrying amount RMB'000**	Effective interest rate %	Carrying amount RMB'000
Variable rate instruments				
Bank loans	**5.39%**	**252,196**	4.69%	283,753
Fixed rate instruments				
Bank loans	**4.78%**	**586,353**	6.20%	318,744
Other loans	**N/A**	**—**	8.80%	97,906
Total borrowings		**838,549**		700,403
Fixed rate borrowings as a percentage of total borrowings		**70%**		59%

(ii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates in bank loans, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by RMB2,349,000 (2018: RMB2,570,000) respectively.

The sensitivity analysis above indicates the impact on the Group's profit after tax and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2018.

33 Financial Risk Management and Fair Values (Continued)

(d) *Currency risk*

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the entity to which the transactions relate. The currencies giving rise to this risk are primarily USD, PEN and EUR. The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB translated using the spot rate at the year-end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies					
	31 December 2019			31 December 2018		
	USD	**PEN**	**EUR**	USD	PEN	EUR
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	**14,620**	**43**	**3,593**	10,899	76	4,510
Trade and bills receivables	**—**	**12,306**	**17,639**	32,122	75,724	296
Deposits, prepayments and other receivables	**1,047**	**7,033**	**21,458**	2,026	3,484	13,982
Trade and bills payables	**(670)**	**(22)**	**(21,981)**	(4,156)	(1,348)	(13,412)
Deposits received, accruals and other payables	**(6,716)**	**(1,277)**	**(45,056)**	(5,907)	(656)	(10,783)
Bank and other loans	**(442)**	**—**	**(53,622)**	—	—	(34,190)
Gross exposure arising from recognised assets and liabilities	**7,839**	**18,083**	**(77,969)**	34,984	77,280	(39,597)

33 Financial Risk Management and Fair Values (Continued)

(d) *Currency risk (Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables, in particular interest rates, remain constant.

	31 December 2019			31 December 2018		
	Increase/ (decrease) in foreign exchange rates	**Effect on profit for the year RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year RMB'000	Effect on other components of equity RMB'000
USD	**1%**	**78**	**78**	1%	350	350
USD	**(1%)**	**(78)**	**(78)**	(1%)	(350)	(350)
PEN	**1%**	**181**	**181**	1%	773	773
PEN	**(1%)**	**(181)**	**(181)**	(1%)	(773)	(773)
EUR	**1%**	**(780)**	**(780)**	1%	(396)	(396)
EUR	**(1%)**	**780**	**780**	(1%)	396	396

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax for the year and equity measured in the respective functional currencies, translated into reporting currency (RMB) at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2018.

33 Financial Risk Management and Fair Values (Continued)

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as FVOCI (see note 16). Other than unquoted securities held for strategic purposes, all of these investments are listed.

The Group's listed investments are listed on the National Equities Exchange and Quotations ("NEEQ") in the PRC and Stock Exchange of Hong Kong. Listed investments that are not held for trading purposes have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

All of the Group's unquoted investments are held for long-term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long-term strategic plans.

At 31 December 2019, it is estimated that an increase/(decrease) of 20% (2018: 20%) in the relevant stock market index (for listed investments), the price/earnings ratios of comparable listed companies (for unquoted investments) or the Company's own share price (for the conversion option of certain convertible bonds) as applicable, with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

	2019		2018	
		Effect on other components of equity RMB'000		Effect on other components of equity RMB'000
Change in the relevant equity price risk variable:				
Increase	**20%**	**12,873**	20%	9,281
Decrease	**(20%)**	**(12,873)**	(20%)	(9,281)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax and retained profits and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables.

33 Financial Risk Management and Fair Values (Continued)

(f) *Fair value measurement*

(i) Financial instruments carried at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

— Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 31 December 2019	**Fair value measurements as at 31 December 2019 categorised into**		
		Level 1	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Recurring fair value measurements				
Assets:				
Non-trading listed equity securities	**76,167**	**76,167**	**—**	**—**
Unlisted equity securities	**750**	**—**	**—**	**750**

	Fair value at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements				
Assets:				
Non-trading listed equity securities	55,554	55,554	—	—
Unlisted equity securities	28,484	—	—	28,484

33 Financial Risk Management and Fair Values (Continued)

(f) Fair value measurement (Continued)

(i) Financial instruments carried at fair value (Continued)

Fair value hierarchy (Continued)

During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

The fair value of unlisted equity equities is determined using the cost as approximation of fair value, as the investees were pre-revenue entity, when there was no catalyst for a change in fair value, and insufficient recent information was available to measure fair value. The movement during the period in the balance of Level 3 fair value measurements is as follows:

	2019	2018
	RMB'000	RMB'000
Unlisted equity securities:		
At 1 January	**28,484**	28,274
Additions	**—**	9,163
Disposals	**(11,000)**	—
Change in fair value	**(16,734)**	(8,953)
At 31 December	**750**	28,484

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2018 and 2019.

34 Commitments and Contingent Liabilities

(a) Capital commitments

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

	2019	2018
	RMB'000	RMB'000
Contracted for	**57,540**	14,122

34 Commitments and Contingent Liabilities (Continued)

(b) At the end of reporting period, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2019 **RMB'000**	2018 RMB'000
Within 1 year	**7,001**	27,098
After 1 year but within 3 years	**32**	26,969
After 3 years but within 5 years	—	9,179
After 5 years	—	3,144
	7,033	66,390

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 1(l), and the details regarding the Group's future lease payment are disclosed in note 26.

(c) Contingent liabilities

There were two outstanding litigations commenced by a constructor and a supplier against certain subsidiaries of the Group claiming construction fee and trade payables of RMB2,337,000. The subsidiaries continue to deny any liability in respect of the claims and based on the advice of the Group's legal counsels, the directors of the Group do not believe it is probable that the courts will fine against them. No provision has therefore been made in respect of these claims.

35 Material Related Party Transactions

(a) *Key management personnel remuneration*

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	**12,836**	12,395
Post-employment benefits	**52**	52
Equity settled share-based payment expenses	**152**	538
	13,040	12,985

Total remuneration is included in "staff costs" (note 5(b)).

(b) *Related party transactions and balances*

	Income/(expenditure) Year ended 31 December		**Amount due from/(to) As at 31 December**	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Provision of trademark and distribution network (i)	**3,318**	2,311	**5,065**	2,450
Purchases of goods (ii)	**(2,166)**	(2,509)	**(1,794)**	9,208
Rendering of services	—	820	—	765
Receiving of transportation services (iii)	**(63,425)**	(45,480)	**(1,222)**	(2,914)
As a leasee (iv)	**(2,101)**	—	**(6,847)**	—
As a leasor (v)	**612**	—	**(107)**	—
Others	—	—	**1,979**	51

(i) In March 2019, the Group is entered into a trademark licensing agreement with Guangdong Youzong Home Company Limited ("Youzong Home", a subsidiary of Dajia Property Management Company Limited ("Dajia Property Management") who held by the controlling shareholders of the Company). A non-exclusive right is granted to Youzong Home to use the trademark in connection with its production, distribution and sale of licensed products.

35 Material Related Party Transactions (Continued)

(b) *Related party transactions and balances* *(Continued)*

(ii) The Group is commenced with Dajia Property Management and its subsidiaries ("Dajia Group") to purchase certain consumables for promotion.

(iii) The Group is outsourced transportation service from one of its associates, Jiawayun (Foshan) Supply Chain Management Company Limited ("Jiawayun").

(iv) In April 2019, the Group entered into a three-year lease agreement with Dajia for production plant. The amount of rent payable is RMB324,000 per month, which was determined with reference to market price. At the commencement date of the lease, the Group recognised a right-of-use assets and a lease liability of RMB9,929,000.

(v) The Group earns rental income from certain related parties by leasing out the offices in the PRC.

(c) *Applicability of the Listing Rules relating to connected transactions*

The related party transactions in respect of purchase and sales, lease out assets, as well as trademark and distribution network charges above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Connected Transactions and Continuing Connected Transaction" of the Report of the Directors.

36 Company-Level Statement of Financial Position

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Investments in subsidiaries		**312,343**	307,283
Available-for-sale listed equity securities		**28,962**	18,965
Other receivables		**1,446,097**	1,271,469
		1,787,402	1,597,717
Current asset			
Cash and cash equivalents		**22,089**	18,458
		22,089	18,458
Current liabilities			
Banks loans		**—**	148,670
Deposits received, accruals and other payables		**423,171**	161,973
		423,171	310,643
Net current liabilities		**(401,082)**	(292,185)
Total assets less current liabilities		**1,386,320**	1,305,532
Non-current liability			
Banks loans		**134,354**	—
		134,354	—
NET ASSETS		**1,251,966**	1,305,532
CAPITAL AND RESERVES			
Share capital	30	**8,998**	9,391
Reserves	31	**1,242,968**	1,296,141
TOTAL EQUITY		**1,251,966**	1,305,532

Note: The Company has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1(c).

(Expressed in Renminbi unless otherwise indicated)

37 Non-Adjusting Events After the Reporting Period

The coronavirus outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's performance and financial position.

The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. These contingency measures include immediate and comprehensive support provided to dealers for the transition from offline to online sales. The Group will keep its contingency measures under review as the situation evolves.

As far as the Group's businesses are concerned, the outbreak has materially and adversely impacted the sales, some debtors' repayment abilities and turnover of inventory. As the extent to which the coronavirus outbreak will continue is uncertain, it is not practicable to estimate the full financial effect that the coronavirus outbreak may have on the Group's businesses as at the date when the financial statement is authorized to issue.

38 Comparative Figures

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

39 Immediate and Ultimate Controlling Parties

At 31 December 2019, the directors consider the immediate parent of the Group to be Freewings Development Co., Ltd., which is incorporated in BVI. This entity does not produce financial statements available for public use. The ultimate controlling parties are Mr. Se Hok Pan and Ms. Un Son I.

40 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FIVE YEARS SUMMARY

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Results					
Turnover	**3,426,786**	2,918,016	2,550,646	2,315,651	2,012,092
Net change in fair value of biological assets	**—**	—	—	—	(225,928)
Profit/(loss) from operations	**257,972**	210,235	143,328	66,436	(186,347)
Net finance costs	**(46,985)**	(27,343)	(6,661)	(7,246)	(62,022)
Profit/(loss) before taxation	**210,987**	182,892	136,667	59,190	(248,369)
Income tax	**(57,044)**	(37,845)	(83,201)	(57,368)	(20,898)
Profit/(loss) for the year	**153,943**	145,047	53,466	1,822	(269,267)
Attributable to:					
Equity shareholders of the Company	**162,120**	156,785	68,182	38,280	(267,742)
Non-controlling interests	**(8,177)**	(11,738)	(14,716)	(36,458)	(1,525)
Profit/(loss) for the year	**153,943**	145,047	53,466	1,822	(269,267)
Assets and liabilities					
Non-current assets	**1,699,499**	1,310,342	1,185,004	1,147,960	1,151,335
Current assets	**3,626,643**	2,976,117	2,816,522	2,541,222	2,193,677
Total assets	**5,326,142**	4,286,459	4,001,526	3,689,182	3,345,012
Current liabilities	**(2,592,214)**	(1,898,112)	(1,681,744)	(1,507,873)	(1,086,205)
Non-current liabilities	**(347,326)**	(118,998)	(139,103)	(98,270)	(46,094)
NET ASSETS	**2,386,602**	2,269,349	2,180,679	2,083,039	2,212,713
Share capital	**8,998**	9,391	9,596	9,596	9,596
Reserves	**2,282,675**	2,203,108	2,105,760	2,047,511	2,150,591
Non-controlling interests	**94,929**	56,850	65,323	25,932	52,526
TOTAL EQUITY	**2,386,602**	2,269,349	2,180,679	2,083,039	2,212,713
Earnings/(Loss) per share (Note)					
Basic	**0.118**	0.109	0.047	0.026	(0.18)
Diluted	**0.118**	0.109	0.047	0.026	(0.18)

Note:

For the years ended 31 December 2019, 2018, 2017, 2016 and 2015, the effect of the Company's share option plans were anti-dilutive.